June 29 - July 3, 2015

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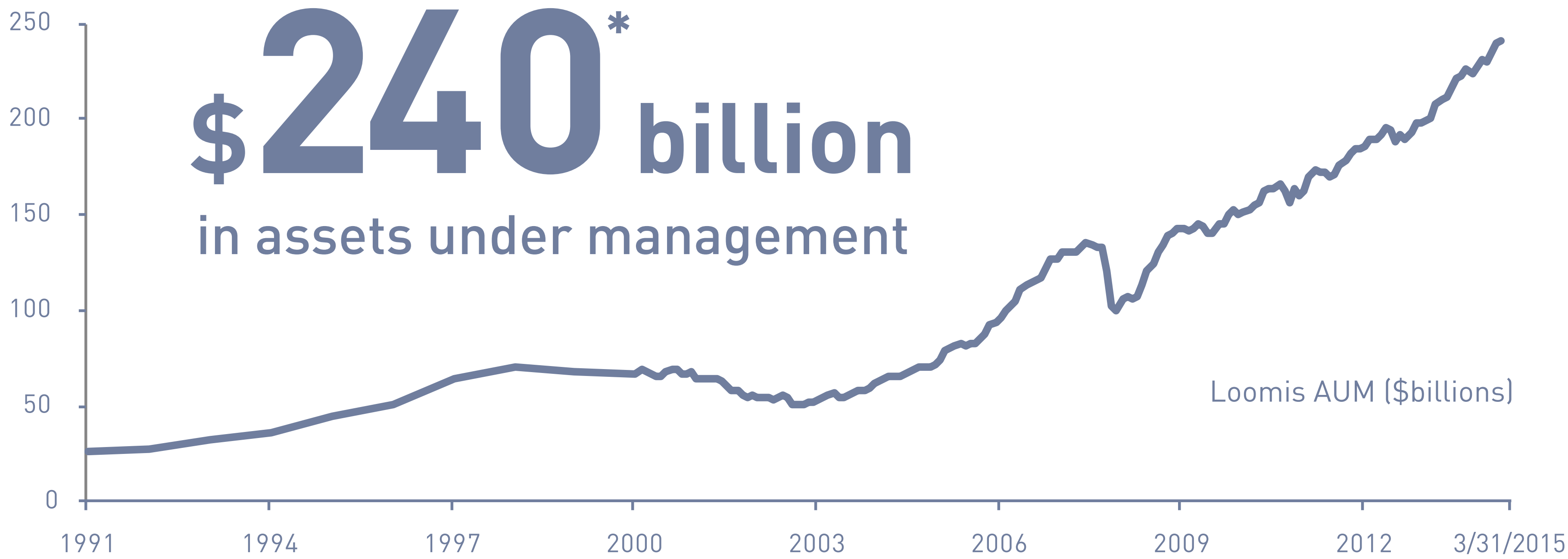
LOOMIS SAYLES AT A GLANCE

$240* billion
in assets under management



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75%
of our investment professionals
are dedicated to investment research and trading

INVESTING
$88 MILLION
IN RESEARCH IN 2015

OVER 140
CFA® charterholders at work for you
=10

1 MISSION:
to help you achieve your financial goals

This information speaks volumes about Loomis Sayles - what sets us apart, and why so many institutional investors look to us for answers. But this only tells part of our compelling story. Read our research based blog at **blog.loomissayles.com.**

THINK BROADLY. ACT DECISIVELY.

LOOMIS | SAYLES

Navigating challenging financial markets for nearly
90 YEARS

*As of 3/31/2015 assets under management were $240.8 billion. Includes the assets of both Loomis, Sayles & Company, L.P., and Loomis Sayles Trust Company, LLC. ($15.0 billion for the Loomis Sayles Trust Company). Loomis Sayles Trust Company is a wholly owned subsidiary of Loomis, Sayles & Co., L.P.
The total number of employees at Loomis Sayles as of 3/31/2015 is 657.

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June 29-July 3, 2015

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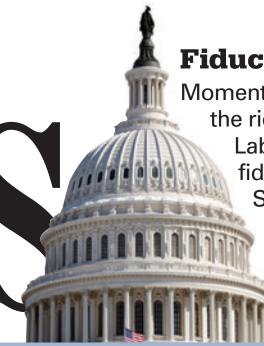

Fiduciary in peril

Momentum revs up for the rider defunding the Labor Department's fiduciary rule as a Senate panel joins the House in approving it.

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Gay marriage ruling changes advice

By Liz Skinner

The Supreme Court made same-sex marriage legal in every state last Friday, meaning gay couples can plan their retirements, support their spouses and raise their families with all the benefits afforded heterosexual pairs.

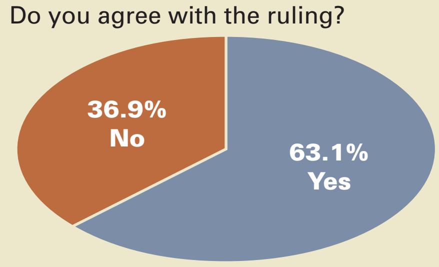
The justices voted 5-4 that no state can deny a marriage license to two people of the same sex and that states must recognize lawful same-sex marriages of other states.

"They ask for equal dignity in the eyes of the law. The Constitution grants them that right," Justice Anthony Kennedy wrote in the majority opinion.

Practically speaking, with the decision now on the books, gay married couples nationwide won't need to file different state and federal tax returns or use complicated estate planning techniques to protect families if a spouse dies. They also will be afforded spousal and survivor benefits from the Social Security Administration, no matter where they live in the U.S.

Much of the immediate work for advisers with gay clients who are married or plan to wed will be to unravel years of advanced financial and legal planning.

Do you agree with the ruling?



Source: *InvestmentNews* survey of 987 advisers, June 26

"We turn our attention to any of our clients who have already gotten married but were waiting to make changes in their plans to see if those rights were affirmed," said Lorraine Johnson, an adviser with Triangle Financial Advisors.

SIMPLIFIED INSURANCE PLANNING

For example, clients who bought life insurance policies to cover estate taxes won't need those policies for that purpose, because now all same-sex couples will be able to pass on assets

Continued on Page 24

FRED HARPER

WHERE TO NOW?

Six investment experts discuss what we can expect in the markets as we hit midyear

By Jeff Benjamin

MIDYEAR INVESTMENT OUTLOOK

While it might be fun, and even entertaining, to banter about when the Federal Reserve will finally raise interest rates, the fretting over the market's reaction to higher rates is often futile and overwrought.

That was the general consensus of a panel of six investment experts brought together by *InvestmentNews* in Chicago to shed some light on what lies ahead in the markets for the rest of 2015.

"It isn't as important to us exactly when the Fed raises rates as it is that the Fed will raise rates, and that's something the market is already starting to price in," said Michelle Picard, portfolio manager and managing principal at Geneva Capital Management.

