June 22-26, 2015

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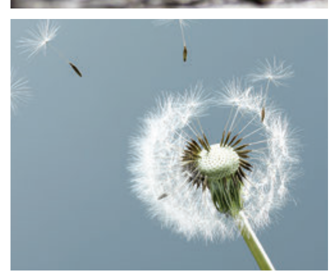

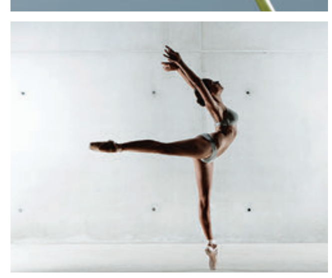

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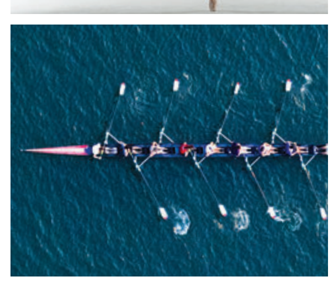

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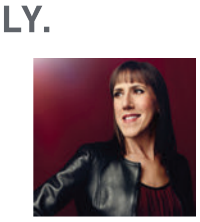

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June 22-26, 2015

40 UNDER 40

INDUSTRY STANDOUTS

See Pages 8-25

JASON L. SMITH
Age: **39**
CEO and founder
Clarity 2 Prosperity Mastermind Group
and Prosperity Capital Advisors

RIANKA DORSAINVIL
Age: **28**
Financial adviser
Financial Services Advisory

SHIRL PENNEY
Age: **38**
Founder, president and CEO
Dynasty Financial Partners

RIANKA: GERARDO TABONES

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EDITOR'S NOTE

40 Under 40 is all about connecting

The energy in the room was palpable.

I'm talking about a luncheon event hosted by *InvestmentNews* in New York City a few weeks back for our latest crop of 40 Under 40s. While the gathering was really an excuse to get our 40s into one room so we could shoot many of the photographs and videos found in this issue and on our website, it was clear by all the laughter and handshaking going on that a lot of networking was also taking place.

Frederick P. Gabriel Jr.

Indeed, most of our 40s left the luncheon with a pile of business cards and the beginnings of a budding friendship or two. In today's world of email, Twitter and LinkedIn, it was a stark reminder of the power of face-to-face meetings and real connections.

And, trust me, this is a group that is all about making connections.

As you flip through this issue, I think you'll agree that this year's class of 40s represents some of the best and brightest in the business. No matter what part of the industry they come from, all our 40s have a demonstrated track record of accomplishment, contribution, leadership and

GERARDO TABONES

promise. They are young, they are engaged and they are the future of the financial advice industry.

If you really want to get to know our 40s, check out what we've done online at InvestmentNews.com/40. Not only will you find additional information about our 40s, but you'll enjoy a full-scale multimedia presentation of this issue.

You can also engage with many of our 40s on Twitter by using the hashtag #IN40.

fgabriel@investmentnews.com, Twitter: @fredpgabriel

Inside

House spending bill would deny DOL funds for fiduciary proposal

By Mark Schoeff Jr.

A House bill introduced last Tuesday would stop a Labor Department proposal to change investment advice standards for retirement accounts.

Under the House Appropriations Committee measure, DOL would not be able to spend any funds to finalize or implement the rule. The provision is part of a $153 billion bill that would fund DOL, the Department of Health and Human Services and several other agencies for fiscal year 2016.

A House Appropriations subcommittee approved the bill last Wednesday, sending it to the full panel for further action.

The so-called rider would halt the DOL initiative to reduce conflicts of interest for brokers working with clients in 401(k) or individual retirement accounts. The agency said the rule, proposed in April, is designed to prevent brokers from inappropriately putting investors into high-fee products that eat away at their retirement savings.

Critics say the rule would foist significant liability risks and regulatory costs on brokers and potentially force them to abandon investors with modest retirement accounts.

The appropriations bill rider reflects the sentiments of the majority Republicans, who, along with the financial industry, have been the leading opponents of the DOL rule.

> "THE ONLY REASON to defund the DOL effort is if you're prioritizing the concerns of financial firms."
>
> **Barbara Roper**
> Director of investor protection
> Consumer Federation of America

"The legislation includes several provisions designed to help U.S. businesses create jobs and grow the economy by reducing or eliminating overly burdensome government regulations," the House Appropriations Committee said in a summary of the spending bill.

A proponent of the DOL fiduciary rule said the appropriations tactic was expected.

"The only reason to defund the DOL effort is if you're prioritizing the concerns of financial firms over the very real struggles of American workers and retirees," said Barbara Roper, director of investor protection at the Consumer Federation of America.

An attempt to attach a similar rider to last year's omnibus funding bill for fiscal 2015 failed. The full House likely will approve the appropriations bill, but it is unclear whether stand-alone funding measures will get through the Senate. Congress again may have to resort to omnibus appropriation legislation Sept. 30, when the fiscal year ends.

A provision defunding the DOL rule, however, could be attached to other legislation. "If this rider is on a bill that the president is forced to sign, that's a real threat," Ms. Roper said.

mschoeff@investmentnews.com
Twitter: @markschoeff

Live Nation unit SFX charged with fraud

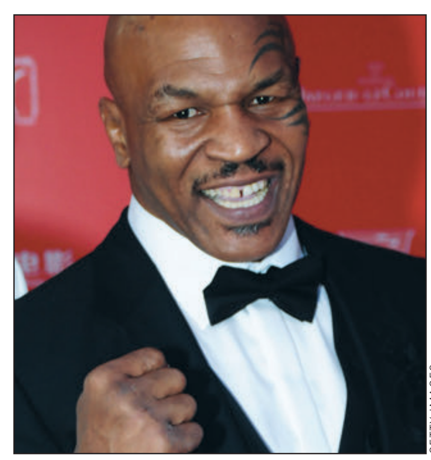
By Mark Schoeff Jr.

The Securities and Exchange Commission has charged an investment advisory firm that represented former boxer Mike Tyson with stealing money from client accounts.

In an action announced last Monday, the SEC alleged that Brian J. Ourand, a former president of SFX Financial Advisory Management Enterprises, a subsidiary of concert promoter Live Nation Entertainment, took approximately $670,000 from client accounts for personal use between 2006 and 2011. Mr. Ourand, who allegedly wrote checks to himself and wired himself the money, was terminated by SFX in August 2011.

In addition to its action against Mr. Ourand, the SEC separately charged SFX and its chief compliance officer, Eugene S. Mason, with violating the custody rule and failing to put in place policies and procedures to prevent misappropriation of client funds when they were withdrawn to pay bills.

The SEC said Mr. Mason had failed to oversee cash flows in client accounts. SFX, which is based in Washington, D.C., has $15 million in assets under management.



GETTY IMAGES

Mike Tyson: Former boxer claimed SFX and Mr. Ourand took over $300,000.

SFX and Mr. Mason settled with the SEC, paying $150,000 and $25,000 in penalties, respectively. The firm did not admit or deny the charges.

INTERNAL CONTROLS LACKING

"Investment advisers have a fiduciary obligation to safeguard client assets," Marshall S. Sprung, co-chief of the SEC Enforcement Division's Asset Management Unit, said in a statement. "SFX failed to detect an alleged misappropriation for years because it had insufficient internal controls to limit Ourand's ability to withdraw client funds for personal use."

A lawyer for SFX and Mr. Mason was not available for comment. Mr. Ourand could not be reached for comment.

Mr. Tyson and his wife sued Mr. Ourand, SFX and Live Nation in 2013 for breach of fiduciary duty, fraud and unjust enrichment, claiming they had misappropriated more than $300,000 of the Tysons' money.

Todd Cipperman, principal at Cipperman Compliance Services, said advisers should not manage their clients' bills.

"It's really dangerous when investment advisory firms take on that bill-paying role," he said. "It's a practice that's rife with problems."

If advisers can take cash out of a client's account, they need a fail-safe approach that requires at least two of the firm's staff to sign off on the movement of the funds, Mr. Cipperman said.

mschoeff@investmentnews.com
Twitter: @markschoeff

BLOOMBERG/ISTOCK COMPOSITE

Kara Stein: Says alts funds are "all the rage," and therefore deserve extra scrutiny.

Stein calls for probe of alternative funds

By Mark Schoeff Jr.

A Securities and Exchange Commission member said last Monday that the agency should scrutinize whether mutual funds that act like hedge funds are skirting rules for the investment vehicles and endangering investors.

Mutual funds and exchange-traded funds that use complex, risky investment strategies or invest in illiquid assets "often operate in a gray area of mutual fund regulation," said Kara Stein, an SEC commissioner, in a speech at the Brookings Institution in Washington.

Ms. Stein voiced concerns that alternative mutual funds appeal to investors as a way to outperform the market by mimicking hedge funds while not adhering to Investment Company Act rules governing liquidity and leverage.

$311B
Assets in the alternative fund market at the end of 2014.

"Alternative mutual funds promising the upside of hedge fund investments with the liquidity of traditional mutual funds are all the rage," Ms. Stein said. "I think this trend should give everyone pause, and regulators and the public need to be asking questions about this development."

The alternative fund market has soared from $46 billion in assets under management in 2008 to $311 billion at the end of 2014, according to Morningstar Inc.

As retail investors increasingly demand alternative mutual funds, they think they're getting the protections of a traditional mutual fund, Ms. Stein said.

"They may be less liquid, employ more leverage, and invest in exotic and complex instruments," Ms. Stein said. "At a minimum, this raises the question of retail investor confusion."

REPORTING RULES PROPOSED

The SEC has proposed new reporting rules for separately managed accounts. Ms. Stein said the agency also could propose rules on liquidity and the use of derivatives in funds.

A focus on the safety of mutual funds and ETFs, whose combined assets under management totaled $18 trillion at the end of 2014, according to the Investment Company Institute, is critical at a time when most people are "living paycheck to paycheck" and are taking "more responsibility for saving for their retirement," Ms. Stein said.

"Regulators and the industry have a responsibility to make certain that the legal framework is stable and remains focused on protecting the retail investors," she said.

mschoeff@investmentnews.com
Twitter: @markschoeff

Finra accuses broker of trying to bilk Alzheimer's client of $2M

By Mason Braswell

The Financial Industry Regulatory Authority Inc. has filed a complaint against a broker who allegedly took advantage of a client with Alzheimer's disease in an attempt to inherit nearly $2 million.

The regulator said that in 2009 John Waszolek, who was at UBS Wealth Management at the time, "took unfair advantage" of an 81-year-old client, identified only by the initials JL, by having her assign him the role of beneficiary for her trust — even though he knew she "lacked testamentary capacity" and was "completely unable to protect herself from exploitation."

AGAINST THE RULES

Most firms have rules against brokers being beneficiaries on clients' estates in order to prevent possible conflicts of interest, according to an attorney, Marc S. Dobin of an eponymous firm.

Continued on Page 36

THE CLIENT "lacked testamentary capacity" and was "completely unable to protect herself from exploitation."

Finra complaint

ISTOCK

Wells under gun on F-Squared sales

Investor argues wirehouse failed to do adequate due diligence on the product

By Trevor Hunnicutt

A Wells Fargo Advisors client has asked arbitrators to recover money he says he lost investing with F-Squared Investments Inc., his lawyer said last Wednesday, in a case testing whether investors can challenge brokerage firms who sold the troubled asset manager's products.

F-Squared agreed in December to pay $35 million to settle charges it made false claims about the performance of its flagship investment product. Now an investor is demanding at least $100,000 in damages from Wells Fargo in a claim filed last Monday, according to his lawyer, D. Daxton White.

$35M
Amount F-Squared agreed to pay to settle false claims charges

The client, a 68-year-old widower, claims Wells Fargo failed to supervise his adviser properly and didn't do enough due diligence on the investments he recommended, which included an F-Squared product, according to Mr. White.

If the case is successful, it will be the first major legal repercussion for a broker-dealer whose advisers sold F-Squared products. Wells Fargo first made F-Squared managed accounts available to its corps of 15,000 advisers in mid-2013. A Wells Fargo spokeswoman, Rachelle Rowe, declined to comment.

WHO APPROVED IT?

"The first question would be, from a compliance perspective, who approved this," said Philip M. Aidikoff, a lawyer who represents investors and is not involved in this case. "A due-diligence procedure with a manager from a firm like Wells Fargo has to be very complete, very extensive, and they have to get under the hood and see whether the numbers that have been presented to them and to the customers are accurate. You can't say these guys smell good from 50 yards."

According to Mr. White, the client, whose name is not public and

Continued on Page 36

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Investors lose patience with alts, but now is no time to quit

Market's heights make diversification all the more important

Jeff Benjamin
On Investments

As contrary indicators go, things are starting to stack up in favor of alternative investment strategies.

After a half-dozen years of charging full speed ahead into the alternatives space with all manner of impressive-sounding products and strategies, a lot of investors, along with much of the asset management industry, are showing signs of exhaustion.

Last week, SkyBridge Capital announced it was launching plain-vanilla mutual funds rather than trying to export alternative strategies into a mutual fund format.

The main reason the firm gave was the "mixed performance" of existing "liquid alts" products.

Then there's the report due out this week from Invesco Consulting, which will encourage asset managers and advisers to take a fresh spin on alternatives. A key recommendation is to use less industry jargon and more basic language that describes how each alternative investment is expected to perform under various market scenarios rather than exacerbating alts' complexity with nondescriptive buzzwords.

"Our research found that nearly eight in 10 investors would rather invest in alternative mutual funds bought and sold like any other fund than liquid alternatives, yet they are the same thing," said Scott West, a managing director and the head of Invesco Consulting.

It's not that the products generally described as liquid alternatives haven't been catching on, it's just that the strategies have proven to be ahead of their time. For the asset management industry, this is often described in technical terms as a bloody nightmare.

FASTEST-GROWING CATEGORY

Across seven subcategories tracked by Morningstar Inc., the liquid alts mutual fund universe has grown to 435 funds and nearly $320 billion under management. That compares to 163 funds and $73 billion in AUM at the end of 2009.

In the mutual fund arena, liquid alts have been the fastest-growing category throughout much of the bull market for stocks. The trouble is, as the liquid alts category has swelled, the stock market has refused to take a breather. It is during a bear market when alternative strategies would strut their stuff and prove to investors that the higher fees are worth it.

Even this year, an admittedly weak period for stocks that has seen the S&P 500 gain less than 3%, the

Continued on Page 36

Award puts B-D on hold

By Mason Braswell

Fintegra, a Minneapolis-based broker-dealer with about 140 advisers, was forced to halt its securities business temporarily after an arbitration award put it below regulatory net capital requirements.

"An arbitration award issued after close of business on Friday, June 12, 2015, has caused Fintegra to take an immediate charge to its income statement," the firm's chief executive, Doreen Weber, wrote in an emailed statement. "This charge results in Fintegra having inadequate net capital to conduct business as a broker-dealer."

Fintegra executives and its board are working to come up with a plan that could save the firm and allow it to "recommence conducting its securities business," Ms. Weber said.

She declined to comment further.

BROKERS GET THE MEMO

Brokers were informed of the issues last Monday in a memo.

The award has not yet been made public. Fintegra had $714,000 in excess net capital at the end of 2014, according to its annual SEC filing.

Many firms are required to keep at least $250,000 in net capital on reserve.

In the SEC filing, Fintegra said that it was the subject of five separate lawsuits "which claim securities sold through their registered representatives were either unsuitable or in violation of state securities laws."

The company was defending itself against the allegations and did not believe it was at fault, according to the filing.

Falling below net capital has been a concern for smaller brokerage firms for several years.

Resource Horizons Group, a firm with around 200 brokers, went out of business in November after accruing more than $4 million in judgments from two arbitration awards.

mbraswell@investmentnews.com
Twitter: @masonbraswell

VIEWPOINT

EDITORIALS

Do homework on securities-backed loans

JUST AS THE STOCK MARKET stalls out at near-record highs, registered investment advisers are stepping into the field of securities-backed loans.

On one hand, an increase in the popularity of such loans makes sense. Because the stock market is high, the value of clients' portfolios might be at a peak and therefore easily able to back large loans. On the other hand, with the market at a near-record level, the chances of a correction that would push down the prices of the stocks backing the loans are also high, and that could force sales of the securities, possibly at a loss.

In January, the Financial Industry Regulatory Authority Inc. warned that it was looking into the marketing of such loans, indicating it had concerns that they were being sold inappropriately. Although Finra doesn't regulate RIAs, it suggests investment advisers nonetheless should be cautious in recommending them to their wealthy and near-wealthy clients.

To be sure, securities-backed loans can be appealing to clients. They can be used for any purpose, from buying a boat to starting a business. There is no setup cost, they can be obtained in a relatively short period — more quickly than a second mortgage, for example — and they generally carry competitive interest rates.

Further, the client continues to have all of his or her portfolio in the market and to share in any market gains, so that the value of the equity portfolio could rise. That no doubt seems better than selling part of the portfolio to make the acquisition or the business investment, and possibly paying capital gains taxes on the securities sold.

For advisers, the payoff is the appreciation they get from clients for helping them complete a purchase or investment with minimal hassle and no disruption of their investment portfolio. Advisers also continue to receive fees based on the full portfolio value. If the assets were sold instead, reducing the value of the portfolio, any asset-based fees would decline.

Wirehouses, banks and custodians like securities-backed lending because it can increase the number of interest-paying loans outstanding, bolstering that income stream. This explains the new efforts to sell these loans through advisers.

The big danger is that the number and amount of such loans outstanding, including those marketed through advisers, will peak right before a severe market correction, just as the number of home equity loans peaked shortly before the real estate bubble burst in 2007.

CLIENTS TAKING OUT securities-backed loans might see only the advantages and not the risks.

Clients taking out securities-backed loans might see only the advantages and not the risks. As Tim Welsh, president of Nexus Strategy, told *InvestmentNews* last week: "When people start borrowing money against their assets, they're really confident that they're going up. And investors are always one step behind in terms of tops and bottoms."

GREATER VOLATILITY

The risk is that if there is a market correction, the value of the securities backing the loan will fall and the lender will sell the securities, or ask the client to put more money down to back the loan. Since stock prices are more volatile than house prices, the risk of such an outcome is greater than for home equity loans.

Investment advisers approached about suggesting these loans to their clients, or asked about the loans by clients, should consider carefully for whom they are appropriate.

They should take into account the size and purpose of the loans, the percentage of the equity portfolios that would be needed to back the loans, the risk tolerance of the clients, and whether it makes sense to leverage the portfolio to avoid capital gains taxes that would be generated by selling the stocks to fund the purchase or investment.

Advisers also should consider whether the clients have underwater stocks that could be sold to finance the deals instead of taking on the leverage. And they must make sure the clients understand the risks.

In short, advisers must do their homework on securities-based loans so they can guide clients appropriately.

Their role is to help clients achieve their long-term financial goals and also protect them from making mistakes as they seek to satisfy short-term wants and needs.

SEC wants input on ETPs

The SEC wants to hear from you — this time on an investment vehicle most financial advisers hold near and dear: exchange-traded products.

The agency solicited input earlier this month on the way it approves new, novel or complex ETPs. As reporter Mark Schoeff Jr. reports in this issue, the request for comment included 53 sets of questions touching on market pricing, legal exemptions and listing standards.

Perhaps more importantly, the request delved into how brokers sell ETPs to clients — and to what extent investors really understand what they're buying.

MORE
SEC looking at how brokers tout ETPs and how well investors understand them.
Page 29

The SEC has been awash in fund company applications to create all variety of exchange-traded funds, notes and pooled investments. Mr. Schoeff reports that from 2006 to 2013, the number of ETPs listed and traded has risen by an average of 160 annually. The agency is humbly seeking feedback on this enormous undertaking from those who know best how these funds work — you — as well as from the public, whose money is increasingly going into them.

The funds' growing popularity has attracted much regulator attention.

Securities and Exchange Commission member Kara Stein spoke last week about concerns with alternative ETFs and mutual funds, particularly those that are less liquid and employ complex strategies, and suggested the agency should scrutinize whether they are skirting rules and endangering investors.

INVESTOR PROTECTION

The SEC request for comments on ETFs sounded a similar investor-protection bell. It included this question: "Should broker-dealers have additional responsibility to make available or provide information to investors about the risks of investing in ETPs with complex strategies prior to making a recommendation or accepting a customer order for such securities?"

These products are important to you and your clients — be sure they are regulated in a way that makes sense. Email your comments by August 17 to rule-comments@sec.gov, with File Number S7-11-15 in the subject line.

ADD YOUR VOICE to the mix. Readers: Keep letters brief. Include your name, title, company, address and a telephone number for verification purposes. Email Frederick P. Gabriel Jr. at fgabriel@investmentnews.com. All mail may be edited.

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Regional Sales Managers:
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212-210-0167
Kevin Reardon kreardon@crain.com 212-210-0476
Chicago:
Karen Wahl kwahl@crain.com 312-649-5226
San Francisco:
Rich Kiesel rkiesel@crain.com 415-538-0206
Boston:
John Bubello Jbubello@crain.com 978-534-5635
Reprint Manager: Laura Picariello 732-723-0569
lpicariello@crain.com
Inside Sales Associate: Ayana Reid
areid@crain.com 212-210-0774
Sales Coordinator: Letitia Y. Buchan
lbuchan@crain.com 212-210-0451
MARKETING AND AUDIENCE DEVELOPMENT
Audience Development Director: George Ortiz
gortiz@crain.com
Senior Marketing Manager: Diana Cheruvil
dcheruvil@crain.com
Creative Marketing Specialist: Lorenzo John
ljohn@crain.com
Marketing Associate:
Shannon Rosic srosic@crain.com
Executive Assistant to the Publisher:
Irma Rodriguez irodriguez@investmentnews.com
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40 UNDER 40

InvestmentNews' 40 Under 40 aims to reveal the tremendous potential in the financial advice industry by finding often unrecognized young talent doing remarkable things. Key attributes we looked for among 1,200 nominations were: accomplishment, contribution, leadership and promise. Toggle through our winners on the big splash page at **InvestmentNews.com/40** for extended profiles and videos.

Meb Faber, Age: 37

Chief investment officer and co-founder
Cambria Investment Management

MEB FABER built a fund of funds that charges no management fee on top.

"No one is probably crazy enough or dumb enough to launch an ETF with no management fee," said Mr. Faber, the chief investment officer of Cambria Investment Management.

But even that may not go far enough for him. Now he wants to build an exchange-traded fund that effectively pays investors to own it. That's a feat he thinks is possible through the magic of securities lending, where the fund earns money for letting other investors borrow its underlying investments. It can then return those profits to investors.

There are few people as excited about the ETF industry — its potential to lower fees for investors and the research behind new investment strategies — as Mr. Faber. Among other things, he thinks there are many hedge-fund-style strategies that could be made available to investors at a 0.5% annual management fee.

Mr. Faber, an engineer by training and surfer by vocation, has become something of a celebrity in an ETF industry with precious few star investors. He's done so with a rare combination of skills: a facility with the numbers and science behind investing — he publishes his research regularly — and a breezy, accessible way with people.

He also regularly opines on his blogs and on Twitter, where he has 18,000 followers.

"The biggest challenge is just endurance. Just being able to keep it up," he said of blogging and social media. "It's a wonderful way to get on a soapbox and get your views heard, for better or for worse."

— Trevor Hunnicutt

Letitia "Tish" Gray

Age: **38**
Wealth planning adviser
Sagemark Consulting

TISH GRAY was too short to be a Broadway dancer, so she opted to become a financial adviser.

"I always wanted to be a professional dancer, and I even moved to New York, but realized I was too short to audition for a lot of roles," said Ms. Gray, a Dallas-based wealth planning adviser with Sagemark Consulting, a division of Lincoln Financial Advisors Corp.

The transition to financial advice came after watching her grandfather's entire estate depleted while he suffered from Parkinson's disease.

"Clients have to trust the integrity of their adviser, but before they will follow the advice, they have to trust the adviser's competency," she said.

Many of her clients are board members or senior executives of Fortune 100 companies — a niche largely built up by referrals. She serves these clients in tandem with other advisers, whose expertise might be global investing or options strategies, but she is always the primary adviser.

"My real area of expertise is distribution planning and stewardship of wealth, which is the new frontier for our industry," Ms. Gray said.

Another aspect of her life she finds "extremely rewarding" is leading financial literacy classes through Crown Financial Ministries, which she's been doing for seven years. She also is active in Lincoln Financial Network's WISE Group (women inspiring, supporting and educating), which focuses on the success of both female advisers and clients.

— Jeff Benjamin

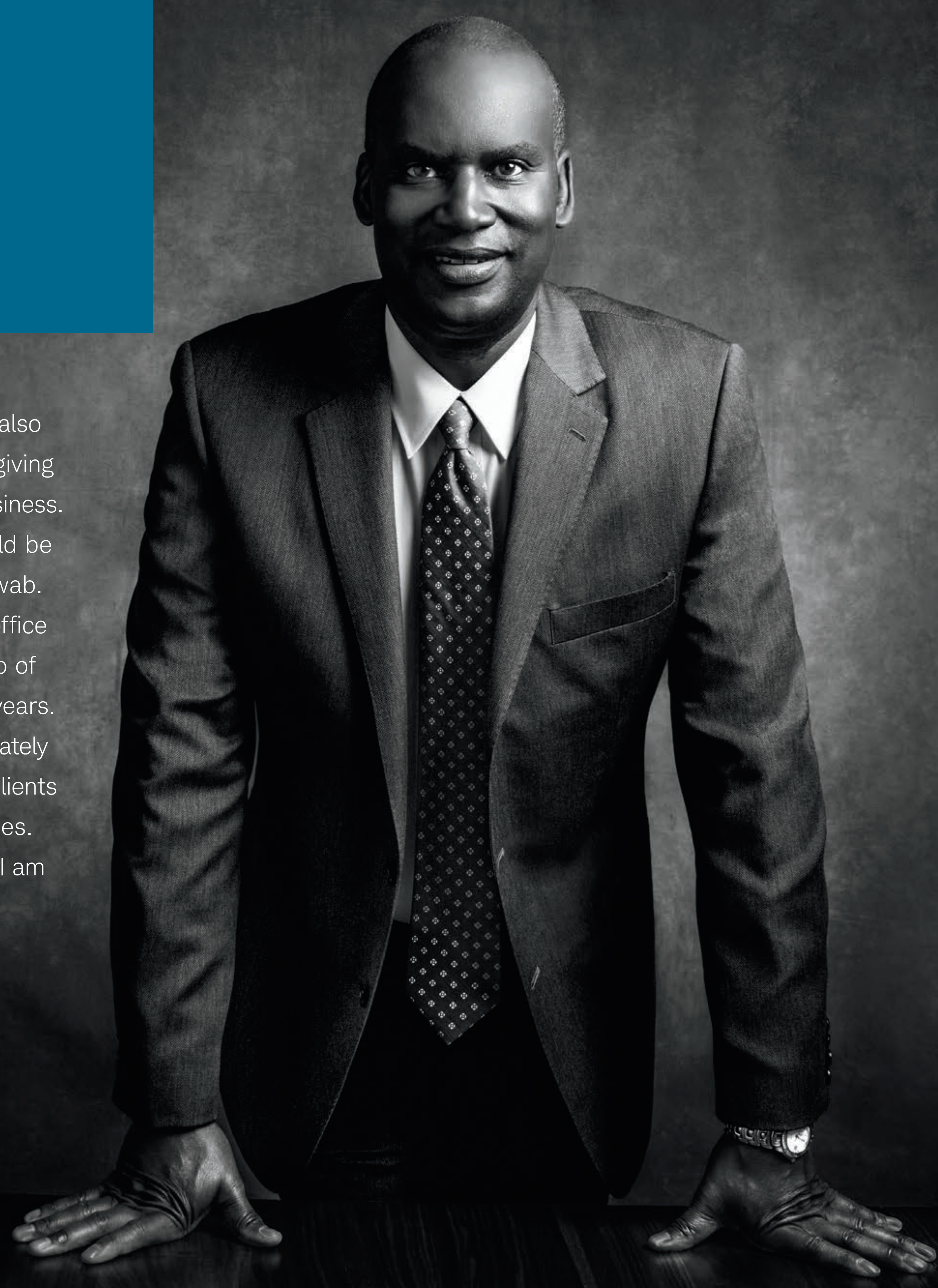
GERARDO TABONES

Advisor Services

My Independence Day

April 15, 1994

Craig Jones
Jones Barclay Boston & Co.



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Daniel Crosby, Age: 35
Founder, Nocturne Capital

DANIEL CROSBY got his first taste of behavioral finance while interviewing executives about their thoughts and feelings on the markets. Since then, he's dug into the subject with gusto.

Mr. Crosby, the son of an adviser, recently opened his own advisory firm, Nocturne Capital, which will focus on socially responsible and automated investments. He said the next industry wave will involve greater automation of investments and money management; he plans to be a part of it.

The firm's name refers to things being most active when it's dark.

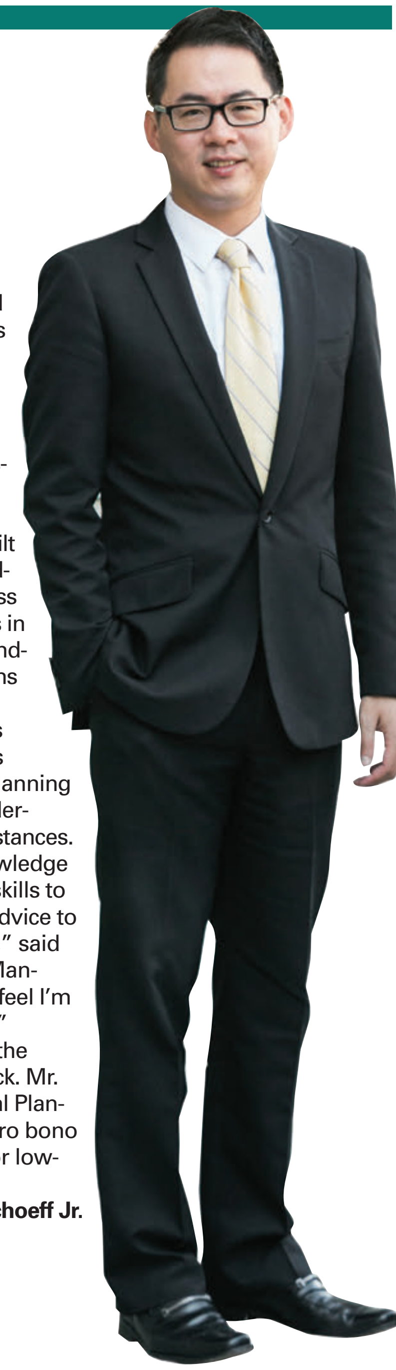
"This next project is all the worlds colliding — the finance piece, the psychology piece, the do-good-in-the-world piece," Mr. Crosby said. "I think it will be the perfect intersection that will be my life's work."

Mr. Crosby has consulted with advisers on how to work with clients, employing his expertise in psychology and finance. He co-wrote a New York Times best-seller, "Personal Benchmark: Integrating Behavioral Finance and Investment Management."

He also took a couple years off in college to help children in the Philippines, and wrote a children's book about the inevitability of death and making the most of every moment.

It appears he's taking his own advice.

— Alessandra Malito



Andrew Chou, Age: 36
Founder, managing partner
NexGen Wealth Management

ANDREW CHOU knows firsthand how difficult it is for immigrants to find good financial advice.

He moved to Southern California from Taiwan with his family in the early 1990s. Often, members of the Asian diaspora turn to insurance salespeople or overseas Chinese banks.

Mr. Chou, managing partner at NexGen Wealth Management, has built his client roster by focusing on second-generation and minority small-business owners. Many are Chinese-Americans in their 30s and 40s who operate independent practices as physicians and dentists.

For them, Mr. Chou is someone who combines sophisticated financial planning ability with a unique understanding of their circumstances.

"I feel I have the knowledge base and the language skills to really provide the best advice to the Chinese community," said Mr. Chou, who speaks Mandarin and Taiwanese. "I feel I'm part of the growth story."

And he understands the importance of giving back. Mr. Chou is president of the local Financial Planning Association chapter, and gives pro bono advice and conducts free seminars for low-income Los Angeles residents.

— Mark Schoeff Jr.

"It was appealing to me that people could take control of their financial lives."

Mary Beth Storjohann
Age: 31
CEO and founder
Workable Wealth

PLENTY OF ADVISERS are trying to crack the millennial client base, but Mary Beth Storjohann has had it locked down since the earliest days of her career.

The 31-year-old is the founder of Workable Wealth, a San Diego-based fee-only practice that focuses on clients in their 20s, 30s and 40s.

Ms. Storjohann fell into financial planning when she took her first job as a receptionist at a financial planning firm. There, she eventually climbed to director of client services.

"It was appealing to me that people could take control of their financial lives and get rid of their stress," she said.

It didn't take Ms. Storjohann long to realize she wanted to be an adviser, and that her best route was as an entrepreneur.

"Seeing the products that were sold to my generation, it made me passionate about being fee-only and acting in clients' best interests," she said.

Her practice is 100% virtual, though she'll meet with clients face-to-face if they happen to be in town. And she consults other advisers on sustainable models for serving Gen Y clients.

Ms. Storjohann could teach a thing or two about making use of the media, as well. She boasts 120+ media touches on her website, including TV, radio and print, and writes her own blog.

Amid it all, she has found time to serve as a mentor through the Financial Planning Association's Women Connect program, and provides insights and feedback to younger advisers looking to break out on their own.