Ms. Picard has been among the few outliers among Fed watchers who believed a 2015 rate hike would be later in the year than June; she is now adjusting her September rate-hike prediction to "sometime before the end

Continued on Page 22

Custodian fees to RIAs raise ire

By Mason Braswell

Registered investment advisers like to promote themselves as being on the side of investors, but a growing number are quietly accepting money from custodians in exchange for recommending certain mutual funds — usually funds that are more expensive for investors. The payment is made to advisers as a "shareholder services fee."

Under terms of such an arrangement, Charles Schwab & Co. Inc. and Fidelity Investments, the nation's No. 1 and No. 3 custodians for advisers, respectively, pay advisers up to 0.2% of assets held in certain no-transaction-fee mutual funds.

'WIDELY PRACTICED'

"We think this is one of the most egregious [conflicts of interest] we've seen in recent years, and it seems to be more widely practiced," said Tom Nally, head of TD Ameritrade Institutional, the No. 2 custodian for advisers, which does not pay such fees. "It's a problem. It adds an element of bias that most clients probably don't understand."

The payment of shareholder services fees is being driven, in part, by the growth of breakaway brokers, Mr. Nally said. Indeed, brokers at wirehouses are used to receiving trails, or service fees, on mutual funds, and this practice allows them to continue doing that as an RIA.

"To me, it sounds like a commission, and clients approach the adviser operating under the banner of fiduciary expecting those biases to not exist," Mr. Nally said.

Advisers who accept such payments are

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Inside

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'Defamatory comments'

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Adapt or fail

Mary Beth Franklin on the critical need for advisers who are experts about Medicare and Social Security benefits.

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EDITOR'S NOTE

To succeed, women first must be leaders

As a middle-aged white man, it's not often that I have the experience of being the only (fill in the blank) in the room. So I was more than a little aware of my gender last Tuesday when I strolled into the University Club of New York to attend the Women's Forum, a half-day event focused on leadership, mentorship and advancing women's issues in the financial services industry.

Frederick P. Gabriel Jr.

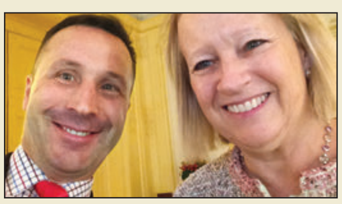
The forum, which is in its third year, was sponsored by *InvestmentNews* and the Investment Program Association and attracted more than 165 attendees.

What impressed me most about the event was how many women shared stories of being the only woman in the room.

Many told stories about their path to success that had common elements: determination, hard work and a good sense of humor.

Among the speakers were Alexandra Armstrong, chairwoman and founder of Armstrong Fleming & Moore; Erin Ford, president of Cetera Advisors; Gloria Nelund, chairwoman and chief executive of TriLinc Global; and Ella Neyland, president of the Steadfast Apartment REIT.

Former Securities and Exchange Commission Chairwoman Mary Schapiro delivered the keynote address, during which she talked about being the first female to be appointed the permanent chief of the SEC and about leadership lessons she picked up along the way.



What defines a leader to Ms. Schapiro? Try honesty, humility and humanity. Failing to show appreciation is a sign of bad leadership, she said.

"That's hubris, and you will fail," she added.

I had a chance to talk with Ms. Schapiro about her tenure at the SEC, as well as about the problems that continue to plague the agency today, such as partisan infighting and understaffing. To see my interview with her on INTV, go to InvestmentNews.com/sec.

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JPMorgan sues defecting team for 'defamatory' remarks to clients

By Liz Skinner

JPMorgan Chase Bank & Co. has sued six former brokers who defected together to Morgan Stanley this spring for allegedly telling clients that if they stayed with JPMorgan, their accounts might be serviced by a call center, among other claims.

The $2 billion team out of Morristown, N.J., resigned in February, though the brokers did not start at Morgan Stanley for up to three months because of garden leave agreements they had signed with JPMorgan, according to legal documents filed with the U.S. District Court in New Jersey.

JPMorgan is seeking a restraining order against the six brokers — Michael Pudlak, Michael Reynolds, Mead Briggs III, Jason Meyer, Lori Rabinowitz and Steven Christensen — while the Financial Industry Regulatory Authority Inc. decides an arbitration case regarding their departure from JPMorgan.

400 FAMILIES

The brokers worked with about 400 families while at JPMorgan and generated about $15 million in annual revenue, the complaint said.

$15M Annual revenue generated at JPMorgan Chase by the team of brokers who left for Morgan Stanley

BLOOMBERG

"During their solicitation calls to JPMorgan customers, defendants are making disparaging and defamatory statements about JPMorgan," the brokerage said in its May 7 complaint. "These statements are false and defamatory and defendants are deliberately seeking to damage JPMorgan's reputation to JPMorgan's clients in order to convince such clients to move their accounts to defendants at Morgan Stanley."

In addition to telling clients their accounts may be serviced by a call center if they remained with JPMorgan, the complaint said the brokers also disparaged the product mix available to the firm's clients.

The brokers deny claims they wrongfully solicited clients from JPMorgan.

"I have complied fully with any contractual obligations with regard to alleged 'solicitation,' having merely announced my change of employment to the clients," Mr. Pudlak said in a court document.

He denied taking client information, saying he created a handwritten list of his 11 biggest clients and used Google search to find contact information for those clients, according to the document.

An attorney for the brokers, Jonathan Thau of Luboja & Thau, said he wasn't authorized to comment on pending litigation. Morgan Stanley spokeswoman Christine Jockle declined to comment.

JPMorgan did not respond to a request for comment.

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Schwab launches a robo for advisers

Customizable platform allows creation of portfolios using more than 450 ETFs

By Alessandra Malito

ISTOCK COMPOSITE

Charles Schwab & Co. last week launched a second version of its automated investment service, this one a robo platform for advisers to implement within their own practices.

It's been less than four months since the custodian debuted Schwab Intelligent Portfolios, the online investment platform targeting retail investors. The adviser-facing version, called Institutional Intelligent Portfolios, offers a customizable platform advisers can use to create portfolios for their clients using more than 450 exchange-traded funds across 28 asset classes.

Advisers with less than $100 million in assets under management with the custodian outside of the Institutional Intelligent Portfolios program will be charged 10 basis points to use the platform, while those that manage more than $100 million will be able to use the platform for free. Investors will not be charged account-service fees, trading commissions or custody fees.

"This will change how things are done," said Bernie Clark, executive vice president of Schwab Advisor Services. "We built [Institutional Intelligent Portfolios] on top of what we built for individual clients and increased functionality.

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ISTOCK

Momentum builds to defund DOL fiduciary

Congress uses riders in spending bills, but some say it's not over

By Mark Schoeff Jr.

Momentum in Congress to thwart a Labor Department proposal to raise investment advice standards for retirement accounts by cutting funding seems unstoppable. But proponents are looking to the history of the fight around the fiduciary duty and the long road ahead for optimism.

A couple weeks of action in both legislative chambers was capped off last Thursday with the Senate Appropriations Committee's approving a spending bill that includes a provision to prevent funding for finalization or implementation of a fiduciary rule for brokers working with 401(k) and individual retirement accounts. The rider is part of legislation that provides $153.2 billion in fiscal 2016 for several agencies, including the DOL, the Department of Health and Human Services, and the Education Department.