— Darla Mercado

Caleb Brown, Age: 35
Partner, New Planner Recruiting

SOMETIMES THE FINANCIAL services industry is presented in a less than favorable light. Wolf of Wall Street, anyone?

To thwart such misconceptions for young professionals who want to become financial planners, Caleb Brown began a company that links new advisers with established firms.

Mr. Brown, who recently served a three-year term on the Financial Planning Association's NexGen leadership committee, has placed hundreds of newly minted financial planners into firms.

"I think it's the greatest profession ever, and I want other people to see it the same way I do," he said. "For them to see the tremendous joy that you can get and the fulfilling experience from working with people and helping them make financial decisions … there are not really any professions I know of that you can do this."

When he started his career, firms didn't want to hire an adviser without a book of business. Mr. Brown's firm aims to "communicate the value proposition of these new financial planners."

— Alessandra Malito

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Global Specialty
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Ivy Global Real Estate Fund (IREAX)
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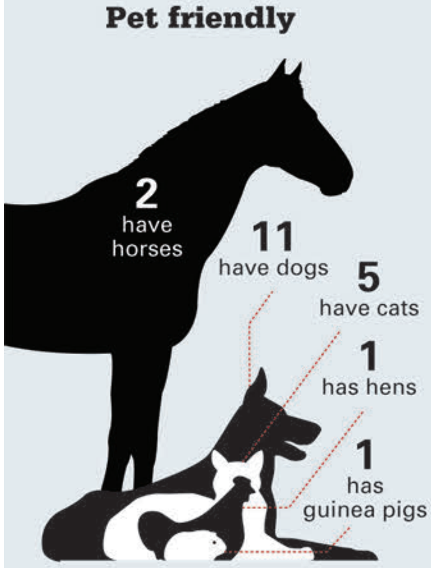
Where they work

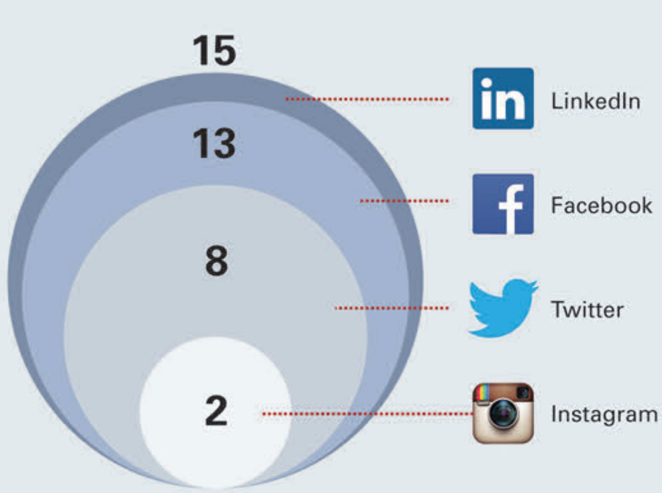
Most common designations

Attendees of the *InvestmentNews* 40 Under 40 luncheon event in New York on June 1

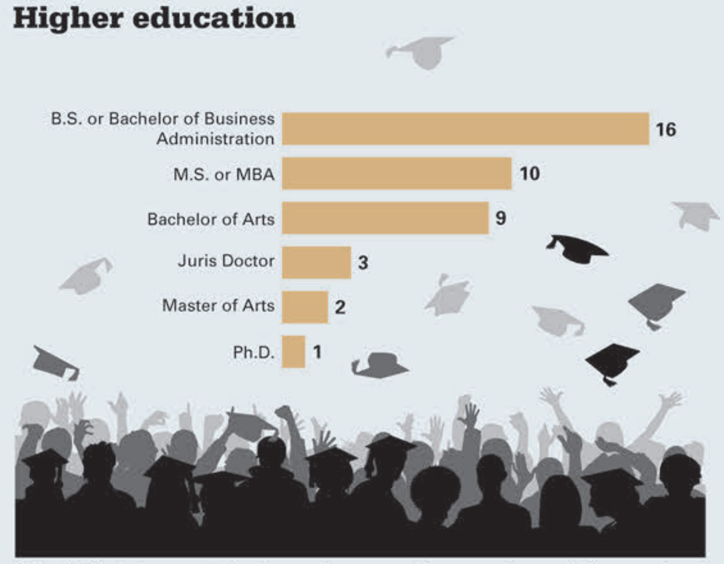
Pet friendly



Favorite social networks

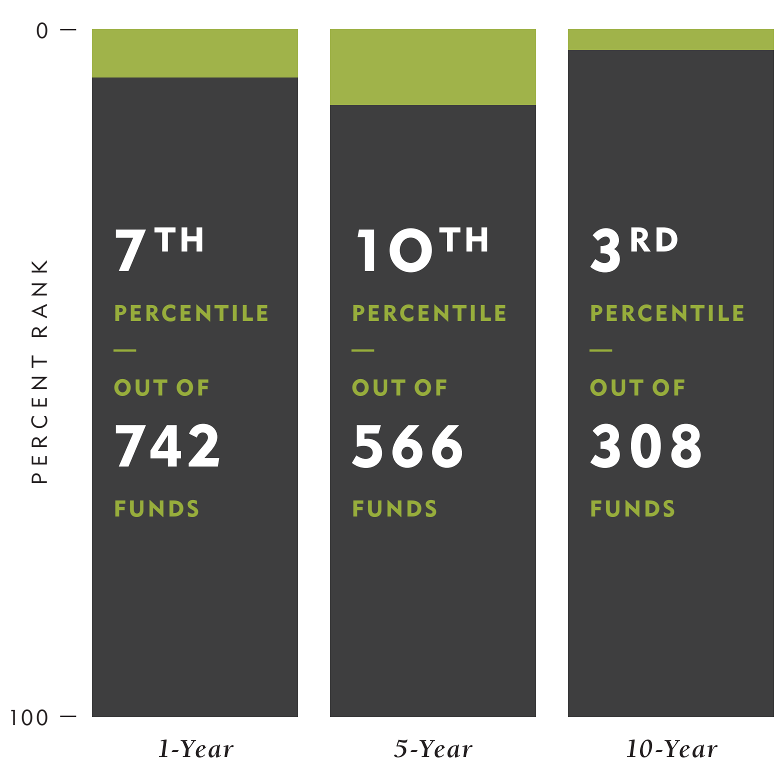


Higher education



Note: Highest degree attained; some have more than one degree at the same level.

PHOTO AND GRAPHICS: GERARDO TABONES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100
PERCENT RANK
7TH PERCENTILE
OUT OF 742 FUNDS
10TH PERCENTILE
OUT OF 566 FUNDS
3RD PERCENTILE
OUT OF 308 FUNDS
1-Year
5-Year
10-Year

Rianka Dorsainvil

Age: **28**
Financial adviser
Financial Services Advisory

ONE OF RIANKA DORSAINVIL'S best skills is motivating clients to stick to the financial plans she helps them create.

"Clients tend to follow what's in their best interests if you focus on the 'why,'" she said.

A CFP with Financial Services Advisory in Rockville, Md., Ms. Dorsainvil, 28, is the Financial Planning Association's NexGen president-elect, and previously spearheaded the FPA National Capital Area's first regional retreat for NexGen — a community that encourages young advisers.

She also founded a mentorship program for women at her alma mater, Virginia Tech, and is active with the Association of African-American Financial Advisors. Last year she won an FPA Diversity Scholarship for raising awareness about the lack of diversity in the profession and for her work in the community. She volunteers each year with the IRS Volunteer Income Tax Assistance program.

Ms. Dorsainvil thinks she can help boost diversity in the industry by being a role model and by being willing to start the conversation.

"Growing up, people in my community never said they wanted to be president because no one ever was president who looked like them," she said. "Now they are talking about it because they feel like it's attainable."

— Liz Skinner

> "Clients tend to follow what's in their best interests if you focus on the 'why.'"

David S. Chang

Age: **35**
President and CEO
WealthBridge Inc.

THE FEAR MANY PEOPLE have of outliving their money is often tied to their concerns about health care costs. David Chang places his advisory business at this intersection.

The president and chief executive of WealthBridge Inc. in Honolulu, Mr. Chang also runs Home Care Solutions, a home care provider. He has developed planning packages that address both financial and future health care needs.

"You want to have a plan that combines elements of both," he said. "Part of my job as an adviser is to bring up the different scenarios and to have a different plan for each scenario."

Mr. Chang writes a weekly column for the local newspaper and draws about 6,000 monthly hits to his blog, www.artofthinkingsmart.com.

His entrepreneurial drive comes from his experience in an immigrant family, he said. Mr. Chang rejected the strictures of large broker-dealers because he had a desire to be innovative.

A graduate of West Point and an Iraq combat veteran, Mr. Chang is a member of the Hawaiian National Guard and does free financial assessments for service members and veterans.

— Mark Schoeff Jr.

Seth Coren, Age: 39

Executive director and private wealth adviser
Coren-Edelman Group at Morgan Stanley
Private Wealth Management

SEVENTEEN YEARS in the financial advice business have given Seth Coren a broad perspective on what market cycles can do to investor portfolios, and the role of financial planning.

"I've been through two vicious market downturns in my career," he said. "My job is to make sure clients are prepared and can sit through bad periods."

Mr. Coren, who oversees more than $1 billion under advisement, often speaks at conferences about the need for comprehensive planning. He also is big on young advisers' taking advantage of the perfect storm: an aging industry and minimal succession planning. Acquiring books, while allowing enough time for integration and transition of clients, helps all parties. Mr. Coren has done so with two advisers in the past five years.

"There's never been a better time to be in this industry," he said.

— Jeff Benjamin

Sean Deviney

Age: **35**
Financial planner and
retirement plans specialist
Provenance Wealth Advisors

EARLY IN HIS CAREER, Sean Deviney was advised to find a way to specialize within the industry to help him stand out and become more valuable.

That paved the way for him to become the in-house retirement planning specialist at Provenance Wealth Advisors, where he has worked for 10 years — essentially creating the firm's retirement planning group.

"For most people, the largest savings they have is in their retirement plan through their employers," he said. "It is growing in importance, with more headline news, law changes and court rulings on things like fees."

Mr. Deviney joined Provenance after spending three years at SEI Investments Co., where he learned the retirement plan business.

"Now my specialty is on the corporate retirement plan side, helping companies structure plans that are the best available," he said.

Though he keeps busy managing more than $350 million in assets, Mr. Deviney has found time to engage with the industry, educating advisers at conferences and speaking on expert panels. He also recently visited Capitol Hill with an elite group of retirement plan advisers to discuss tax reform.

— Jeff Benjamin

Russell Riggan, Age: 36

Financial adviser, Edward Jones

RUSSELL RIGGAN dreamed of being quarterback of the Dallas Cowboys, but when he stopped growing after eighth grade, he decided to follow his father into financial advice.

Today father and son work side by side for Edward Jones in Snyder, Texas.

During his decade with Edward Jones, Mr. Riggan has acted as a mentor for dozens of the firm's advisers, even as he's built his own business to about $165 million in AUM.

He's considered an innovator in processes and technology for advisers and attributes his ability to draw $30 million in new assets each of the past three years to his team's client service.

"Anything we do can be bought or sold online," Mr. Riggan said. "So it's the personal touch and relationships that help us gain and keep business with the people we work."

Mr. Riggan extends his "great passion" for educating people on the importance of planning for life events to local schools and organizations, and has taught short courses at a community college, because "far too many people don't plan for retirement, college or invest because they haven't had the opportunity to learn about it."

A former rodeo professional, Mr. Riggan attended Texas Tech University on a rodeo scholarship and qualified for the College National Finals Rodeo.

— Liz Skinner

Andrei Cherny, Age: 39
Founder and CEO, Aspiration Partners

WHOEVER THOUGHT of an online automated investment platform that lets clients choose what to pay in fees?

Andrei Cherny did. He is founder and chief executive of Aspiration Partners, and he bases his company's business model on the goal of bringing financial products to the middle class.

Aspiration, which was started in November 2014, was built on the adage: "Pay what is fair."

"I really care deeply about economic opportunity and about helping to widen the circle of those who have the opportunity to build a better life for themselves and their families," Mr. Cherny said.

Obviously, clients can choose to pay no management fee. But Mr. Cherny said having such an open model engenders a trusting relationship between clients and the company.

"We trust if we do a good job for them, they'll treat us fairly," he said.

Regardless of what clients pay, the company always gives back. Mr. Cherny said 10% of Aspiration's revenue goes to charities offering micro-loans to people in the United States living in poverty.

Mr. Cherny has played many roles in the financial industry. He is a former business consultant, financial fraud prosecutor and White House aide in the Clinton administration.

Creating Aspiration gave him the chance to democratize investing for the middle class and millennials, he said.

"We believe you can both do well and good in the world," Mr. Cherny said.

— Alessandra Malito

Sophia Bera, Age: 31
Founder and financial planner
Gen Y Planning

SOPHIA BERA didn't set out to be a financial adviser, but rather an artist, dancer and singer. But because she didn't want to be a starving artist, Ms. Bera absorbed all the financial knowledge she could in college.

The founder of Gen Y Planning believes financial advice is something she is well suited to provide to her generation, whom many others in the industry are not interested in serving.

Based in the Minneapolis area, Ms. Bera is a pioneer in building a virtual advisory firm. She outsources where she needs to and works remotely whenever possible.

She is able to serve millennials profitably by charging a monthly subscription fee. Ms. Bera will build investment portfolios or do one-time financial check-ups, but most of her time is spent helping clients navigate things like student loan debt and maximizing benefits.

"Eighty percent of what I do has nothing to do with retirement planning or investments," she said.

— Jeff Benjamin

Eric Billimoria, Age: 32
Vice president, WealthCare Advisors

ERIC BILLIMORIA has found the way to clients' assets is through their tax returns.

"A lot of younger people will trust you with their taxes before their investments," said Mr. Billimoria, vice president and co-owner of WealthCare Advisors in Schaumburg, Ill. "Tax season is my biggest time in marketing and expanding my client base."

A CPA as well as a certified financial planner, Mr. Billimoria likes helping those just starting out in their careers to plan ahead.

"Young people think they're immortal," he said. "As they make more money, they spend more money. They don't think about saving or retirement. There are opportunities there to help them on the investment side."

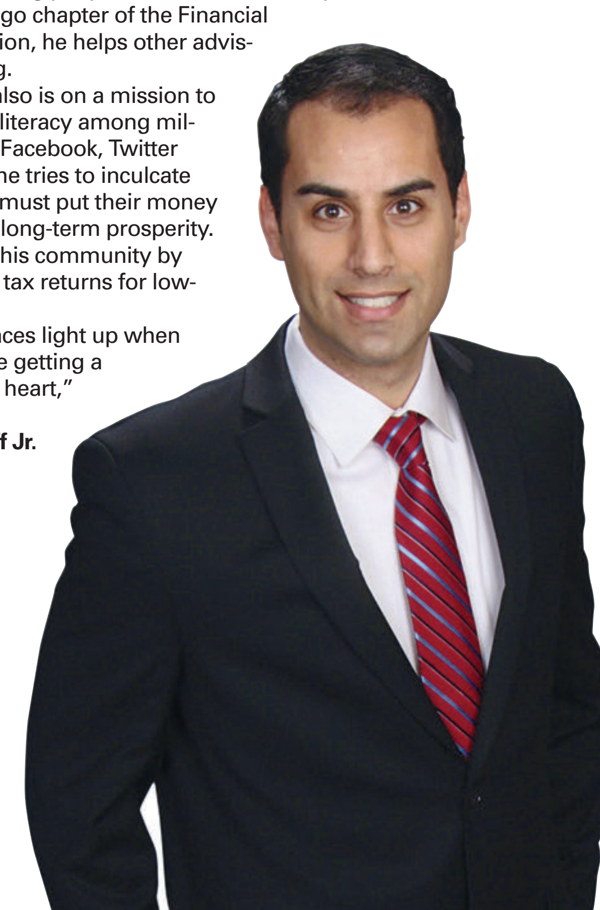
His focus on young people extends to his own profession. As a leader of the NexGen Chicago chapter of the Financial Planning Association, he helps other advisers with marketing.

Mr. Billimoria also is on a mission to improve financial literacy among millennials. Through Facebook, Twitter and a newsletter, he tries to inculcate the idea that they must put their money to work to ensure long-term prosperity.