AMENDMENT FAILS

Before the vote, the Senate Appropriations Committee defeated an amendment offered by Sen. Richard Durbin, D-Ill., to remove the DOL fiduciary rider.

"Why we would decide that's something we want to put in this appropriations bill, I don't understand," Mr. Durbin said.

Sen. Susan Collins, R-Maine, responded that a delay is required for the DOL to do more work on the proposal.

"The problem with the Department of Labor rule is that it is far too sweeping," Ms. Collins said.

The Senate move comes a day after the House Appropriations Committee approved a similar rider in its version of the funding bill.

The riders reflect opposition from the House and Senate Republi-

Continued on Page 19

Under regulator pressure, Voya limits L share sales

By Trevor Hunnicutt

The brokerage firm Voya Financial Advisors last Monday revamped its variable annuity sales policies, restricting the sale of a popular investment option for retirement planning amid increasing pressure from regulators concerned about the product's suitability for investors.

As of last Monday, Voya's 2,200 registered representatives are no longer allowed to sell a type of variable annuity contract known as an "L share" if the annuity contract includes riders, according to an internal document obtained by *InvestmentNews*.

Variable Annuities

"We feel strongly that it is in the best interests of our advisers and their clients to make this change to Voya Financial Advisors' suitability policy," Tina Hurley, head of product for retail wealth management at Voya Financial, said in a statement. "We've eliminated L share sales with riders in order to best serve the retirement readiness and long-term planning needs of our customers."

L shares typically charge higher ongoing fees in exchange for a shorter-than-normal period of time before clients can withdraw their premium payments or exchange their contracts without paying a surrender charge. They also can come with a rich compensation stream for broker-dealers and their affiliated financial advisers.

EXTRA COST FOR RIDERS

Riders, which come at an extra cost, are added to annuity contracts to blunt the market risk in the product's underlying investments, typically mutual funds. They offer additional features, such as death benefits that protect income or withdrawals if the beneficiary lives longer than expected.

But Voya said it received "guidance" from the Financial Industry Regulatory Authority Inc. "that L share variable annuities with riders are presumptively unsuitable. They have also expressed concern about the suitability of L share variable annuities for clients with an expressed long-term time horizon."

Regulatory agencies that supervise broker-dealers, including the Securities and Exchange Commission, have in recent months highlighted L share sales in their examinations of financial advice

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BLOOMBERG

Obamacare decision gives planning clarity

By Liz Skinner

In a Supreme Court decision with significant financial planning implications, the high court last Thursday preserved the core of President Barack Obama's health care law.

The justices ruled 6-3 that individuals who have been receiving federal subsidies are due those tax breaks no matter whether they purchased health insurance from state or federal online exchanges.

"Congress passed the Affordable Care Act to improve health insurance markets, not to destroy them," Chief Justice John Roberts wrote.

He and Justice Anthony Kennedy joined the court's four Democratic appointees in deciding that Obamacare allows those who buy health benefits through the federal exchange to qualify for tax credits, instead of just allowing those in the 16 states that provide their own exchanges to qualify, as a sentence in the law seemed to indicate.

"Those credits are necessary for the federal exchanges to function like their state exchange counterparts, and to avoid the type of calamitous result that Congress plainly meant to avoid," the majority opinion said.

Many financial advisers increasingly help clients with health insurance decisions, as the choices have become more plentiful and complex since the Affordable Care Act was signed into law five years ago.

SAVE THOUSANDS

"The law isn't going away," said Carolyn McClanahan, director of financial planning at Life Planning Partners, and a physician. "Advisers need to learn how to do income planning for tax credits; it can save their clients thousands of dollars and provide great value."

About 6.3 million people would become uninsured if they lost the tax credits that help cover premiums for health care bought through the federal exchange, according to an analysis by the Urban Institute.

Millions more who buy insurance without receiving the subsidies also could have been hit with a surge in prices if the pool of those buying insurance through the exchange had shrunk. A RAND Institute report found insurance premiums in the individual health insurance market could have risen by an average of 47% if the justices had not upheld the subsidies.

Some experts also believed equities in the health care sector could have been depressed, at least temporarily, if the decision had gone the other way.

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Expanding advice related to retiree health care, Social Security

Clients' need for help with these topics offers opening for advisers

Mary Beth Franklin
On Retirement

The financial planning industry is at a turning point on how to address Social Security and Medicare as part of overall retirement planning. Although numerous surveys have shown that more than half of retirees and pre-retirees expect health care and Social Security advice from their financial adviser, the percentage of advisers who are willing and qualified to offer this type of advice remains low.

"This presents a major opportunity for advisers and firms that do offer this specialized advice to differentiate themselves and gain market share," according to a new white paper produced by Senior Market Sales Inc., a national insurance marketing organization. "Those who continue to ignore the role that Medicare and Social Security play in retirement risk losing clients," the paper concluded.

"The New Foundation of Retirement Planning: Social Security and Medicare" white paper doesn't break new ground. Rather, it synthesizes several recent reports about retiree health care costs and retirement planning that point to a growing need for specialized retirement planning advice.

The original data is gleaned from government sources, including the Social Security Administration and Census Bureau, and prominent research reports from Bank of America Merrill Lynch, Nationwide Financial Retirement Institute and the Employee Benefit Research Institute, among others.

CHANGING EXPECTATIONS

Although Senior Market Sales is in the business of helping financial advisers identify the best Social Security claiming strategies and find the right Medicare health insurance plan, I think the paper makes some interesting points and identifies some salient trends.

It notes that client expectations are changing for a number of reasons. For many people, health care costs will be one of the most significant expenses during retirement. Although some people mistakenly believe Medicare covers all health care costs in retirement, in reality it only covers about 62% of the cost of health care services, not including long-term-care costs. And the share of health care expenses that Medicare beneficiaries pay is expected to increase in the future.

"Helping clients address the retirement health care cost crisis is not only an opportunity, but also a necessity, as it currently dominates

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Finra hits B-Ds on oversight

By Mason Braswell

Sending a message that brokerage firms may need to step up their monitoring for rogue brokers, the Financial Industry Regulatory Authority Inc. said last Monday it had reached a nearly $1 million settlement with two firms for failing to supervise wire transfers.

Morgan Stanley Wealth Management and Scottrade Inc. agreed to pay $650,000 and $300,000, respectively, over allegations that gaps in their compliance systems allowed brokers to move funds into their own personal accounts without being detected. In both cases, the firms had been warned in 2011 of the gaps but did not take corrective action, Finra said.

"Firms must have robust supervisory systems to monitor and protect

> "FIRMS MUST have robust supervisory systems to monitor and protect the movement of customer funds."
>
> **Brad Bennett**
> Chief of enforcement
> Finra

the movement of customer funds," Brad Bennett, Finra's chief of enforcement, said in a statement. "Morgan Stanley and Scottrade had been alerted to significant gaps in their systems by Finra staff, yet years went by before either firm implemented sufficient corrective measures."

UPDATED PROCEDURES

Morgan Stanley, which has around 16,000 brokers and advisers, and Scottrade, which has around 2,000 registered brokers, agreed to the sanctions without admitting or denying the charges.

A spokesman for Scottrade, Whitney Ellis, said in a statement that the firm has resolved the issue after updating its procedures in 2013 and improving the notification process for third-party transfers.

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Next-Gen IOVAs: A New Approach to Tax-Advantaged Investing

High taxes remain top of mind for advisors and their clients, especially high earners and the high net worth. "Using investment strategies that can help minimize taxes" is more important than "pursuing higher returns regardless of tax implications" according to two-thirds of the RIAs and fee-based advisors recently surveyed by Jefferson National. To optimize investing strategies and minimize taxes for their clients, 96 percent say tax deferral is important. And 86 percent expect that tax deferral will be more important in the future.

The power of tax deferral is a great advantage of variable annuities (VAs) — and one that often has been overshadowed by the industry's escalating focus on insurance guarantees. With studies showing that tax deferral can add upwards of 100 to 200 basis point (bps) of alpha[1], why don't more advisors use traditional variable annuities for tax-advantaged investing? The answer is high costs. Most traditional VAs, with commissions and layers of asset-based fees charged for everything from basic Mortality & Expense to income benefits and other insurance guarantees, can quickly exceed 300 bps or more per year[2] — effectively wiping out the value of tax deferral.

Simple. Low Cost. Transparent. More Choice.

A VA must be low cost to maximize the value of tax deferral. Now, as more advisors use tax deferral to optimize investing strategies and manage complex markets, there is strong momentum behind a new category of low-cost Investment-Only Variable Annuities (IOVAs) designed to put tax-deferral first.

Insurers have been increasing sales of IOVAs, even as there has been a 4-year decline in overall VA sales industrywide. In the past year, sales of IOVAs rose 18.5%, growing to $10.9 billion in 2014 from about $9.2 billion in 2013 according to Frank O'Connor, VP of Research and Outreach at the Insured Retirement Institute. Adoption is strongest among independent investment firms and RIAs, the channel to post the largest VA sales gains in the second half of 2014 according to Morningstar.

Jefferson National was the first to pioneer a flat-fee no-load Investment-Only VA for this growing market of RIAs and fee-based advisors, launching Monument Advisor in 2005. It remains a category leader today. Completely re-engineered from the ground up, the industry's only flat-fee IOVA is built to be used as a low-cost tax-advantaged investing platform — instead of a complex and costly commission-based insurance product. One of the lowest cost IOVAs on the market today, with 9 times more funds that the typical VA and powerful portfolio management tools, it is designed to be used in ways that a traditional VA can't.

Create More Tax Alpha

Taxes can be a client's single biggest investment expense — rates can be as high as 40 or even 50 percent, when Federal and State taxes are combined. "For many advisors and clients, taxes will be the next big thing," says Glenn Frank, Director of Investment Tax Strategy at Lexington Wealth Management and President of Frank Advising. "The taxes on investors' portfolios have been hiked up across the board. And right now, tax laws are looking about as permanent as they get."

So it's critical that advisors and their clients think smart about using strategies to generate more Tax Alpha, a topic on which Frank has written numerous papers and articles. "Determine the average amount of taxes a client would pay on their portfolio over a lifetime. And when you can reduce those taxes to enhance performance — that difference is Tax Alpha," Frank says. "The more you save on taxes, the more Tax Alpha you create, the more money you can put to work for the client and their family. It adds tremendous value."

According to Frank one of the most important opportunities to create more Tax Alpha is by using an asset location strategy with tax-deferred vehicles such as IOVAs. Research has shown that asset location can dramatically reduce taxes over time and reliably enhance overall performance by 100 bps or more — without increasing risk. This is accomplished by investing in the same assets, just locating them in the right taxable and tax-deferred vehicles.

Start by considering three factors — tax-efficiency, management style and client profile — as detailed below:

Then, locate assets based on tax-efficiency. Locate tax-efficient investments such as buy and hold equities, index funds, ETFs, and tax-exempt municipal bonds in the taxable account. Locate tax-inefficient investments such as fixed income, REITS, commodities, actively managed strategies, and liquid alts in tax-deferred vehicles such as a 401(k), IRA or 529 Plan.

And for the high net worth who can easily max out the low contribution limits of traditional qualified plans, low-cost IOVAs can provide added capacity. "If the cost is low enough for the math to work, an IOVA can be a real win for the investor," said Frank.

Manage Volatility Tax-Efficiently

In addition to the challenge of rising taxes, ongoing volatility remains a top concern for advisors — and one of the biggest threats to their clients' portfolios. Many RIAs and fee-based advisors say the solution is alternative investments, tactical management and the power of tax deferral. The most innovative IOVAs can help, offering a broad range of underlying funds — including non-correlated asset classes, hybrid investments, and liquid alternative funds that employ strategies like those favored by hedge funds and elite institutional investors.

Nearly two-thirds of RIAs and fee-based advisors have increased their use of alternatives over the past five years and more than half see their use of alternatives increasing over the next five years according to a survey from Jefferson National. Roughly three-fourths indicated the reason is "managing volatility." Likewise, the use of tactical management remains strong. Nearly two-thirds of advisors are more likely to employ tactical strategies, while roughly one-third would choose a buy and hold strategy. And when using these tax-inefficient assets and strategies to add ballast to portfolios, tax deferral is more important than ever.

Dedicating nearly three decades to studying the market and managing investments, Steve Blumenthal, Founder and CEO of CMG Capital Management Group, Inc., is convinced that it's crucial to invest differently. "I believe that investors' portfolios should always include a diversified blend of tactical investment strategies and risk managed investment strategies with the ability to profit in both up and down markets," says Blumenthal. "Because of the Jeff Nats of the world, which offer a diverse selection of investment options — index funds, sector funds, inverse funds, fixed income funds, managed futures, and more — advisors now have tremendous tools to help their clients better manage their wealth."

David D'Amico, President of Braver Wealth Management, agrees. "Clients tend to seek us out because they're tired of the old way of managing money. They don't want someone telling them to stay the course, to buy and hold. They want to see someone taking action in the portfolio," says D'Amico. "Our active approach can trigger short-term capital gains. So we prefer to put those strategies within deferred vehicles, whether it's an IRA or a pension plan, or ultimately a low-cost annuity," he adds. "Low-cost Investment-Only VAs help defer these high tax rates and that's where we expect our strategies to really benefit clients."

A Tax-Advantaged Investing Platform to Build Future Wealth

Not all variable annuities are costly and complex. Today's next-generation of Investment-Only VAs are simple and transparent, with lower cost, more underlying funds and the right selection of portfolio management tools. And by eliminating commissions with their inherent conflict of interest, next-gen IOVAs are the right fit for the growing market of RIAs and fee-based advisors.