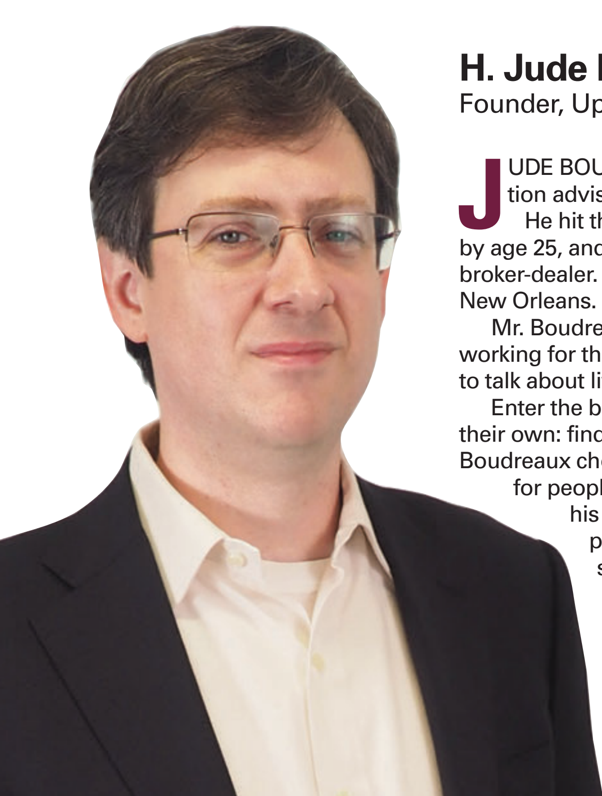
And he serves his community by preparing income tax returns for low-income families.

"To see their faces light up when they're told they're getting a refund melts your heart," he said.

— Mark Schoeff Jr.



H. Jude Boudreaux, Age: 37
Founder, Upperline Financial Planning



JUDE BOUDREAUX IS A DOUBLE THREAT: a notable next-generation adviser and a master marketer.

He hit the ground running, becoming a certified financial planner by age 25, and cut his teeth at a mutual fund company, an insurer and a broker-dealer. He now runs his own registered investment adviser in New Orleans.

Mr. Boudreaux reached a major turning point in his early 20s while working for the insurer. "I was trying to cold-call young families at night to talk about life insurance," he recalled. "I hated that."

Enter the biggest problem for advisers stepping out on their own: finding clients. On the advice of a mentor, Mr. Boudreaux chose an unlikely route: doing pro-bono work for people who had just lost their jobs. He also honed his marketing strategy, writing about financial planning on the web and being active on social media.

"You have to think locally about attracting people in your area," he said.

Mr. Boudreaux has served as president of the Financial Planning Association's NexGen, a network to encourage young planners. He also teaches personal finance and music finance at Loyola.

— Darla Mercado

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Kellie Masters, Age: 32

Investment adviser representative
Wealth Advisors of Iowa

FINANCIAL PLANNING and financial literacy have been a big part of Kellie Masters' life from the very beginning.

"I would come up with these elaborate budgets for the holidays," she said of her childhood. "It was always a big interest of mine."

At Iowa State University, she carried that interest forward, earning a bachelor's degree in finance and a master's in family financial planning.

Ms. Masters' role at Wealth Advisors of Iowa has evolved from her start as a paraplanner to now acting as a liaison between the firm and CPAs at McGowen Hurst Clark & Smith.

Outside of work, Ms. Masters has spent the last seven years involved in Money Smart Week, a public awareness campaign that encourages individuals to gain better control over their personal finances. For the second year in a row, she is serving as the Des Moines area coordinator, leading more than 40 professionals from the financial sector, government and nonprofits.

She also organized the Iowa Bike Bash this year and got the word out to a whole new audience.

"We reached a new group of people to promote financial literacy, teach them about IRAs and retirement and how to choose an adviser," she said.

— Darla Mercado

Jamie Hopkins, Age: 30

Associate professor of taxation, The American College

IF YOU ASKED HIM, Jamie Hopkins would say his greatest accomplishment was creating the Retirement Income Certified Professional designation, an educational program at the American College of Financial Services from which 1,500 advisers have graduated and another 75 are enrolled.

As the population ages, Mr. Hopkins thinks retirement planning needs a bigger spotlight. He has created the RICP Retirement Literacy Report, which surveys Americans on their knowledge of the golden years. The associate professor also has testified before Congress on Social Security and serves as associate director of the New York Life Center for Retirement Income.

"What we're seeing now is more comprehensive planning being done that in the past people weren't exposed to," Mr. Hopkins said of the RICP designation. "This has broken down the silos and given financial advisers more tools and a framework on how they're doing planning for their clients."

Prior to championing retirement, Mr. Hopkins, an attorney, clerked for the Superior Court of New Jersey's Appellate Division and worked in private equity.

He still has found the energy to maintain a running streak for the past 5½ years. Mr. Hopkins runs at least one mile every single day, as well as participating in marathons and half marathons.

— Alessandra Malito

Joel N. Burstein Jr.

Age: 35
Branch manager, vice president of investments
Raymond James & Associates

MANAGING A BRANCH for a broker-dealer is growing more complex by the day.

"It really is a lot of functions — from the salesman to the friend to the confidant to the psychologist, the business planner to the hiring and firing, all of it," said Joel N. Burstein Jr., the Miami branch manager at Raymond James & Associates. "We really do need to know a lot about everything, and the solutions are so much more complicated."

But at its heart, retail wealth management is a people business. And that's one thing Mr. Burstein — elevated to management as a my-way-or-the-highway 24-year-old — had to learn the hard way.

"I had to learn how to talk to people," he said. "Now I listen and ask questions before I share my opinion."

He's built trust — and respect — by earning credentials, such as the CFP mark, and becoming an expert on the firm's constantly changing technology. He also is a founding board member of Raymond James' Black Financial Advisors Network.

And Mr. Burstein has delivered results in terms of branch productivity. He manages three branches with 36 advisers and $3.36 billion in assets, and one of his branches (in Miami) is the sixth largest for RJA.

But business isn't everything. Mr. Burstein has led branch employees to feed residents of homeless shelters and works with an organization that supports elderly and disabled low-income homeowners.

— Trevor Hunnicutt

Aaron Klein, Age: 36

CEO, Riskalyze

EVEN AARON KLEIN is surprised how fast advisers have taken to his company's pride and joy: the Risk Number.

It is "transforming how advisers talk about the trade-off between risk and reward with their clients," said Mr. Klein, chief executive of Riskalyze Inc. The Risk Number gauges clients' risk tolerance and applies it to their portfolios. Advisers are able to play with the concepts of emotional behavior when it comes to the markets and steer clients clear of any dangers related to their investments.

Mr. Klein, a California resident, is a go-getter — a trait very evident to East Coasters who see him replying to emails before 5 a.m.

He tells his team they're building a 100-year company, and they've got 96 more years to go.

"We have just begun to scratch the surface at putting the Risk Number at the core of the world's investing decisions," he said. That means there's a lot more innovation to come.

Because of the fast-paced nature of his job, when Mr. Klein gets to unwind, he's happy to do so with his family. Two of his three adopted children were born in Ethiopia. This connection has led him and his wife to participate in a school project in that country that has brought in 1,100 students, mainly orphans.

— Alessandra Malito

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PHOTO BY TATE GUNNERSON

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- 100% are literate while 90% of rural women are illiterate.
- 100% of both girls and boys are in school.
- 55% own their own homes and 70% own cellphones.
- Not one mother has died in childbirth since 2006.
- 20% have at least one child in university.

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Valerie Leonard, Age: 33

Wealth adviser
Grinkmeyer Leonard Financial

VALERIE LEONARD intended to become a nurse, but quickly learned she was less interested in medical studies than in helping people.

"I honestly look at this business as my daily mission work," said Ms. Leonard, the co-founder of Grinkmeyer Leonard Financial.

And she couldn't be happier, or busier. With an advisory business that serves individuals and acts as co-fiduciary in the retirement plan market, Ms. Leonard said the biggest stumbling block for plan participants is fear of the unknown. She believes she is most valuable when looking at all aspects of a financial life, which is why her firm is expanding to help companies evaluate health care plans in the wake of the Affordable Care Act.

Her industry involvement is remarkable, particularly since she and her husband have three kids under the age of 4. Ms. Leonard serves on the Retirement Advisory Council at Commonwealth Financial Network and the Retirement Advisory Board at Nationwide Financial, and is a member of the Advisory Council at Fidelity Investments.

— Jeff Benjamin

Lowell Putnam, Age: 32

CEO and co-founder, Quovo

LOWELL PUTNAM, co-founder of financial data aggregator Quovo Inc., thinks wealth managers are starting to aspire to do better things with data than just dumping a lot of information into a document.

"We can use data to tell a story or unlock an insight," he said.

For an adviser, seizing the opportunity could mean learning which clients need to be spoken to when their portfolios slip.

"There's an opportunity for you to get in front of bad news" — or good, he said.

Mr. Putnam's message is part shot across the bow and part life-hack for advisers, whose approaches tend to be more old world. Yet for all Mr. Putnam's bona fides — a Harvard degree, a job as a Lehman Brothers investment banker and a great-grandfather, George Putnam, who founded Putnam Investments — the startup executive said he's still got more to learn about the business.

"It's a mature industry," he said. "There are unspoken social rules. We've tried to be respectful." That approach may be starting to pan out.

"There's even more opportunity today than there was two years ago, because the incumbents are looking for change," Mr. Putnam said, referring to large firms that are recognizing the need to embrace technology. "The people we're working with today wouldn't have taken our calls before."

— Trevor Hunnicutt

Brian McLaughlin, Age: 39

CEO, Redtail

BRIAN MCLAUGHLIN loves working the booth at trade shows for his company, Redtail, which makes a customer relationship management system for advisers. But when people walk up to him, they don't often know he's in charge of a lot more. He's the company's chief executive, after all.

Mr. McLaughlin got his start working in information technology for a broker-dealer in 1997, while still in college. Two years later, he was building a prototype web application that would handle far more than the legacy system to synchronize data.

Four years later, Redtail was born. Started as a beta system with 25 users, Redtail has grown organically through word of mouth to about 90,000 users. His company's mantra is "create raving fans."

Mr. McLaughlin considers his greatest accomplishment building a business that helps build better businesses.

"Everything we do every day here has been about making advisers' actual businesses run more effectively," he said.

— Alessandra Malito

Robert Johnson III, Age: 35

Certified financial planner
AXA Advisors

ROBERT JOHNSON joined the booming information technology sector after graduating with a business degree, but after being laid off three years later he realized his true calling was right under his nose.

Mr. Johnson, 35, followed his father into the financial advice business, attracted to the idea of helping people and educating them about financial issues. With about 2,000 clients and $73 million in assets, he's built a business focused on working with schoolteachers and nonprofits.

He volunteers with many of the same people and organizations, including spending many career days at middle schools teaching kids about the importance of financial planning. He is a CFP and chartered financial consultant, and he earned his MBA from the University of Illinois. Mr. Johnson has won honors from AXA Advisors for being a leader among his peers, and is a qualifying member of the Million Dollar Round Table.

Building and maintaining his successful Chicago-based firm has required dedication and drive, and not just in the early years, he said.

"Getting comfortable in this business is the quickest way to halt growth," Mr. Johnson said. "You have to fear losing more than you love winning."

— Liz Skinner

Jason Roberts, Age: 39

CEO, Pension Resource Institute;
Managing partner, Retirement Law Group

SOME PEOPLE WON'T build one business, let alone two, as Jason Roberts has.

Mr. Roberts is chief executive of Pension Resource Institute, a compliance consulting firm, and managing partner at Retirement Law Group, which together serve about 50,000 advisers.

"Being able to start two businesses that are very different from the traditional model is more of the accomplishment," he said.

The firms have a few nontraditional aspects, including the way they bill clients. The law firm charges a flat fee upfront, while the consulting practice uses a subscription-based model.

Mr. Roberts finds time to contribute to the industry as an active member of the National Association of Plan Advisors and the American Society of Pension Professionals & Actuaries, and a faculty member of the Practising Law Institute.

— Alessandra Malito

Shirl Penney, Age: 38

Founder, president and CEO, Dynasty Financial Partners

SHIRL PENNEY started at the bottom. Now, he's on the 32nd floor of a gleaming tower of glass in Manhattan that peaks at Mr. Penney's Midtown apartment — and Central Park.

It's a far climb from the makeshift office in his garage where he built Dynasty Financial Partners, and an even greater ascent from his beginnings. Mr. Penney, whose clients cater to the wealthy, said he lived on food stamps and was raised by a step-grandfather whose schooling stopped after the fourth grade.

"I can't settle because if I settled I'd be letting him down," Mr. Penney said.

He said Dynasty's role resembles that of Levi Strauss during the Gold Rush, outfitting businesses in a market segment — RIAs — that seems to have struck gold, taking market share from the largest wealth managers.

Already a veteran at 38, Mr. Penney worked for Salomon Smith Barney Inc. and Citigroup Inc. before starting Dynasty. Building a robust infrastructure for the advisers it serves — and educating them on what the firm does — was a challenge.

"In any new business, you're going to make mistakes," he said. "But the amount of innovation in the last five years is greater than the 50 before that."

— Trevor Hunnicutt

Rose M. Price, Age: 39

Registered principal, financial adviser
VLP Financial Advisors

EVEN THOUGH Rose Price took over her family's finances at age 15 when her father died, she didn't realize her professional calling until after studying medicine.

Ms. Price loved talking to patients, but a year into pre-med studies, she realized how difficult it was that not everyone could be saved. She also calculated that becoming a doctor would land her in serious debt.

Instead, Ms. Price studied accounting and 14 years ago joined VLP Financial Advisors in Vienna, Va. She's helped it grow from two producing reps to a regional office with five advisers and four additional sales branches.

In addition to advising her own clients, this CFP and partner at the firm is a registered principal, helping advisers streamline their businesses and mentoring junior advisers.

Beyond her firm, she's served on the board of FPA's National Capital Area chapter and regularly speaks to high school classes about finances.

"We set students up for failure by not explaining what credit should be used for and what it should not be used for," she said.

— Liz Skinner

Cullen Roche, Age: 35
Founder
Orcam Financial Group

AS FINANCIAL MARKETS become more interconnected, Cullen Roche is thinking bigger about asset allocation.

The founder of Orcam Financial Group, Mr. Roche promotes a "macro-based indexing strategy." He said it's critical to understand not only the domestic economy but the rest of the world, too.

"What happens at the macro level matters more than it ever has," Mr. Roche said. "The world has become a very small place."

He sets himself apart as a consultant on economics and markets, and his thoughts are in high demand. Mr. Roche has written a best-selling book, "Pragmatic Capitalism: What Every Investor Needs to Know about Money and Finance," and one of his papers, "Understanding the Monetary System," was the 10th-most downloaded on the Social Sciences Research Network.

He also has 21,000 Twitter followers, and offers opinions on everything from macroeconomics to trends in investment advice.

The success of the consulting side of his business has enabled him to add an investment advisory operation. His goal is to deliver high-caliber advice at a cost substantially below the standard 100 basis points.

"The fees in the asset management industry are way too high," Mr. Roche said. "Investors deserve something sophisticated — and they don't deserve to be charged an excessively high fee for it."

— Mark Schoeff Jr.

Joshua Brown, Age: 38
CEO, Ritholtz Wealth Management

A WRONG DECISION led Josh Brown down the right career path. At least it eventually did.

The chief executive of Ritholtz Wealth Management is a familiar face to fans of CNBC, readers of his popular blog, "The Reformed Broker," and members of the Twittersphere. His 100K-plus Twitter followers appreciate his sharply written market commentary, references to hip-hop culture — and posts that sometimes combine the two. There was a time when Mr. Brown worked for a brokerage firm that was less than thrilled about his online personality. That was one of many negative factors — including the commission-based compensation model — that drove him away.

"I find that so emblematic of the attitude in that world that I left behind," Mr. Brown said.

Now he's running a fee-only practice, and credits his team of advisers and staff as the enablers of his success.

— Darla Mercado

Marcio Silveira
Age: 39
Founder and financial planner
Pavlov Financial Planning

THE ART OF BALANCE has been instrumental in Marcio Silveira's success as an adviser and entrepreneur.

The founder of Pavlov Financial Planning said it all came down to reaching an understanding with his wife, who stood by him while he obtained his chartered financial analyst and certified financial planning designations. She found herself a "CFA widow" while Mr. Silveira dedicated countless hours to studying.

A cornerstone of his practice today is working with young professional immigrants, a group Mr. Silveira identifies with, as he was born in Rio de Janeiro and his mother is from Russia. Mr. Silveira speaks Portuguese and Russian.

"Focusing on this group, I saw that there was a better market opportunity and an underserved market segment," he said.

And Mr. Silveira is a founding member of XY Planning Network, a group of fee-only advisers serving younger generations. He bucks the trend of charging based on assets, instead billing a monthly retainer.

Mr. Silveira has been an exam item writer and reviewer with the CFP Board, and provides financial counseling at Our Daily Bread of Fairfax County, Va.

— Darla Mercado

Michael Pellman Rowland, Age: 35
Senior VP, portfolio management director, financial adviser
Morgan Stanley Wealth Management

MICHAEL PELLMAN ROWLAND has been ensconced in the lesbian, gay, bisexual and transgender community for as long as he can recall, having grown up in Greenwich Village where his parents were one of only two straight couples in their building.

He has built on his strong kinship with the gay community to create a financial advice business focused on planning for couples without marriage equality. Though that landscape is changing, Mr. Rowland's been a leader on LGBT issues internally at Morgan Stanley Wealth Management in New York, where he's worked for 13 years.

Three to four years ago Mr. Rowland added socially conscious investing to his list of specialties, helping investors put their money to work in support of their beliefs.

Managing more than $100 million in assets, Mr. Rowland said, "People don't care how much you know until they know how much you care."

Mr. Rowland is a member of the Estate Planning Council of New York and helps to support Housing Works, a charity that targets homelessness and AIDS/HIV.

— Liz Skinner

Christy Raines, Age: 32
President
Azimuth Wealth Management

CHRISTY RAINES demonstrated the same hard work and talent establishing an investment advice business that she showed as a walk-on with the University of Notre Dame rowing team.

"You have to have a special kind of drive to build your own practice — and the tenacity to stick with it," Ms. Raines said.

The biggest hurdle she has overcome in running Azimuth is relocating frequently, thanks to her husband's career in the Air Force. She has found that geographical distance can be overcome by establishing a bond with clients. That begins by clearly disclosing how much they're paying.

"I'm very fee-sensitive," said Ms. Raines, currently in Denver. "That engenders trust with people."

That's the key to keeping her clients no matter where she moves.

"Once people find someone they trust in this line of work, they don't want to give you up," she said.

She helps people in need beyond her clients with financial planning. She conducts classes at bases for those married to service members on the nuances of military compensation and retirement benefits.

"Most spouses don't understand it," she said.

— Mark Schoeff Jr.

Tricia Mulcare, Age: 39
Principal, Homrich Berg

WHEN TRICIA MULCARE was growing up, she dreamed of being the first female U.S. president. The principal at Homrich Berg has grown beyond that early aspiration to now focus almost exclusively on the business of financial planning — and her family.

Originally educated as an accountant, Ms. Mulcare made the transition into financial planning 12 years ago and has since used her expertise to give back as much as possible.

She touts the importance of financial planning by regularly giving presentations at regional and national conferences of Alpha Kappa Psi. She also is serving her second year as president of ProWIN, a women's networking group for building businesses in Atlanta.

Her pro bono and other volunteer efforts include the March of Dimes, the Susan G. Komen breast cancer awareness campaign and the Philanthropic Education Organization.

As a certified divorce financial analyst, Ms. Mulcare has become a specialist in serving single women. "Most of my female clients used to be widows in their 60s, but now most of my single female clients are divorced and younger," she said. "My goal for all my clients is to make sure they are knowledgeable and in the loop while they're still married."

— Jeff Benjamin

Robert Russo, Age: 38
Managing partner, founder
Independent Advisor Alliance

ROBERT RUSSO left Edward Jones in 2007 because he wanted to run a pension consulting firm. He co-founded Blackbridge Financial, a wealth management firm focusing on retirement plans and other services.

In the process of building a network of advisers to generate referrals, he created a widely successful business as an office of supervisory jurisdiction for LPL Financial advisers around Charlotte, N.C.

Mr. Russo now spends more hours on the road for work than he does sleeping because he's always recruiting new advisers to his Independent Advisor Alliance. But it's worth it. He's built the firm into a $1.5 billion hybrid practice with more than 50 representatives and 13 full-time staff.

"Since my clients are independent advisers, I have to constantly evolve and innovate so they can deliver cutting-edge services to their clients," he said.

Mr. Russo, an advocate of transparent pricing, charges advisers a flat $30,000 a year for his services, and said he believes advisers themselves should move away from pricing based on assets.

"I don't think a client should have to figure out what they are paying," he said.

Mr. Russo shares his innovative industry thinking as a member of advisory firm boards, and he speaks on financial literacy to his church and other groups.

— Liz Skinner

Robert Schmansky, Age: 37
President, Clear Financial Advisors

FOUR YEARS AGO, Rob Schmansky created an advisory firm to provide clients with financial clarity based on their particular planning needs.

"I wanted to be able to help people just starting out," he said, "and those who had lower assets than most traditional advisers are interested in helping."

Today his Livonia, Mich.,-based Clear Financial Advisors specializes in fee-only advice for young families, those who have come into sudden wealth through inheritances and self-employed individuals. He charges by the project or via a monthly retainer and manages about $6.5 million in assets for clients.

A CFP, Mr. Schmansky teaches courses for those attaining the designation and recently became a CFP Board ambassador, championing holistic planning through his writing.

In addition to volunteering with industry organizations, Mr. Schmansky gives back to his country by providing financial planning services and literacy presentations to military families, usually at a time of deployment.

— Liz Skinner

Yoav Zurel, Age: 29
CEO and co-founder
FeeX Inc.

FEE COMPRESSION isn't an abstract idea: It takes form in people such as Yoav Zurel, the brash, young co-founder of FeeX Inc. Mr. Zurel believes people are unknowingly giving up a lot of money in fees, and it's standing in the way of their happiness in retirement.

"The market is asymmetric," he said. "The financial industry knows everything, and as consumers, we know nothing."

An examination of the fees paid by his parents confirmed to him that he'd stumbled onto a big problem: They'd paid a third of their retirement savings in fees.

He started a service that tells investors exactly how much they are paying in fees, and how to reduce them. In addition to switching to lower-cost funds, he informs the public that adviser fees aren't always static, and often can be negotiated.

Mr. Zurel said he wasn't looking to start a business, and so far he hasn't, exactly. FeeX is free, although a premium feature is coming.

The cheerful warrior concedes he's fighting a "constant uphill battle" to change the industry. "There are forces that would like it to stay opaque," he said. "These forces don't really like what we're doing."

— Trevor Hunnicutt

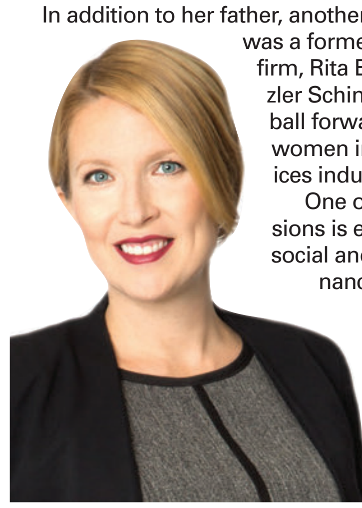
Sonya Dreizler Schinske, Age: 35
President and CEO
Protected Investors of America Inc.

WHEN SONYA DREIZLER SCHINSKE and her father, Bob Dreizler, are together for a family dinner, their spouses sometimes have to ask for a change of topic. That's because Mr. Dreizler is a financial adviser, and she runs his broker-dealer.

At 35, she's one of few young women in a position of leadership in the industry.

"I was very driven, and I had what my dad likes to call the mutant financial gene," she said, remembering her childhood fondness for a passbook savings account.

In addition to her father, another of her role models was a former president of the firm, Rita Buchfinck. Ms. Dreizler Schinske is carrying the ball forward, mentoring women in the financial services industry.



One of her driving passions is environmental, social and corporate-governance investing, a specialty of many of her firm's 55 advisers. She has started an ESG speaker series.

"I have a family, and I would like for there to be a good safe planet for a very long time," she said. "The focus on getting women and diverse representation in the C-suite and on boards is just as important to me, obviously for personal reasons, and I think … you tend to get financial results [from diversity]."

— Trevor Hunnicutt

Margie Shard, Age: 36
CEO and wealth adviser, Shard Financial Services

MARGIE SHARD is sharing her way to success.

The chief executive of Shard Financial Services Inc. brings a collaborative approach to her practice, seeking team players rather than lone wolves. She's been so successful at finding the right people and building her business, she has hosted presentations to teach other advisers to make the best use of staff members.

"I'm in an abundance mentality, rather than 'I can't talk to you because you'll steal my ideas,'" Ms. Shard said. "We all become better if we share our ideas."

At her Fenton, Mich., practice, the biggest asset is the team.

"Often [others] hire people and try to fit them where they think these people should be, rather than looking at their skills and where they can add value," Ms. Shard said.

Her inclination to share resources and knowledge has found its way into Ms. Shard's work outside the office.

She has a radio show and podcast on financial education and co-founded a twice-yearly event at which local women vote on charities that will receive the donations they pull together.

— Darla Mercado

Steve Starnes, Age: 37

Senior financial adviser
Grand Wealth Management

WITH DEGREES in aerospace engineering and economics, Steve Starnes could have gone in a couple different directions out of college. But the fact that day trading helped him finance his tuition made him realize his passion was for financial services.

"But I also lost a lot of money in the dot-com bubble and realized day trading is not the best financial plan," he said.

Mr. Starnes is in the middle of a career transition from Arlington, Va.-based Savant Capital to Grand Rapids, Mich.-based Grand Wealth Management "in order to take a leadership role at a smaller firm, with some potential for ownership equity," he said.

His dedication to retirement planning and his concern about the effects of dementia and Alzheimer's is clear, having watched his grandmother suffer through dementia.

"Someone can seem pretty OK, but they can make some substantial financial mistakes before anyone notices," he said. "Financial professionals really are in a position to help people through that."

Mr. Starnes speaks and writes regularly to educate the industry on the challenges and risks of dementia. His paper published in the Journal of Financial Planning, "Is Your Firm Prepared for Alzheimer's?" included procedures advisers should take to protect both their aging clients and their own practices.

— Jeff Benjamin

Blair duQuesnay, Age: 33

Principal, chief investment officer
ThirtyNorth Investments

A COMBINATION of drive and smarts propelled Blair duQuesnay to her post as chief investment officer of ThirtyNorth Investments, a New Orleans-based firm that manages $130 million.

"Unlike a lot of the other undergrads who were also at the top of the class, I didn't go to some management training program," said Ms. duQuesnay, 33, a graduate of the University of Georgia with a bachelor's in finance. "I started as a secretary."

To better distinguish herself, Ms. duQuesnay enrolled in a chartered financial analyst program. Her ambitions led her to UBS and then Wealthstream Advisors Inc. in New York.

The young adviser relocated to New Orleans in 2011 and founded Ignite Investments, serving Generation X and Y clients. Those clients followed her to ThirtyNorth when she realized that firm was a great fit.

Ms. duQuesnay has made a name for herself by writing and tweeting extensively. She contributes to her company's newsletter and writes a quarterly commentary on developments in global financial markets. She finds Twitter a useful place to keep up on news and engage with advisers and the financial media.

"I have met, and continue to meet, amazing colleagues in the industry through Twitter," she said, adding that she shares ThirtyNorth publications and news about the firm on LinkedIn.

Ms. duQuesnay is active in the industry as well. She serves on the board of the CFA Society of Louisiana, heading its advocacy and programs, and is a member of the New Orleans Estate Planning Council.

— Darla Mercado

Jason L. Smith, Age: 39

CEO and founder
Clarity 2 Prosperity Mastermind
Group and Prosperity Capital Advisors

JASON SMITH wants to reduce the equality gap in investment advice between those with a high net worth and those with modest assets.

"The middle class is served by salespeople," Mr. Smith said. "They don't get the service that the wealthy get."

Mr. Smith is chief executive and founder of Prosperity Capital Advisors, an RIA with $430 million in AUM and 42 employees. He also heads Clarity 2 Prosperity Mastermind Group, which conducts three holistic-advice training sessions per year for about 120 advisers, and also handles the insurance-sales part of the operation.

His firms focus on financial planning that encompasses tax, insurance, legal and health care guidance, and he calls holistic financial planning his "ultimate purpose in life."

Mr. Smith's advisory firm charges clients 20 basis points on their estate value. The market "sweet spot" is families with $500,000 to $2 million in net worth, including their homes.

Members of this group have accumulated enough assets to be independently wealthy, but lack a road map for their financial future, according to Mr. Smith.

"We always start with the plan," he said.

Mr. Smith has spoken at several industry events and is a frequent presenter at Ed Slott's Elite IRA Advisory Group workshops. Look for him later this year on the PBS series "The Leading Edge," which highlights different types of businesses and how they're affecting their fields.

— Mark Schoeff Jr.

IRA ALERT
Ed Slott

Roth IRAs are really tax insurance

It may be hard to persuade clients to write a giant check to the IRS, but often it's worth it

Clients want advisers to find ways to lower their income taxes. Roth IRAs are tax-free accounts, so that should make a perfect marriage. Yet many advisers find high-income clients are reluctant to execute Roth conversions. There are no income limitations for Roth conversions, as there are for Roth IRA contributions, but conversions trigger an upfront tax bill. Clients in higher tax brackets may be particularly hesitant to write large checks to the IRS many years before it's absolutely necessary.

Indeed, the total tax bill can be steep. Once state income tax, local income tax, the 3.8% net investment income surtax, income-based phaseouts of various tax benefits, taxation of Social Security income and exposure to higher Medicare Part B or D premiums have been considered, the effective tax rate might be 40% or even 50% of the conversion amount.

For an adviser, telling a client with a $500,000 traditional IRA that there's a great tax planning idea that will cost $250,000 up front may generate understandable resistance.

STILL MAKES SENSE

Still, Roth IRAs can make sense for some high-income clients. Paying tax now, on today's balance, may be preferable to paying future tax on a much larger sum when distributions are required at 70½.

Example: Jim is in the top tax bracket and likely will continue to be there. At some point, the money in his traditional IRA will be forced out each year in required minimum distributions and be heavily taxed. Say Jim is currently 53 years old with $500,000 in his IRA. Assuming Jim earns an annualized 8% inside his IRA, that $500,000 will grow to around $2 million by the time he must begin RMDs at age 70½.

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On that $1.5 million of growth, the government could be a 50% partner. Jim might prefer to pay the $250,000 in tax — which he would have to pay, in any case — now and avoid any tax on the possible $1.5 million of future retirement account growth.

What's more, there's no guarantee that Jim's effective tax rate would remain at 50%. States may hike their taxes, too. Any federal or state tax increases likely will be imposed on Jim as he takes RMDs from his traditional IRA.

Under current law, Jim's distributions can be tax-free after a conversion to a Roth IRA, as long as he passes the five-year and age 59½ tests. That would be true even if future tax legislation pushes up effective tax rates to much higher levels. What could be better than locking in a 0% tax rate on any distributions Jim chooses to take from his Roth IRA?

ESTATE IMPLICATIONS

Research indicates that high-income taxpayers tend to have high-income offspring. If high-bracket beneficiaries must take traditional IRA withdrawals, they'll owe steep taxes; an inherited Roth IRA, on the other hand, can deliver a tax-free legacy — one that can be provided without triggering any gift tax.

In our example, Jim may be able to convert his $500,000 traditional IRA to a Roth IRA, paying $250,000 in tax. Jim, now 53, might die at 89, with an $8 million Roth IRA. Roth IRA owners have no RMDs, so Jim can keep the account intact for his children, if he wishes, and the assumed 8% growth rate can continue.

At this point, Jim's $8 million Roth IRA can pass to his son and daughter. The Roth IRA beneficiaries will have RMDs but they won't owe income tax on hundreds of thousands of dollars in withdrawals each year.

A high-income client who pays tax owed by someone else may be subject to gift tax. That won't be the case with a Roth IRA conversion, even though today's tax payment will eventually spare the beneficiaries from paying tax on distributions they are required to take.

In Jim's case, from an income tax point of view, leaving his children an $8 million dollar Roth IRA could be roughly equivalent to leaving them an $8 million IRA plus a $4 million "regular," non-IRA account that could be used to cover the taxes.

Financial logic may not overcome stiff resistance from clients. But another way to look at a Roth IRA conversion is as tax insurance. High-income clients probably hold life insurance, disability insurance, property insurance, liability insurance and so on. The tax paid on a Roth IRA conversion can be likened to the premium paid for tax insurance. With a Roth IRA, the client will no longer have to worry about the effect or uncertainty of future tax rates on their retirement income.

Ed Slott, a certified public accountant, created the IRA Leadership Program and Ed Slott's Elite IRA Advisor Group. He can be reached at irahelp.com.

RETIREMENT WATCH
Wade D. Pfau

The pitfalls of retirement planning

Unique circumstances and risks affect the ability of retirees to earn and invest for lifetime income

Retirement income planning has emerged as a distinct field in the financial services profession. And while it suffers from many growing pains as it gains recognition, increased research and brainpower in the field have benefited retirees and those planning for retirement. One matter has become even clearer than before: The financial circumstances facing retirees differ dramatically from pre-retirees.

Those entering retirement are crossing the threshold into an entirely foreign way of living, where they are vulnerable to several risks more uniquely felt by retirees:

1. Reduced earnings capacity

Retirees face reduced flexibility to earn income in the labor markets as a way to cushion their standard of living from the impact of poor market returns.

2. Visible spending constraint

While investments were once a place for saving and accumulation, retirees must try to create an income stream from their existing assets as an important constraint on their investment decisions. This amplifies investment risks by increasing the importance of the ordering of investment returns in retirement.