Many advisors are shifting to a more holistic, cost-conscious and tax-focused approach. And many advisors are adopting low-cost, no-load IOVAs. Using next-gen IOVAs gives you an innovative vehicle for asset location, a solution to create more tax alpha and a method to tax-optimize alternatives. With the right cost structure and the right mix of funds you have greater flexibility to manage tax implications and implement more proactive risk controls. This can give clients the confidence to maintain a more aggressive allocation, essential for keeping pace with inflation and achieving greater growth potential.

Today's next generation of Investment-Only VAs offers the tax-advantaged investing platform that you can use right now to help clients maximize long-term performance, generate more retirement income and accumulate more wealth for the future.

[1] *Taxes and Investment Performance*, Morningstar, 2013.

[2] 2014 IRI Fact Book, 13th Edition, Insured Retirement Institute, 2014.

Important Disclosures

Variable annuities are investments subject to market fluctuation and risk, including possible loss of principal. Your units, when you make a withdrawal or surrender, may be worth more or less than your original investment.

Variable annuities are long-term investments to help you meet retirement and other long-range goals. Withdrawal of tax-deferred accumulations are subject to ordinary income tax. Withdrawals made prior to age 59 ½ may incur a 10% IRS tax penalty. Jefferson National does not offer tax advice. Annuities are not deposits or obligations of, or guaranteed by any bank, nor are they FDIC insured.

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Create More Tax Alpha by Considering Three Factors:

1 TAX EFFICIENCY

Do assets generate short-term capital gains or ordinary income taxed at higher rates? Or long-term capital gains taxed at a lower rate?

2 MANAGEMENT STYLE

Do you use tactical management and other alternative strategies? Or do you use traditional buy & hold and passively managed investments?

3 CLIENT PROFILE

Have you considered age, tax bracket, liquidity needs, and estate planning needs?

> ***"For many advisors and clients, taxes will be the next big thing. The taxes on investors' portfolios have been hiked up across the board. And right now, tax laws are looking about as permanent as they get."***
>
> – Glenn Frank, *Director of Investment Tax Strategy at Lexington Wealth Management and President of Frank Advising*

JNL201504-A056

VIEWPOINT

EDITORIALS

Middle class deserves unbiased advice

IT'S TIME FOR THE INDUSTRY to stop turning a blind eye toward its own inconvenient truth: The people in this country who are most in need of unbiased financial advice either cannot get it or are getting it from brokers who are not necessarily looking out for their best interests.

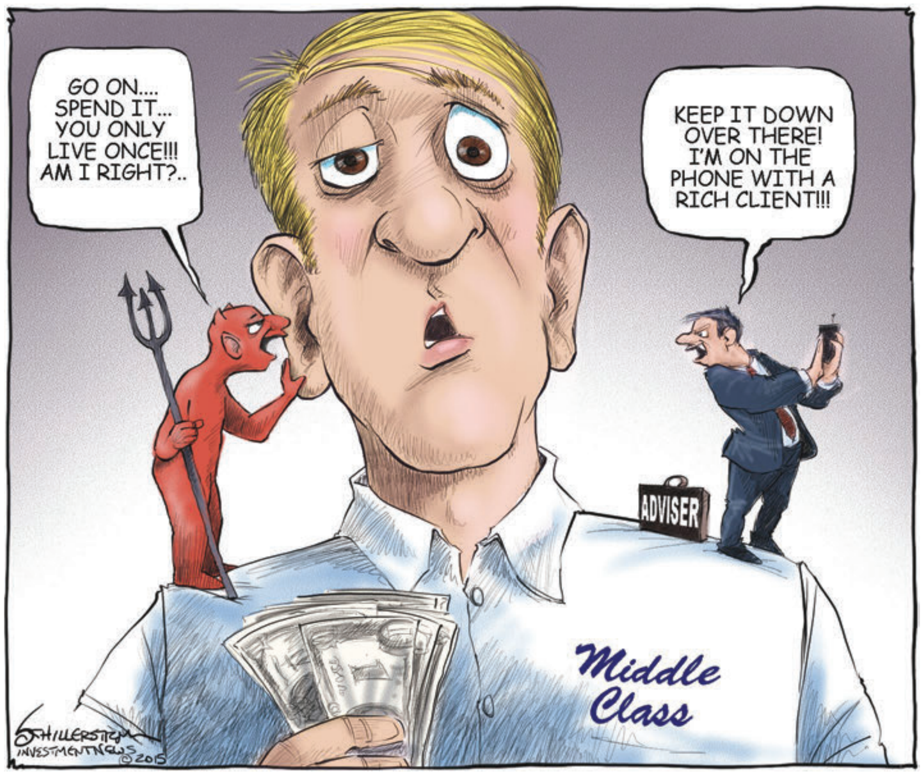
This truth means that the vast majority of middle-class Americans are left to fend for themselves when it comes to navigating such crucial financial issues as credit card debt, buying a home, sending their children to college and setting themselves up for a comfortable retirement.

Had honest financial advice been as affordable and as readily accessible as, say, a gym membership or a subscription to Netflix, such financial catastrophes as the mortgage crisis of 2007 or the explosion of the technology bubble in 2000 might have been blunted — if not completely averted. And more Americans would be better prepared for retirement.

Indeed, 43% of Americans have not "spoken to anyone" — friends, family and financial advisers included — about the state of their retirement planning, according to a study of more than 5,000 adults released in April by Northwestern Mutual. If that's not bad enough, the study also found that 21% are "not at all confident" they will be able to reach their financial goals.

For too many years, financial advisers, and the associations that represent them, have talked about the need to figure out a way to deliver unbiased financial advice to middle-class investors. But relatively few have put their words into action.

The vast majority of financial advisers today continue to charge fees based on assets under management and have an incentive to pursue wealthy clients. In fact, many financial advisers deliberately turn away less wealthy clients by imposing lofty minimums of $1 million or more.



NEW MODELS

Let's be clear: We are not suggesting advisers offer their services for free or at a cost that would make it impossible for them to stay in business. Rather, we urge advisers to consider ways to expand their compensation models to include hourly rates, flat rates for specific services and even subscription-based pay. That would make it easier for investors who are serious about developing a financial plan but lack the savings necessary to meet minimums to have the same access to financial advice as their wealthier neighbors.

> **WE URGE** advisers to consider ways to expand their compensation models.

We also urge the groups that represent advisers to work harder — either individually or as a coalition — to develop a blueprint for increasing middle-class Americans' access to unbiased financial advice.

ROBOS STILL PRIMITIVE

We take exception to anyone who would point to automated investment platforms as a total solution for delivering high-quality advice to the mass market. While these platforms, commonly known as robo-advisers, are good for delivering investment guidance, they hardy offer adequate comprehensive financial planning — at least not yet.

For that, human advisers are key.

We know this adage to be true: Where there is a will, there is a way. For evidence of the will to deliver financial advice to the middle class, look no further than the hopes and ambitions expressed by some of our 40 Under 40 honorees last week in the pages of *InvestmentNews*.

"I wanted to be able to help people just starting out, and those who had lower assets than most traditional advisers are interested in helping," said Robert Schmansky, president of Clear Financial Advisors.

Jason L. Smith, who is chief executive of Clarity 2 Prosperity Mastermind Group and Prosperity Capital Advisors, put the situation less delicately.

"The middle class [are] served by salespeople," he said. "They don't get the service that the wealthy get."

The will is there.

Now to find the way.

Millennials make good customers

Finally, there is some good news about millennials and retirement saving that financial advisers can build upon.

A new survey by T. Rowe Price Associates Inc. has found that millennials are focused on saving for retirement despite having college debt to pay off. In fact, they save an average of 8% of their income compared with the 9% of income saved on average by baby boomers.

SAVINGS LAUDABLE

Considering that baby boomers are rapidly approaching retirement while millennials have many working years ahead of them, this high rate of saving by the millennials is laudable, and likely will increase as their finances improve as they move through their careers.

Millennials, perhaps because they have seen the impact of the Great Recession on their families and their own early careers, understand the need to budget and to save. That means their savings will accumulate rapidly, especially as they dispose of their college debt.

MORE
New research shows that millennials are more money-savvy than boomers.
Page 14

Advisers can build on this awareness, and millennials' growing savings pool, and they should start reaching out to this generation now if they have not already done so. Millennials might not realize they need professional guidance at present, but they likely can be persuaded of that as their assets grow.

> **THOSE WHO** get their names before millennials now will reap the harvest in the future.

BUDGETEERS

Millennials, being budget conscious, also might be reluctant to pay for the advice that would be useful to them at present, but that too might change as they increase with the complications of managing their growing retirement savings.

Advisers might not be able to sign up many millennials as clients today (indeed many advisers probably don't want to, given the small asset bases most millennials have — see above), but these young investors obviously are fertile ground for advisers' recruiting efforts. Advisers should be reaching out through all available means, including, of course, social media, to provide information and education. Those who get their names before millennials in this way now will reap the harvest in the future.

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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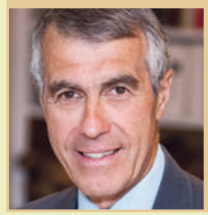
Audit Bureau of Circulations

VIEWPOINT

The mutual fund marketplace is broken. Time to fix it.

OTHER VOICES

Dave Umstead Jim Jasinski



Wall Street and Washington have it wrong. The most important debate today isn't whether financial professionals should adopt the suitability standard or the fiduciary standard. The pros and cons have been argued ad nauseam; eventually, from D.C. to Main Street, we will all recognize the appropriate choice.

The more flagrant issue to address — and a relatively easy one to fix — is the mind-boggling array of share classes offered by many open-end mutual fund companies. Many share class variations offer no competitive advantage to investors. Many share classes exist only to hide fees paid by mutual funds to brokers in exchange for feeding them business.

While investment professionals understand the nuances of buying or selling an open-end mutual fund with a load, most individual investors are oblivious. The explicit cost of the sales commission never appears on an investor's statement. Many investors are unaware of the impact that a load versus a no-load transaction will have on their portfolios. A 5.75% front-end load means that only 94.25 cents of every dollar gets invested, and this gap compounds over time.

MURKY SYSTEM

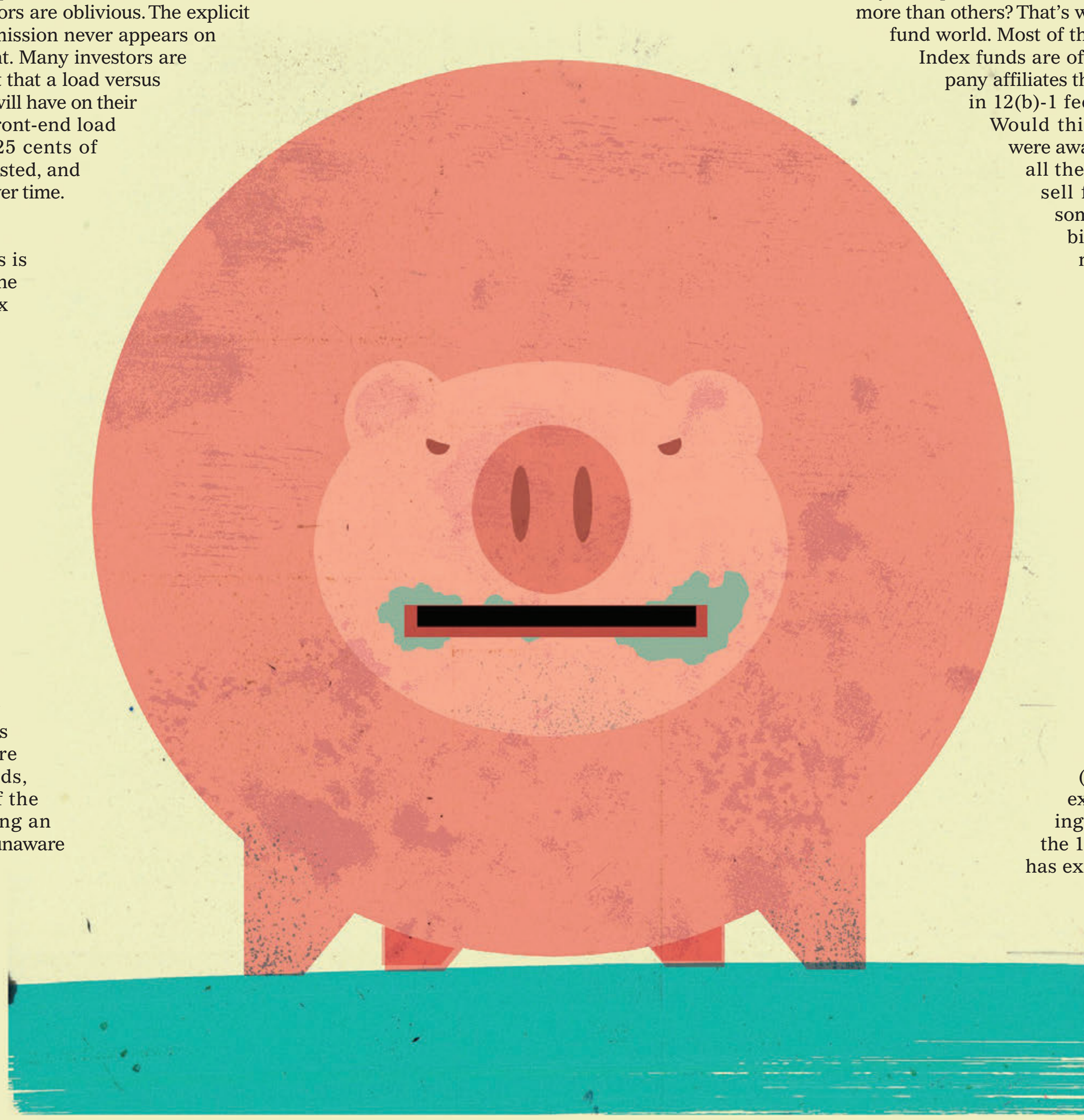
Unfortunately, this is just the beginning of the murky and complex open-end mutual fund system. How about an Energizer bunny commission, one that keeps on paying? In 1980, the mutual fund industry invented a new way to pay commissions and called it a 12(b)-1 fee. It is, in effect, a commission that pays not once, at the time of sale, but continuously. The fee is paid directly from the mutual fund company to the broker and goes on until the shares are sold. As with the loads, the investor is out of the loop in terms of seeing an explicit fee, and often unaware it exists.