3. Heightened investment risk

Retirees experience heightened vulnerability to sequence-of-returns risk once they are spending from their investment portfolio. Poor returns early in retirement can push the sustainable withdrawal rate well below what is implied by long-term average market returns.

The financial market returns experienced near one's retirement date matter a great deal more than most people realize. Retiring at the start of a bear market is incredibly dangerous. The average market return over a 30-year period could be quite generous, but if negative returns are experienced in the early stages when someone has started spending from their portfolio, wealth can be depleted rapidly through withdrawals, leaving a much smaller nest egg to benefit from any subsequent market recovery, even with the same average returns over a long period of time.

The dynamics of sequence risk suggest that the retirement prospects for a particular group of retirees could be jeopardized by a prolonged recession early in retirement, even without an accompanying economic catastrophe. Particular retiree groups could experience much worse retirement outcomes than those retiring a few years earlier or later.

4. Spending shocks

Unexpected expenses could stem from any number of matters, including health and long-term-care needs, an unforeseen need to help other family members, changes in public policy, divorce, changing housing needs, home repairs and rising prescription costs. Retirees must preserve flexibility and liquidity to manage unplanned expenses. When attempting to budget over a long retirement period, it is important to include allowances for such contingencies.

5. Compounding inflation

Retirees face the risk that inflation will erode the purchasing power of their savings as they progress through retirement. While it may not be noticeable in the short term, even low inflation can have a big impact over a lengthy retirement, leaving retirees vulnerable. Even with just 3% average annual inflation, the purchasing power of a dollar will fall by more than half after 25 years.

6. Unknown longevity

The fundamental risk for retirement comes in the form of unknown longevity. The length of one's retirement could be much shorter or longer than a person's statistical life expectancy. A long life is wonderful, but it is also more costly and a bigger drain on a retiree's resources. How long will a retirement plan need to generate income? Half of the population will outlive their statistical life expectancy, and some will live much longer.

7. Declining cognitive abilities

Finally, a retirement income plan must take into account the unfortunate reality that many will experience declining cognitive abilities, hampering portfolio management and other financial decision-making skills. It will become increasingly difficult to make sound portfolio investment and withdrawal decisions as one enters advanced ages.

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In addition, if the spouse who manages the finances dies first, the surviving spouse can run into serious problems — even being victimized by financial scam artists — without a clear plan in place.

Not all is bleak, as retirement plans can be built to manage these varying risks. This is why retirement income planning is now emerging as a distinct field.

Wade D. Pfau is a professor of retirement income in the Ph.D. program in financial services and retirement planning at The American College in Bryn Mawr, Pa.

Vanguard maintains $1 price tag on money funds

Liquidity restrictions are possible, but not likely, fund giant says

By Trevor Hunnicutt

Vanguard's retail money market funds will continue to quote a consistent share price of $1, but the largest mutual fund manager will leave open the possibility of imposing liquidity restrictions on investors during market stress, a spokesman said last Tuesday.

The Vanguard Group Inc.'s announcement is its response to new rules facing money market funds next year that are intended to prevent a run on the products used by investors to store cash safely while generating a return.

The manager said it would make seven of its existing funds, including the $133.4 billion Prime Money Market Fund (VMMXX) and six tax-exempt funds, retail under the new requirements. That allows them to consistently quote $1 a share for the fund, rather than letting that price float.

But the designation would allow the funds' boards to impose a fee on redemptions or to suspend them altogether in certain cases of extreme market stress.

Vanguard spokesman David Hoffman assured advisers that it is very unlikely that Vanguard will impose liquidity restrictions even in the wake of another market crisis.

$62.5B

The amount of money in the Reserve Primary Fund in 2008 when it "broke the buck," causing an investor stampede out of the fund.

"We do not expect to have to impose a fee or gate on a Vanguard [money fund]," Mr. Hoffman wrote in an email. "Our [money market funds] are conservatively managed and have been since their inception."

RESPONSE TO SEC

Vanguard is the latest in a series of money managers to announce its response to the reforms passed by the Securities and Exchange Commission last year.

Those managers — including Vanguard competitor Fidelity Investments — have fought to preserve their ability to quote $1 a share by designating their funds as retail or by restricting their underlying investments to a low-yielding, less risky set of investments.

The company also will provide an option for investors who want a stable share price that does not have liquidity restrictions.

Vanguard said it is reopening its $2.8 billion Federal Money Market Fund, which is exempt from the reform requirements because it invests almost entirely in cash and short-term U.S. government debt, which is considered virtually risk-free.

Those securities are expected to be in increasing demand because of the new reforms, pushing their razor-thin yields even lower.

Investors fled money funds in 2008 after the $62.5 billion Reserve Primary Fund, which was invested in Lehman Brothers debt, "broke the buck," falling below $1 a share when the investment bank collapsed.

thunnicutt@investmentnews.com
Twitter: @trhunnicutt

SEC asks for comments on ETPs


GETTY IMAGES

By Mark Schoeff Jr.

The Securities and Exchange Commission is seeking feedback from investors about the way it regulates an increasingly popular investment: exchange-traded products.

The agency solicited public input June 12 on issues surrounding SEC approval of new, novel or complex exchange-traded vehicles. The request for comment encompasses 53 sets of questions touching on arbitrage mechanisms, market pricing, legal exemptions and listing standards.

The comment request also delved into how brokers sell ETPs to retail investors and whether investors understand what they're buying.

Demand for ETPs, which include exchange-traded funds, pooled investments and exchange-traded notes, has spiked in recent years. From 2006 to 2013, the number of ETPs rose by an average of 160 a year. At the end of 2014, 1,664 ETPs were listed on U.S. exchanges with a market value of a little more than $2 trillion, according to the SEC.

Exchanged-traded products are similar to open-ended mutual funds, but they can be bought and sold throughout the trading day based on market prices rather than net asset value. The vehicles provide exposure across many asset classes to a wide range of financial instruments, benchmarks and strategies.

Financial firms have been designing complex ETPs in order to outperform the market. The products must obtain an SEC exemption under securities laws before they can be traded. Some offerings can be stuck for years waiting for a decision.

SOARING POPULARITY

SEC Chairwoman Mary Jo White said the agency is taking a look at ETPs due to their soaring popularity and increasing risk.

"As new products are developed and their complexity grows, it is critical that we have broad public input to inform our evaluation of how they should be listed, traded and marketed to investors, especially retail investors," Ms. White said in a statement.

The agency is zeroing in on ways brokers tout ETPs as an answer for generating higher portfolio returns.

In its request, the SEC asks about the effectiveness of suitability requirements for ETP sales.

"Should broker-dealers have additional responsibility to make available or provide information to investors about the risks of investing in ETPs with complex strategies prior to making a recommendation or accepting a customer order for such securities?" the SEC request asks.

Comments will be due 60 days after the SEC request is published in the Federal Register.

mschoeff@investmentnews.com
Twitter: @markschoeff

Adviser wants REIT to cut ties with Schorsch

Shareholder critical of NY REIT personnel with links to ARC

By Bruce Kelly

An investment advisory firm that focuses on real estate has called for changes at New York REIT Inc., including severing links to Nicholas Schorsch's privately held real estate sponsor and manager, AR Capital, or ARC.

Formerly a nontraded REIT with a current market capitalization of $1.5 billion, New York REIT listed on the New York Stock Exchange in April 2014, in one of a series of "liquidity events" for nontraded ARC REITs. Those events have been key to Mr. Schorsch's strategy of marketing and selling nontraded REITs through hundreds of independent broker-dealers.

The advisory firm, Sorin Capital Management, cited New York REIT's "suspension of the strategic alternative process, the lack of a clear plan for value creation, and the resignation of the company's CFO" as reasons for concern.

CFO RESIGNED

Gregory Sullivan, the REIT's CFO, resigned June 4 "to pursue other interests," according to the company. Nick Radesca, the company's former CFO, will take his position while the company searches for a full-time CFO.

Since its debut, New York REIT's share price has fallen $1.22, or 11.5%. Last Wednesday, shares of the REIT were trading at $9.38, up almost 4% since Sorin Capital made its letter public.

Sorin Capital was critical of New York REIT's ties to ARC, citing management's and the board's connections. William Kahane is co-founder of ARC and is currently the executive chairman of New York REIT.

"Not only is the executive chairman of the company also the co-founder of AR Capital, but the company's public filings indicate that the board's three independent members currently hold and/or have previously held several other directorships with AR Capital-related entities," according to the letter. "We have concerns that the potential conflicts of interest inherent in these interconnected relationships ... may be hindering the board and management from taking ... action in the best interests of ... shareholders.

In a statement, New York REIT said it was "actively pursuing several previously announced strategies that should allow the company to maximize long-term stockholder value."

ACCOUNTING ERORS

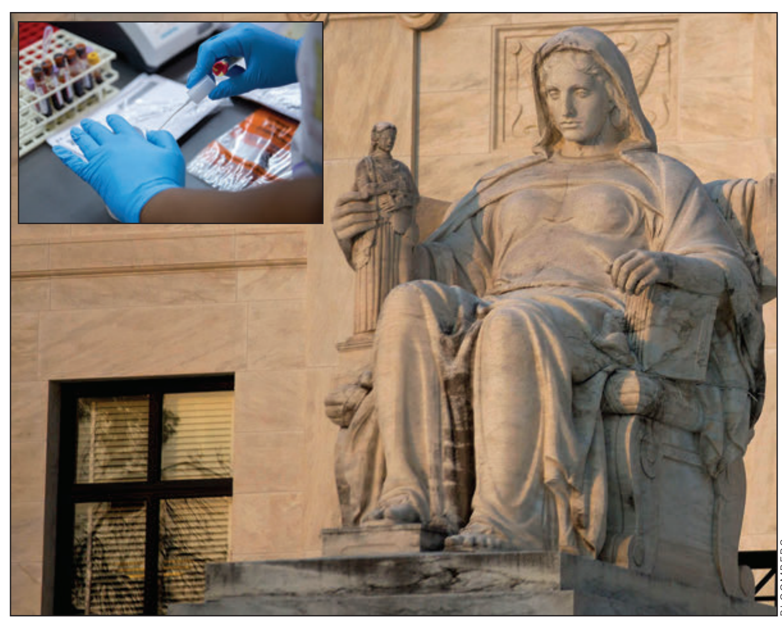
Soring Capital's letter does not mention a $23 million accounting mistake over the first half of 2014 that was intentionally uncorrected at another REIT Mr. Schorsch formerly headed, American Realty Capital Properties Inc. That accounting error triggered widespread scrutiny of Mr. Schorsch's wide variety of real estate operations. For example, the Securities and Exchange Commission, the Massachusetts Securities Division and the Financial Industry Regulatory Authority Inc. are investigating Mr. Schorsch's broker-dealer holding company, RCS Capital Corp., or RCAP.

With $700 million in assets, Sorin Capital owned about three million shares of New York REIT at the end of March, or close to 1.9% of the REIT's outstanding shares. A spokesman for Sorin Capital, Chris Rae, said the firm had no comment beyond its letter.

DAVE CROSS

Nicholas Schorsch: New York REIT has several ties to his AR Capital.

bkelly@investmentnews.com
Twitter: @bdnewsguy



BLOOMBERG

Obamacare decision may roil health stocks

By Jeff Benjamin

If you haven't yet hitched a ride on the high-flying health care sector rally, there's still hope in the form of a potential pullback from an upcoming Supreme Court ruling that could trigger some near-term volatility.

Even some staunch health care sector bulls who have enjoyed the category's 118% run over the past four years are talking about taking profits in anticipation of buying back in after the high court ruling in King v. Burwell. The sector's performance over the past four years compares to the 63% gain over the same period for the S&P 1500.

BAD NEWS

"We're not putting ourselves out as constitutional law experts, but we are saying there's probably a 40% chance the ruling favors the plaintiff, and that will be bad news for a lot of health care stocks," said John Canally, chief economic strategist at LPL Financial.

Mr. Canally is among the majority in expecting the Supreme Court to rule on or before June 29 on whether individuals participating in the Affordable Care Act through federal exchanges are eligible for subsidies that were designed for those signing up on state-level exchanges.

That particular detail is no small matter, according to Jeff Loo, health care sector equity analyst at S&P Capital IQ.

"Within the voluminous health care reform law, there's one sentence that states tax credits are available to people who obtain health insurance through an exchange established by a state," he said.

> "WE ARE SAYING there's probably a 40% chance the ruling favors the plaintiff."
>
> **John Canally**
> Chief economic strategist
> LPL Financial

Trouble is, only 16 states have established health care exchanges, while 34 other states let the federal government establish exchanges. The argument currently before the court is that, as the law is written, subsidies are not allowed for individuals that sign up on federal exchanges.

"The Obama administration said it was always the intent of the law to provide subsidies to any residents regardless of where they live, but plaintiffs are taking the words of the law literally," Mr. Loo said. "The IRS has already ruled that the tax subsidies are legal, but the plaintiffs are saying the IRS made an incorrect ruling."

To understand how a ruling favorable to the plaintiffs could spark selling of health care sector stocks, just consider that 87% of the people getting insurance through the exchanges receive a tax subsidy, and for that 87%, the subsidies on average are covering 79% of premium payments.

ADVERSE EFFECT

"The numbers are staggering," Mr. Loo said. "If the subsidies go away, one would imagine the bulk of these people will no longer be purchasing insurance, which will have some kind of adverse effect on the health care sector."

While analysts like Mr. Loo and others see a ruling that shuts down the subsidy to the roughly 8 million people who get insurance through federal exchanges rippling across the health care industry in the form of reduced revenue, some advisers believe there are other safety nets in place that will mute the volatility.

"I think it's a very narrow case," said Hank Mulvihill, principal at Mulvihill Asset Management.

"Worst-case scenario, 8 million people lose their subsidy, but if the premium payments add up to a certain percentage of their income they will get coverage anyway," he said. Mr. Mulvihill added that his clients are already overweight health care sector stocks, and that he will continue to buy based largely on demographic realities.

"As far as the fundamental demand for health care services, we are going from 15% of the U.S. population over age 65 to more than 20% in the next five years," he said. "This is an unprecedented surge in the population cohort which most rapidly increases consumption of health care services."

jbenjamin@investmentnews.com
Twitter: @jeff_benjamin

Baird lifts $1.1B from Wells

Six advisers brought in $5.44M in revenue from combined assets

By Mason Braswell

Regional brokerage firm Robert W. Baird & Co. Inc. scored a large recruiting win with the addition of six advisers from Wells Fargo Advisors who previously managed $1.1 billion in assets combined.

The group, which will open a new office for Baird in Wichita, Kan., brought in $5.44 million in annual revenue from those assets, according to a Baird statement.

The advisers all joined Baird on June 11, although only two operate as a team. The advisers include Don Barry, Phillip Garrison, Kevin McWhorter, Suzanne Marshall, and Jill and Brian Docking of The Docking Group.

$110B
Total assets managed by Baird advisers, a 10% increase in the past year

ALMOST EQUAL

The combined assets under management are almost equal to the total amount of assets that Baird has recruited so far this year, according to *InvestmentNews'* Advisers on the Move database.

All of the advisers were at one time with A.G. Edwards & Sons Inc., which became part of Wachovia Corp. in 2008 and then Wells Fargo & Co. later that year.

Baird has about 800 advisers in 80 offices, according to the release.

Those advisers manage some $110 billion in assets, a total that has grown by more than 10% in the past year through acquisitions.

Last year, the company acquired a Pacific Northwest firm, McAdams Wright Ragen Inc., which had 85 advisers.

Wells Fargo has more than 15,100 advisers and around $1.7 trillion in assets, according to its latest quarterly report.

mbraswell@investmentnews.com
Twitter: @masonbraswell

Intermediate-term bond funds beating the Barclays Aggregate

By Trevor Hunnicutt

Volatility is forcing bond indexes lower for the year, but active bond fund managers have been able to soften the blow.

Nearly three-quarters of intermediate-term bond funds, or 71%, are beating the Barclays U.S. Aggregate Bond Index, according to an early June analysis by Morningstar Inc.

That compares to the disappointing performance of the funds in 2014, when nearly the same share of managers failed to match the benchmark's returns. Many managers were caught flat-footed by bad bets assuming U.S. bond yields would rise.

Yet this year the benchmark U.S. 10-year Treasury has struggled. Yields, which move inversely to bond prices, hopped from a low of 1.64% on Jan. 30 to 2.48% June 9. Since then, the bonds have staged a bit of a rally, trading back down at 2.36% last Monday.

FUNDS HELD VALUE

Despite the volatility, intermediate-term bond funds have largely held their value: They're down just 0.05%, as of June 12, according to Morningstar. The Barclays Agg is down 0.32% for the year, as of June 12.

The fate of intermediate-term bond funds, a core holding in many adviser-built portfolios, matters to investors in hundreds of investment products. The funds manage $1.1 trillion in the U.S., according to Morningstar. All of the funds are calibrated to have moderate exposure to the risk posed by interest rates rising; most are benchmarked to the Barclays U.S. Aggregate Bond Index.

But the share of that money that's moved into index-tracking mutual funds and exchange-traded funds has increased.

While bond funds have enjoyed a strong year of sales across the board, actively managed intermediate-term bond funds shed $77 billion over the two-year period that ended May 31. The index fund counterparts took in $82 billion over that period.

Today, actively managed funds control 68.5% of the assets in intermediate bond funds. That's down 7.8 percentage points from two years ago.

PARKING PLACES

Many of the advisers who moved money out of Pacific Investment Management Co. funds after the exit last year of founder Bill Gross parked it in index funds while they selected new managers. That sent billions of dollars to the Vanguard Group Inc., BlackRock Inc.'s iShares and Fidelity Investments.

Now, some have decided to keep their money in index funds.

Last month the greatest beneficiary of the move to index bond funds — the Vanguard Total Bond Market Index Fund (VBMFX) and its correlating ETF (BND) — surpassed the Pimco Total Return Fund as the world's largest bond fund. The Pimco fund was managed by Mr. Gross, who is now a portfolio manager at Janus Capital Group Inc.

The teams who have risen this year include some of the largest fund managers in the space. Mark R. Kiesel, Mihir P. Worah and Scott A. Mather, who took over Pimco Total Return (PTTAX) from Mr. Gross last year, staged a comeback. So, too, did Dodge & Cox Income (DODIX), whose team includes the firm's CEO, Dana M. Emery, and J.P. Morgan Core Bond (PGBOX), which is managed by Douglas S. Swanson and Christopher J. Nauseda. Most of those fund's share classes top the Barclays Agg return.

Other top managers have been right last year and this year. They include DoubleLine Capital's Jeffrey Gundlach, who bet correctly on yields and manages the Total Return Bond Fund (DLTNX), as well as the team that manages the Western Asset Core Plus Bond Fund (WAPAX).

Don Bennyhoff, a senior investment analyst for Vanguard's Investment Strategy Group, said managers have achieved success by buying lower-grade bonds than the index.

ISTOCK

"On average they have lower-quality bonds in the portfolios. That's a benefit for them, in one regard, because the higher income from the bonds results in lower duration," or interest-rate sensitivity, Mr. Bennyhoff said. "You are trading a little bit lower interest-rate risk for a little bit higher credit-rate risk. Those risk measures should be decided in combination."

DIVERSIFICATION SUCCEEDS

Mr. Bennyhoff said properly diversified portfolios of index funds, over the long run, have performed well.

"It's actually paid off quite nicely," he said. "People have been bearish on interest rates for quite some time."

thunnicutt@investmentnews.com
Twitter: @trhunnicutt

Adviser reaction hot and cold to a Jeb Bush presidency

By Mark Schoeff Jr.

The first challenge for former Florida governor Jeb Bush, who launched his presidential campaign last week, will be to persuade Republican primary voters he's conservative enough for them.

Florida investment advisers who knew Mr. Bush as the state's chief executive from 1999-2007, said he established himself firmly on the right on fiscal and social policies.

"I like it when elected individuals don't spend money they don't have," said Charlie Fitzgerald III, a principal at Moisand Fitzgerald Tamayo in Orlando.

He said Mr. Bush's ability to reduce spending and taxes — nearly $20 billion — while ending up with a surplus at the end of his term was "like Houdini pulling a rabbit out of a hat. It was an interesting phenomenon."

AS FLORIDA GOVERNOR, Jeb Bush "was a classic conservative who thought any regulation was too much regulation."

Paul Auslander
Director of financial planning
ProVise Management Group

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BUSINESS-FRIENDLY

Chris Markowski, founder of Markowski Investments in Tampa, said "he was a business-friendly guy, there was no doubt about that."

During his tenure, Mr. Bush didn't directly address investment advice issues in legislative or regulatory initiatives, according to advisers. But he was the first Florida governor to establish a financial planning week in the state.

"That really impressed me," said Michael Zmistowski, an adviser at Financial Planning Advisors in Tampa. "He listened to what financial planning really was, and that's hard for regulators to do. They understood there's a lot more to it than just selling products."

But advisers said it is difficult to know what position Mr. Bush might take on investment advice standards, if he were to win the White House.

"He was the classic conservative who thought any regulation was too much regulation," said Paul Auslander, director of financial planning at ProVise Management Group in Clearwater. "I think that's how he'll come down on investment adviser oversight and fiduciary duty."

But one of Mr. Bush's signature initiatives — education reform — might provide a different clue as to how he would approach advisers, Mr. Fitzgerald said. Mr. Bush pushed through the Florida legislature a school overhaul focused on testing students and grading schools.

"He would be someone who supports the concept of personal responsibility, and he would be supportive of high professional standards and accountability as well," Mr. Fitzgerald said.

Support for Mr. Bush's presidential run varies among advisers.

Paul Grant Truesdell, chief executive of TrueStar Advisors Inc. in Ocala, was not impressed with Mr. Bush.

"He dropped the ball in Florida completely," he said. "I view him as a caretaker. I didn't view him as being all that good or bad."

Mr. Auslander, who is active in Florida Democratic politics, is leery of him. He said Mr. Bush tends to ram ahead with his agenda and lacks a common touch.

"He was brusque," Mr. Auslander said. "He was socially awkward. He wasn't comfortable talking to people individually."

Mr. Zmistowski came away with a different impression.

'BUSH THING'

"If you can put the Bush thing aside and listen to what he's saying, I think you'll find he's an effective, thoughtful and empathetic administrator," he said. "He's a guy who thinks about what's good for everyone."

Putting aside the "Bush thing" might be a high hurdle for some though, like Mr. Markowski, who said Mr. Bush is not inspiring enough to be president. He has qualms about Mr. Bush following his father and brother into the White House, or Democratic candidate Hillary Rodham Clinton sitting in the same Oval Office chair as her husband, former President Bill Clinton.

"Enough is enough with these same families," Mr. Markowski said. "It's like we're running some kind of kingdom here. It's crazy."

mschoeff@investmentnews.com
Twitter: @markschoeff

Gallagher slams CCO crackdown

By Mark Schoeff Jr.

Securities and Exchange Commission member Daniel M. Gallagher said the agency unfairly targeted chief compliance officers in recent enforcement actions and is leaving them unsure of the extent of their responsibility for firm behavior.

Mr. Gallagher issued a statement last Thursday dissenting from SEC settlements in two recent cases. In one of them, the agency charged that BlackRock Advisors did not have a compliance program to monitor advisers' outside business activities.

In the other case, the SEC charged the CCO of SFX Financial Advisory Management Enterprises with failing to implement procedures to stop theft from clients' accounts.

The actions show a tendency by the agency to punish compliance officers for violations of an SEC rule, known as 206(4)-7, that requires firms to write and implement compliance programs, according to Mr. Gallagher.

THE SEC IS "sending a troubling message that CCOs should not take ownership of their firm's compliance policies."

Daniel M. Gallagher
SEC commissioner

As a result, the SEC is "sending a troubling message that CCOs should not take ownership of their firm's compliance policies and procedures … or worse, that CCOs should opt for less comprehensive policies and procedures," Mr. Gallagher wrote.

SMALL FIRMS HIT HARD

The trend is especially harmful for small firms, where there is often just one set of policies for compliance and business functions and the CCO could be accountable for securities violations committed by other staff.

"Given the vitally important role played by compliance personnel, I am very concerned that continuing uncertainty as to the contours of liability under Rule 206(4)-7 will disincentivize a vigorous compliance function at investment advisers," Mr. Gallagher said.

Blurred lines between compliance and the rest of the firm are a growing source of confusion, said Dennis Stubblefield, a partner at Shustak & Partners.

The SEC wants compliance officers to be forceful and have influence at the top of the firm, yet they also can be held liable for what happens on the business side, he said.

"There's an irreconcilable conflict that is out there," said Mr. Stubblefield, a former SEC branch chief of enforcement in the agency's Miami office. "Compliance personnel are very, very concerned about the uncertainty of when they will and will not end up being deemed a supervisor."

mschoeff@investmentnews.com
Twitter: @markschoeff

Retirement savings should be election focus

By Trevor Hunnicutt

BlackRock Inc. chief executive Laurence D. Fink last Tuesday challenged his industry to do a better job of preparing investors for retirement, adding that presidential candidates should debate ways to address the inadequacy of savings during the upcoming campaign.

"This industry has done a good job of staying out of the news, and that's the problem," said Mr. Fink, whose firm is the world's largest asset manager, with $4.8 trillion under management as of March 31. "I don't think they want a voice.

"You see that from proxy voting and everything else," Mr. Fink said. "Most of them want to stay out of the news and earn their fees."

Mr. Fink said the inadequacy of savings in the U.S. private sector is going to be "a drag on our economy" and it should be debated alongside other key issues in the next presidential election.

"This is going to be a far bigger crisis than health care ever was," he said. "It's not part of the narrative."

Mr. Fink said the asset management industry and the private sector need to do a better job of education and increasing the savings of their clients and employees.

He spoke at Pensions & Investments' Global Future of Retirement Conference in New York.

thunnicutt@investmentnews.com
Twitter: @trhunnicutt

BlackRock CEO Laurence D. Fink: Inadequacy of personal savings in the U.S. is a drag on the economy.

BLOOMBERG

The Bottom Line on Interest Rates: Discovering Overlooked Opportunities for Returns

Charlie Bobrinskoy
Vice Chairman and Head of the Investment Group
Ariel Investments

Ariel Investments' Charlie Bobrinskoy joined InvestmentNews contributing correspondent Consuelo Mack in a recent installment of a Portfolio Manager Viewpoints webcast to discuss the effect of interest rates on sectors, companies and portfolios.

Mack | How would you summarize Ariel's view on interest rate movements?

Charlie Bobrinskoy | Asset classes are often driven by the direction of interest rates and leverage — that's the thesis. In an up economy, even holding interest rates constant, a leveraged company will do better than an unleveraged one.

Interest rates have done nothing but go down since I got into the securities business in 1981. That has helped asset classes that use leverage — and most alternative asset classes use a lot of it. The math shows that leveraged companies have consistently outperformed unleveraged ones. Falling interest rates have been a tailwind for leveraged businesses, but that is about to turn into a headwind.

We found in 2008 that some companies had great operating results but also some debt, and their stocks got creamed when they had to refinance at higher levels.

Mack | What is Ariel's prediction for the federal funds rate in September 2016?

Bobrinskoy | The 10-year Treasury was about 4% for a long time. Then it spiked up with inflation, and it has fallen as inflationary expectations have come out of the market. Now we are at the lowest 10-year Treasury rate we've had in almost 150 years. We're confident it will end but less confident about saying when.

Mack | Does Ariel rotate positioning between strong or weak balance sheet companies based on an outlook for rates and credit spreads?

Bobrinskoy | We emphasize quality. In general, we're looking for companies with quality balance sheets that can get them through tough times.

We always knew the importance of balance sheets, but learned it even more in 2008. The high-yield market has gotten euphoric three times: 1987, 2000 and 2007. Any company could borrow easily. That's when you have to emphasize strong balance sheets.

Mack | What about developed international bond funds now that Europe has also adopted a quantitative easing program?

Bobrinskoy | European interest rates are even lower than U.S. interest rates — irrationally low. You see headlines about negative mortgage rates. Banks are being required to buy sovereign bonds and are horribly risk averse. That will reverse, and people who own European bonds will get hurt.

Mack | What happens to your strategy if the Fed keeps rates low?

Bobrinskoy | If I'm wrong, and people are going to accept a negative real return on their 10-year money, leveraged companies will continue outperforming. Private equity will outperform. Hedge funds will do better than they otherwise would. Real estate will do very well.

Mack | What's your view of the timing and the investment opportunities in private equity, which is just coming to the retail sector in scale?

Bobrinskoy | Private equity investors add real value, but it's not coincidental that the private equity billionaires have been made over the last 30 years as rates have steadily declined.

Mack | What's Ariel's evaluation of Blackstone and KKR?

Bobrinskoy | We bought both right after S&P downgraded the U.S. government's ratings and the high-yield market got crushed. And KKR and Blackstone got crushed. We calculated the fees KKR earns, its balance sheet and the present value of future carry, and we got a number that suggested we were getting future carry for free.

Mack | What are your thoughts on preferred stocks?

Bobrinskoy | They're a decent alternative for people who need yield, but you have to do credit work. Lots of people got wiped out in preferred stocks at Fannie Mae and Freddie Mac thinking there was no chance that they could get hurt.

As an asset class, for technical reasons, I'm more positive on some preferred stocks than I am on the high-yield bond market.

Mack | What should financial advisers tell their clients about what to expect as far as rising interest rates and the impact on the market?

Bobrinskoy | Over the next five to 10 years we'll see a rise in rates and reasonable growth, particularly in the U.S. economy. Energy is cheap. More people are going to work. Wages are going to rise.

We'll get back to a more traditional 3% to 4% real GDP growth, but interest rates will rise.

A leveraged company does well with an improving economy, but you've got to be careful about owning long-term bonds. We've been following the trend of pension funds' putting more and more money into them and think it's absolutely the wrong time.

Mack | What is your stance on companies that have refinanced long-term debt to current low rates?

Bobrinskoy | It will mitigate the negative impact of interest rate increases. But even if they've refinanced long-term debt, if they have outstanding commercial paper or bank loans coming due, it can get ugly.

Mack | How will banks do as interest rates go up?

Bobrinskoy | A positively sloped yield curve is more important than the change in rates and tends to be good for banks.

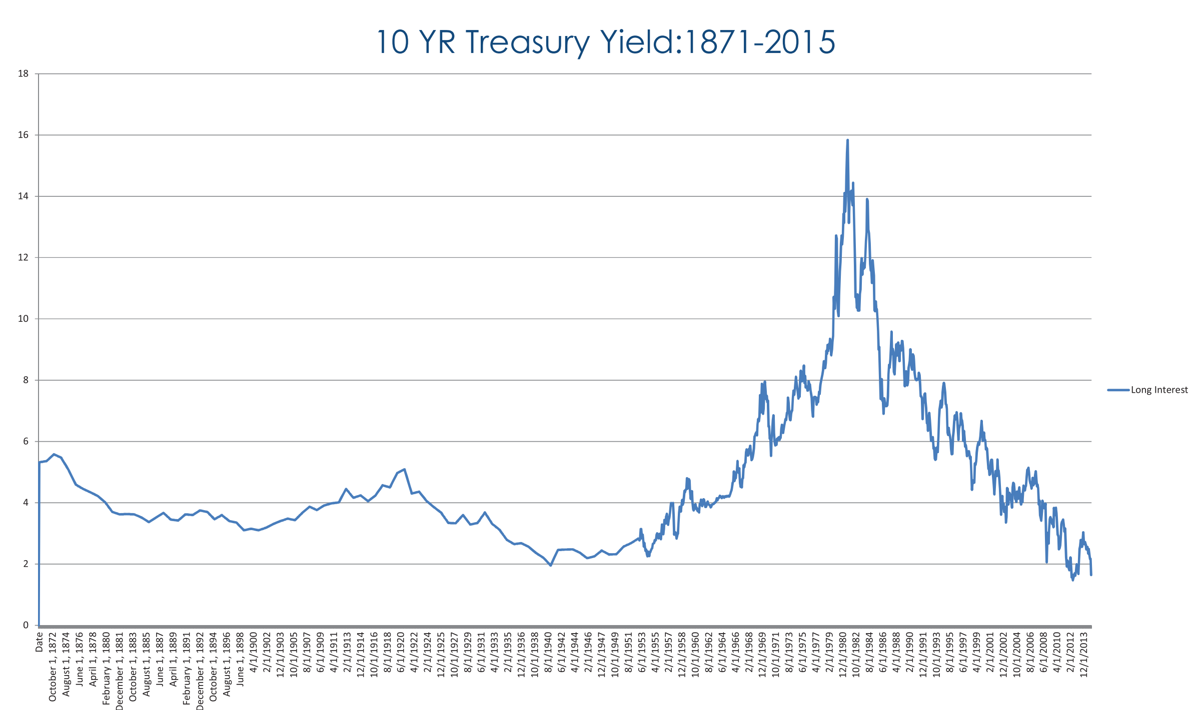
In general, trust banks do much better when interest rates go up because they hold a lot of client cash, which they're getting paid nothing for right now.

Investment banks tend to borrow short and lend long, so they usually do well when the yield curve gets more positive. It's more of a question with banks that lend a lot of money.

Mack | All other things being equal, how much should we overweight interest rate changes in analyzing whether or not to invest in a company?

Bobrinskoy | If a company, private equity manager, hedge fund outperformed, look at whether it was more leveraged. If so, a lot of that outperformance probably came from the leverage.

Equity is more expensive than debt. I wouldn't tell anyone to avoid companies with debt, because if they can handle it, they can dramatically improve returns. But you need to know your risk profile, because in recessions they'll get punished.