Oddly enough, most of the legal requirements behind the mutual fund distribution system center on disclosure. As long as load and 12(b)-1 fees are described in the prospectus they are allowed. But, let's be honest, how many investors read a mutual fund prospectus?

This isn't a cottage industry. A single mutual fund may offer five, six or seven, some even 15 or more, combinations of loads and 12(b)-1 fees. The name of the fund will be the same in every case, yet again decreasing the fund's transparency and increasing investor confusion. And the underlying assets will be the same. The only differences are the type and size of the loads and the kickback arrangement for 12(b)-1 fees.

Mutual fund companies, and brokers selling the funds, have successfully duped investors for years. As proof, look at the market for S&P 500 index funds. What's a fair price to pay for a commoditized fund, such as an S&P 500 index fund? Despite virtually no difference among the funds, except for distribution and fees extracted, there were 92 funds as of Dec. 31, 2014, that tracked the S&P 500 index, and the annual expense ratios varied enormously. The highest expense fund, Rydex's C shares (RYSYX) charged 2.32% per year, while Fidelity (FXAIX), in a price war with Vanguard, was the lowest at 0.02%. If there ever was proof that the market for mutual funds is broken, that's it.

If you were buying a commodity, such as a bag of rice, would you expect to see some bags priced 100 times more than others? That's what we see in the mutual fund world. Most of the high expense S&P 500 Index funds are offered by insurance company affiliates that pay up to 1% per year in 12(b)-1 fees to the selling broker. Would this be possible if clients were aware of these fees? It is like all the bags of rice seemingly sell for the same price, but some bags have leaks. How big are the leaks? There is more than $9 billion invested in S&P 500 Index fund shares with 12(b)-1 fees; the annual leakage comes to more than $21 million, and goes to only a handful of firms.



RICHARD MIA

HUGE DRAIN

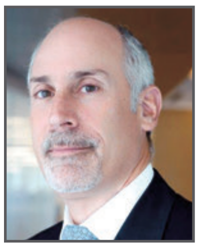
Compare a high expense S&P 500 index fund to a low expense fund over time and the drain on performance is startling. Take Vanguard's Investor shares (VFINX) with a 0.17% expense ratio compared with Invesco's B shares (SPIBX) with a 1.35% expense ratio. After investing $100 in each fund, over the 17 years the Invesco fund has existed, the Vanguard fund accrued 24% more wealth. It gets worse. In case an Invesco shareholder quickly discovers the bad deal, they face a 5% back-end load to get out.

Let's stop this nonsense. The solution is simple: Eliminate 12(b)-1 fees and back-end loads and require front-end loads to appear on statements as an explicit expense.

MANY SHARE CLASSES exist only to hide fees paid by mutual funds to brokers in exchange for feeding them business.

Dave Umstead is founder and president of Cape Ann Capital Inc., a fee-only registered investment adviser founded in 1999. Jim Jasinski, a former UBS broker, joined Cape Ann Capital in 2009 and is now co-owner and CEO of the firm.

Income Diversification: The New Rules of Risk and Reward



Donald Plotsky
Senior Product Manager
Head of Retail and Subadvisory
Western Asset Management

Brian Spinelli
Chair, Investment Committee
Relationship Manager
Halbert Hargrove

Ryan Wibberley
Co-Chairman
Chief Executive
CIC Wealth Management

On April 21, Donald Plotsky, senior product manager at Western Asset Management, was joined by Brian Spinelli of Halbert Hargrove and Ryan Wibberley of CIC Wealth Management in a Portfolio Manager Viewpoints webcast to discuss the new rules of income diversification with InvestmentNews contributing correspondent Consuelo Mack.

Consuelo Mack | Can you outline for us your five insights about fixed income?

Donald Plotsky | Treasuries aren't risk-free. There's no default risk, but there's interest rate risk, which varies with the maturity profile. Two: Interest rates will rise, but not as quickly as we expect. Three: Higher rates don't affect all bonds the same; floating-rate or credit-sensitive securities may actually do well when rates are rising modestly. Four: Higher rates don't always mean negative bond returns. Five: The question isn't "should I own bonds?" but "which bonds should I own?"

Diversification is most likely the most important reason we own bonds. We want something that potentially mitigates downside risk and enhances returns, and fixed income has traditionally been that anchor. But bonds also provide liquidity and income. Historically, dividend income and coupon income have accounted for north of 60% of overall portfolio returns.

Many say that active managers don't add value, which isn't true in fixed income. Its benchmark isn't as thoughtful as the S&P 500, so active managers have both the inclination and the ability to consistently outperform the market.

Mack | What's your bottom-line outlook on interest rates?

Plotsky | We expect at some point in the second half for the Fed to raise the fed funds rate modestly — 25 or 50 basis points. That will have a comparable impact on the short end of the yield curve. Long-term inflation expectations drive long rates, though, and nothing on the horizon should materially affect expectations.

Mack | How much of a concern or an opportunity are gradually rising rates to the three of you as fixed-income managers?

Plotsky | It depends on the portfolio positioning. You can mitigate the impact of rising rates if you're more heavily weighted toward credit and less toward rates, if you have a shorter duration than the benchmark. And you can benefit from rising rates with interest rate derivatives or a larger allocation to floating-rate securities.

But when you contemplate these other strategies, you have to know what you're buying, know the expected volatility, the potential for correlation with the equity markets. A manager who can't provide you with that information is not one you should invest with.

Brian Spinelli | We change the conversation with rising rates, because we want to ensure that clients meet their income needs. We confident we've assigned portfolios in such a way that clients can weather that environment.

Ryan Wibberley | Clients have been starving for yield, but we're hesitant about some of the nontraditional investments offering much higher yields. We've held more cash in recent months in anticipation of higher rates and have tried to compensate by mixing in more high-quality equities and a bit of nontraditional bond funds that may go negative duration.

Mack | How should we view bonds and the risk characteristics?

Plotsky | If you're focused on total return, bonds need to provide diversification from equity risk, which is the dominant risk in portfolios.

Liquidity is going to vary. How much is needed, and in what categories? That's got to be viewed in the context of the overall portfolio allocation and the needs of the particular person. But that's where liquidity should come from.

Spinelli | People who are nearing or in retirement may need core stable fixed income in their portfolio. We may not like the returns, but there's no free lunch — nothing with low risk and high returns.

Wibberley | We've generally agreed with the need for diversification, but recently we've reviewed our asset allocation to be more specific to client income needs. While maintaining exposure to bonds, we've held more cash. It's a total return approach.

Mack | Which fixed income strategies offer the best opportunity for generating alpha?

Plotsky | Our macro-opportunity strategy has much greater flexibility in terms of duration and exposure. We're actively assessing market pricing versus our fundamental view on a daily basis and positioning the portfolio accordingly.