Sources: Robert Shiller, Yale University and Factset

TECH CONNECT

Advisers lack the app-titude

Survey shows that most wealth managers' mobile sites are old-fashioned

By Alessandra Malito

Mobile is a force to be reckoned with in the wealth management industry, but apparently many advisers didn't get the memo.

In fact, a recent study found most wealth managers' mobile apps are not all that innovative and don't provide the features and functionality that wealthy investors crave.

63%
Percentage of wealth managers that have one or more mobile apps

MyPrivateBanking Research, a research company that studied 70 mobile apps from 30 wealth management divisions at banks and wealth management firms from around the globe, found that the apps don't all serve high-net-worth clients effectively. According to the study, 63% of wealth managers have one or more mobile apps that specifically serve those clients, for example, the same number as last year.

"Many banks have not realized yet their high-net-worth clients are actually very strong and sophisticated users of mobile devices," said Steffen Binder, research director at MyPrivateBanking. "Their use has surpassed desktop computers."

The problem then is a misperception of clients. By seeing high-net-worth individuals as only moderately tech-savvy, banks have not learned how to address clients' wants and needs via a mobile app, and don't give them the option to get sufficient information and transact via mobile devices, Mr. Binder said.

NEED TO UPGRADE SECURITY

Insufficient security and lack of forward-thinking technologies were other issues: Only two-thirds of the apps that the research firm tested included security disclosures. Further, only 15% of the wealth managers that researchers studied had taken advantage of newer technologies such as secure fingerprint authentication and voice control.

"The right thing to do for these banks is to change their strategies very quickly," Mr. Binder said.

Advisers should take note of this study's findings, since most do not see mobile as a priority. The 2015 *InvestmentNews* Tech Study found 26% of advisers have a mobile strategy in place for their firms to use smartphone and tablets more effectively over the next one to three years. Another 66% said they do not have a mobile strategy in place, while 8% said they were not sure.

One way to adjust their digital strategies is to offer more encompassing, sophisticated apps. That means taking the features wealthy clients tend to use more often into consideration, ramping up portfolio-analysis tools and investment status updates, and boosting the app's communication functionality.

"So many apps are at this point lacking good messaging," Mr. Binder said. "We really see a high priority for apps that enable clients to get in touch with personal advisers on a secure channel."

Ross Gerber, president and chief executive of Gerber Kawasaki Wealth & Investment Management, said his firm's app has four sections: goals-based investing, budgeting, investment tracking, and news and social media.

Mr. Gerber said that many advisers' apps are static and need to have more components if they're to be useful in engaging clients.

"They're basically glorified websites," he said. "Most apps fail because they only solve one problem."

amalito@investmentnews.com
Twitter: @malito_ali

Industry lags on data integration

Standardization remains a dream despite the boom in technology

By Alessandra Malito

With the growing emphasis on data, advisers need to be aware not only of what they're getting from their technology, but what's being put into it.

Data are a substantial feature of advisers' practices, containing their clients' most personal information and providing a stage on which advisers can build and analyze their businesses. But the industry has yet to achieve data standardization — that is, inputting and using the information on these platforms in a universal manner across firms. The consequences include making it tough for advisers to integrate various software programs or causing them to miss opportunities to apply client and business insights to their practice.

DIFFICULT TO INTEGRATE

"The larger issue isn't that there's poor quality, it's that there's poor consistency," said Lowell Putnam, co-founder of Quovo Inc., a data services company for advisers. "Wrangling this data and conforming to multiple systems is very difficult and time-consuming."

That advisers can improve their practices by utilizing data is evident.

In a March 2015 Capgemini study of 1,000 businesses across a number of sectors, 65% said that big data are a key enabler of their company's effectiveness and competitiveness. About half of those who responded already have implemented big-data technology into their business and 21% plan to do so within the next year.

In order for advisers to see that promise, however, there will need to be some changes to the system — or at least a little help from data management experts.

Unfortunately, advisers aren't in full control of how they receive their data. Custodians, which provide firms with their client data, do not

"WRANGLING this data and conforming to multiple systems is very difficult."

Lowell Putnam
Co-founder
Quovo

all store information in the same types of files and formats. Mr. Putnam said this could be solved by the creation of a single data format that could be used across the board to provide advisers with the ability to switch custodians more easily.

Jon Patullo, managing director of technology product management at TD Ameritrade Inc., said the custodian responded to this issue by creating an open-architecture platform, Veo, which includes 90 vendors.

"We really made an easy way for vendors to get data from TD," he said. But that's not an easy thing to do.

"Trying to get those all in sync is a fairly large task," Mr. Patullo said.

He added that TD would be open to collaborating with others to standardize data if an industrywide effort were to happen.

EMULATING EQUITIES MARKET

Rich Cancro, chief executive of Vanare, a customer relationship management platform for advisers, said something similar happened in the equities market years ago when Fidelity Investments and Salomon Brothers created the Financial Information eXchange (FIX) protocol as a standard for communicating about securities transactions.

"It would be great if the industry decided to do something like that to help with the data coming from custodians," Mr. Cancro said.

The number of technology products available to advisers creates a roadblock for data standardization. How the products hold their data and the unique features they provide are what set them apart from competitors — standardizing such details would strip them of their differentiating factors, some industry players argue.

"Data standardization is a great idea, but I don't know if we'll ever get there," said Aaron Guidotti, chief executive of Big Brain Works, which offers the Grendel CRM system.

amalito@investmentnews.com
Twitter: @malito_ali

Millionaires are the fastest growing segment for planners

By Mason Braswell

Focusing on the wealthiest clients is paying off for wealth management firms as millionaires represent the fastest growing and most profitable segment of the financial advice market, according to a report from The Boston Consulting Group.

The total share of wealth held by millionaire households grew by 16% globally last year, largely driven by the strong performance of equity markets, according to the report. The fastest growing segment was households with $20 million to $100 million, which grew by 34% based on total wealth in 2014, the report said. At the same time, the segment with less than $1 million grew 9%.

MOVING UPMARKET

The United States, which has the largest share of millionaires, with almost 7 million households, saw the number of millionaires grow by about 5%, according to the report, which pegs total wealth of households in the U.S. at $46 trillion.

Equities were the main driver behind that growth, according to the report. About 78% of the increase in wealth in North America came from existing assets, including equity and bond performance, while 22% came from GDP growth and savings.

That's good news for the largest brokerage firms and registered investment advisers, which have been moving upmarket to focus on that segment.

78%
Portion of the increase in wealth in North America stemming from existing assets.

At Morgan Stanley Wealth Management, for example, clients with $10 million or more in assets account for $746 billion of the firm's more than $2 trillion in assets, according to an investor presentation from January. That segment grew 82% from 2009, while the share of assets held by clients with $100,000 declined by almost a quarter.

Clients with around $1 million to $10 million are generally some of the most profitable, according to Bruce Holley, a senior partner who focuses on wealth management at TheBoston Consulting Group.

PROFIT CHALLENGE

Those with about $10 million, however, can be tougher to serve, as they require additional specialists and resources while being able to negotiate lower fees. Firms that target wealthier investors have to segment those clients and be careful to allocate resources, Mr. Holley said.

"Typically, the larger the asset the lower the return on assets," he explained. "It can be more challenging to deliver profitability."

The other caveat is that firms can't forget about the affluent market segment with less than $1 million. Those investors will be the main drivers of the growth in millionaires, according to the report.

mbraswell@investmentnews.com
Twitter: @masonbraswell

Adviser lost over $12M, SEC charges

By Liz Skinner

A Massachusetts financial adviser defrauded investors and lost up to $12 million of their money investing in Canadian penny stock companies in which he had undisclosed financial stakes, regulators said.

Hans Peter Black, founder of Boston-based Interinvest Corp., served on the boards of four companies he had clients invest in, and a separate entity Mr. Black controls received $1.7 million from them, the Securities and Exchange Commission alleged in a complaint filed in federal court in Boston.

> "ADVISERS HAVE a duty to put their clients' interests first and fully disclose all conflicts."
>
> **Paul Levenson**
> Director
> SEC's Boston office

None of these relationships, which have existed since at least 2010, were disclosed to clients or in Interinvest's form ADV, the SEC alleged in last Tuesday's complaint.

"Investment advisers have a duty to put their clients' interests first and fully disclose all conflicts of interest," said Paul Levenson, director of the SEC regional office in Boston.

Even a new ADV that Interinvest filed last year after a routine SEC examination asked for additional documentation greatly underrepresented Mr. Black's involvement in the companies, the commission said.

'TOTALLY OUTRAGEOUS'

Mr. Black, 62, who resides in Canada, called the SEC claims "totally outrageous." He said the $1.7 million his company received was reimbursement for travel, hotel and conference expenses.

Charging Interinvest and Mr. Black with fraud, the SEC asked the court to freeze Interinvest's assets.

lskinner@investmentnews.com
Twitter: @lizskinner

Finra alleges Alzheimer's bilking

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"It makes firms nervous," said Mr. Dobin, who was not involved in the case. "Eyebrows are raised and you wonder how much undue influence the broker used to get into the estate plan, and clearly this broker appeared to have used lots of influence."

Mr. Waszolek, who now works at Raymond James & Associates Inc. in Scottsdale, Ariz., did not respond to requests for comment.

JL, a widow who lived alone in Arizona, had been a client of Mr. Waszolek since 1982, Finra said. Until 2007 he was "not close with JL" and would only visit her once a quarter to review her portfolio and twice a year for lunch, as he did with most of his clients, according to the complaint.

RESIDUAL BENEFICIARY

In 2008, however, as JL's condition continued to decline, Mr. Waszolek drove her to a doctor's appointment where she was diagnosed with Alzheimer's. A month later, he met with an estate planning attorney to have himself named as JL's agent and to give him power of attorney. In addition, her trust was to be amended to name him as a residual beneficiary, Finra said.

When the attorney declined because of JL's capacity issue, Mr. Waszolek referred her to a second attorney to amend the trust and appoint him as a beneficiary. According to the amendment, around $1.3 million that was set to be split among four charities would go to Mr. Wasolek, Finra said. The value of that amount eventually rose to around $1.8 million.

> "EYEBROWS ARE raised and you wonder how much undue influence the broker used to get into the estate plan."
>
> **Marc S. Dobin**
> Attorney

The complaint alleged that the day after the amendment took effect, Mr. Waszolek resigned from UBS after 30 years at the firm and transferred his business to Morgan Stanley Wealth Management.

He did not inform Morgan Stanley or UBS that he had been named beneficiary, in violation of Finra rules and firm policy, according to Finra.

His role came to light in 2010 after JL died, Finra said. A bank that was set to distribute funds from the trust refused to do so unless Morgan Stanley approved the transfer of the assets from the trust account at Morgan Stanley to the broker.

DISCHARGED

Morgan Stanley denied the request, and reprimanded Mr. Waszolek, according to Finra. He was discharged from the firm in December 2011 for "concerns regarding failure to follow policies and disclosures regarding a client's testamentary bequest to the adviser," according to his U5.

Two months later, in February 2012, he was hired at Raymond James & Associates. He and his son together managed some $200 million in assets and generated $800,000 in annual revenue at the time, according to a press release from Raymond James announcing the move in March 2012.

"It's an honor to welcome John and Eric to Raymond James," Raymond James' president Tash Elwyn said in the release. "They share our firm's values of independence and conservative management and will enhance our ability to deliver excellent service and professional advice to our clients."

Raymond James representatives did not return requests for comment about whether they knew of the allegations against Mr. Waszolek.

ISTOCK COMPOSITE

Mr. Waszolek ultimately did not receive any of the $1.8 million from the trust. After being denied by Morgan Stanley and the bank distributing the assets, Mr. Waszolek filed a petition in the Superior Court of the State of Arizona Maricopa County seeking to compel the bank and the charities to distribute his funds.

The action ultimately resulted in a settlement in which Mr. Waszolek received $50,000. Finra did not specify who paid the $50,000 but said the funds did not come from JL's estate. As part of the settlement, however, Mr. Waszolek agreed that the JL trust amendment was "invalid by reason of [JL's] incapacity."

A Morgan Stanley spokeswoman, Christine Jockle, declined to comment, as did a spokesman for UBS, Gregg Rosenberg.

mbraswell@investmentnews.com
Twitter: @masonbraswell

Losing patience with alts

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best-performing alternative strategy mutual fund category, long-short equity, is up just 1.4%.

As a fund category, long-short equity lagged the S&P every year since the category was created by Morningstar in 2010.

Most years, the performance comparisons weren't even close. The category's best showing relative to the S&P was in 2013, when a 14.6% gain added up to almost half the S&P's 32.4% gain.

Last year the category gained 2.9%, compared to the S&P's 13.7%.

In response to performance comparisons such as those, the alternative investments industry will rightly point out that alternative strategies are doing exactly what they're supposed to be doing, which is reducing downside risk by acting as diversifying portfolio insurance.

> **2.9%**
> Gain for the long-short equity category in 2014, compared to 13.7% for the S&P 500

But after six years, that insurance story is getting stale and investors are getting restless and skeptical, having gone this long without a chance to see the risk protection in action.

Even the so-called smart money represented by big pension funds is starting to lose faith, according to a story last Wednesday in The Wall Street Journal.

'DISAPPOINTING'

Citing the relative underperformance of alternative investments in pension portfolios, Jim McKee, the head of hedge fund research at Callan Associates, described the last five years as "disappointing for pensions invested in hedge funds."

The irony to all this is that we're talking about abandoning alternatives at a time when such portfolio insurance arguably makes more sense than it has at any time since the financial crisis.

BIG CORRECTION

We're closing in on four years since the last time the S&P 500 corrected by 10% or more, and it's been more than six years since the market corrected by 20% or more. The S&P did pull back by 19.4% in the middle of 2011.

It is easy and usually fun to pontificate about "new normals" or endless prosperity, but we usually get knocked back down to earth right about the time we start believing that stocks just go up and up.

The CFA Institute dumped cold water on the endless prosperity theory earlier this month with the results of a survey of financial professionals.

About a quarter of the respondents see a 50-50 chance of a global financial crisis unfolding within the next five years, and another 20% of respondents peg the odds at 75% or better.

In the context of the current market cycle (and listening to the Federal Reserve, which continues to hint at its first interest rate hike in nine years), it just seems counterintuitive to abandon strategies that are designed to hedge risk.

It's really no different than arguing against having homeowners insurance because your house hasn't burned down since you bought it.

jbenjamin@investmentnews.com
Twitter: @jeff_benjamin

BLOOMBERG

Wells and F-Squared

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is being withheld at the request of his lawyer, said he started working with a Wells Fargo financial adviser in Greenville, S.C., in 2011. He said he presented himself as a moderately conservative investor seeking moderately conservative growth for the assets in his retirement account.

The adviser placed approximately $900,000 of the investor's savings, which his lawyer said was the vast majority, in products managed by two so-called ETF strategists. More than half went into F-Squared's AlphaSector Allocator Select, and the remainder went into Good Harbor Financial's U.S. Tactical Core product.

The claim said that Wells Fargo earned about $19,000 in fees for recommending the products, eroding potential capital gains. According to a copy of the claim reviewed by *InvestmentNews*, that created "a conflict in recommending such high commission investments."

HYPOTHETICAL RESULTS

F-Squared routinely promoted seven years of pre-2008 results for its AlphaSector strategy, despite launching the product that year. The results were hypothetical and miscalculated and made the strategy look more favorable.

The firm reported the discrepancies to clients and adjusted its marketing materials after the SEC launched an investigation in 2013. The track records of products it actually manages have not been called into question.

The claim argues that, had Wells Fargo conducted full due diligence on F-Squared, it would have discovered that the firm's performance track record did not align with its strategy and the strategy was not tied to actual money during the full period it claimed.

The investor saw a slight loss on the F-Squared product of 0.08%, and an 8.13% loss on the Good Harbor investment. In total, he lost $33,000, but could have earned $185,000 had he put his money in an S&P 500 index fund, according to the claim.

> "THEY HAVE TO get under the hood and see whether the numbers ... are accurate. You can't say these guys smell good from 50 yards."
>
> **Philip M. Aidikoff**
> Lawyer

F-Squared's claim that its rules-based strategy could sidestep violent market swings — by opportunistically trading in and out of nine industrial-sector ETFs — appealed to advisers stung by the 2008 free fall in stock markets. The firm built itself from a virtual nonentity in 2008 to the force behind a $28.5 billion strategy as of last June.

Those assets have fallen significantly: The firm saw nearly $8 billion in asset declines in its ETF strategies in the year that ended on Mar. 31, Morningstar Inc. said. The mutual fund distributor Virtus Investment Partners Inc. also cut F-Squared as a manager on five of its products with some $5.7 billion in assets, including Virtus Premium AlphaSector (VAPAX). F-Squared cut a quarter of its workforce in March, and is said to be exploring a sale.

thunnicutt@investmentnews.com
Twitter: @trhunnicutt