Alpha is basically returns available on a risk-adjusted basis. If you have uncorrelated risk and healthy returns, that's significant alpha.

And that type of approach is engineered to provide those kinds of returns.

Any number of macro or long/short strategies have demonstrated track records of generating excess return, regardless of what happens to interest rates.

Wibberley | If you like the long/short strategy, you need to find fund managers that stay true to their objectives and convictions. Some well-known bond managers have, over the last six years, flipped back and forth between being short and long Treasuries.

Mack | Many view credit risk as more serious than duration risk now.

Plotsky | We're still in an economic growth stage. Corporate balance sheets are quite strong globally. With emerging market corporate debt, U.S. corporate and high-yield debt, many structured products — we see attractive compensation given the amount of default risk.

But credit risk is real in some cases, and that's why we emphasize bottom-up analysis on an issuer-by-issuer basis. A decline in oil caused prices across the sector to drop, but not all companies were susceptible. If you know the companies, you can take credit risk at attractive rates.

Mack | What kind of real-life solutions are you offering clients to generate income?

Spinelli | We're assessing multiple levels of return or sources of income. We use stable core fixed to meet near-term liabilities, making sure it's high quality and shorter maturity.

We're branching out to other areas to add value — reinsurance, high yield, emerging market debt. On the equities side, we consider ways to mitigate risk and generate income with options in addition to dividends.

Wibberley | We're considering European real estate investment trusts. Quantitative easing should benefit the eurozone, and there's a chance for yield that could be safe.

We're also looking at global high-yield funds. That's where managers can add value — finding uncommon values in such places. We're looking at dividend-paying equities, companies that have solid earnings records, zero or very low debt. It might not be the sexiest type of growth, but it can deliver. ❖

Watch the full webcast and get CE credit: www.investmentnews.com/riskandreward

THE C SUITE

MANAGEMENT INSIGHTS FROM DEBRA WETHERBY

Aim to be inspiring, not authoritarian

By Liz Skinner

Along the challenging route toward building a $4 billion advisory firm, Debra Wetherby transformed herself into a more patient and nurturing leader.

The Syracuse, N.Y., native learned the value of speaking last in a meeting, one-on-one discussions and being inspirational as opposed to authoritarian.

It didn't come naturally to her, though.

Growing up in a house with five children, she was used to battling it out for what she wanted. After Ms. Wetherby, 57, started San Francisco-based Wetherby Asset Management in 1990, she discovered that an aggressive approach didn't work as well for the head of an advisory business.

THOMAS BROENING

LS: *Tell me about your leadership style.*
DW: I'm a consensus builder. I learned a lot from one of my clients who is CEO of a company. He was leading the company through some big changes and he had this style where he would go to people one by one and talk to them about the decision and gather their input before the decision came up to the group. Then he would have the conversation in the group and the decision would be made. It sounds very redundant, but actually it gave people the opportunity to voice their concerns and issues one on one, rather than through the group setting. It also allowed people to feel like they were really having a voice in the decision.

LS: *Is it difficult when there is no consensus?*
DW: It's pretty rare that there's a decision that I have to be unilateral on. We have a management committee and it's the heads of all the departments in the firm, and we're pretty good now at making decisions together. I have a strong voice, but I have learned to speak last because it's important for everyone to be heard. And I'm not always going to be around, and so they need to be comfortable — and I need to be comfortable — that the decisions can get well-discussed and well-made without me there.

> *"I have a strong voice, but I have learned to speak last because it's important for everyone to be heard."*

LS: *When was the first time you were in a leadership role?*
DW: I went to the University of Virginia and I co-led the resident staff program. My second year I was a [resident assistant], my third year I was a senior RA and my fourth year I was chosen to co-lead the program.

LS: *Were there things you took from that experience that still apply to the way you lead today?*
DW: Absolutely. You're leading peers. You have to figure out the way to do that and the whole idea of being inspirational versus authoritarian and leading by example are things that definitely mark back to that time.

LS: *You advocate advisers joining a study group. What does it offer that an industry conference, for instance, wouldn't provide?*
DW: It's a more intimate conversation and there's a lot more sharing. It's helpful in a study group to see the ongoing conversation, versus parachuting into a conference and having the networking conversations. In a study group, I probably get three to five good ideas each time we meet. My rule of thumb is if I get three ideas from a three-day conference it's been worthwhile. I also get perspective, because when you're deep in your business and you're busy serving your clients, you don't always have the perspective of what's going on around you. When you face a situation you've never faced before and someone in the group has faced that situation and is happy to share with you what they learned from that, that's like a gift.

LS: *You spent three years as a broker. How did that time influence the way you lead?*
DW: In that system, bad behavior was tolerated from people if they were big producers. And I mean like things you'd see in the movies and say, this could not happen in real life. Things like phones being thrown across the room and just ridiculous things. I think it really made me think about where you draw the line in the sand. For us, regardless of productivity, there are some things that we just don't tolerate, and that's been the big influence.

LS: *Is there anything else you don't tolerate from the people who report to you?*
DW: The biggest thing is any breach of integrity. We feel like we're in a huge trusted position with clients and everyone has to be trustworthy. We really put a high premium on people having integrity and being good for their word. We don't tolerate people mistreating each other and we don't tolerate that from clients either. We have had conversations with clients who might treat me well and one of my staff poorly. I have gone to a client and said that we view staff members as valuable as me and either that behavior has to change or we need to part company.

LS: *Let's talk about culture. What kind of culture are you trying to create at your firm?*
DW: We put the clients first. We serve them with a high degree of professionalism and the highest quality. We believe in teamwork and we do a lot of things to promote a team culture. We don't compensate people based on their individual client load. It's all about the success of the firm as a whole. Although people have specific client responsibility, the most common feedback I get from clients is that no matter who I talk to on the phone at your firm, they always try to help me. That, to me, is really important: having people care about one another. We have this thing where people can donate PTO to other people and we have had a couple people who have dealt with serious health issues and people donate PTO to them. Or when people are out of the office unexpectedly, people pitch in because they recognize that's what they would want.

LS: *What did you take away from your time at PriceWaterhouseCoopers? How did you realize it wasn't a fit for you?*
DW: I didn't see myself as a lifetime accountant. The thing about the markets is every day is different. They are changing all the time. What we do is a like a three dimensional puzzle. A client is changing, markets are changing and the investment strategies and vehicles we use are changing. So it's all three of those things and every day is different. In accounting, I felt like I would get to a point where I would know what I needed to know, and then what? For me, there wasn't enough change in it. With the markets you are never done learning, and I love that aspect of it.

As far as leadership, it was a fairly traditional place. There were no women partners; it was a very male-dominated environment. When I first went there, women couldn't wear pants. Perhaps what I took away from there is that I have an aversion to rigid hierarchical models. Their model is very efficient for what they do, but I think part of my reluctance for many years to put on my CEO hat was a resistance to hierarchy. It wasn't until I had done some reading on leadership that I learned you can be a leader without imposing a lot of hierarchy.

Visit InvestmentNews.com/csuite for a longer version of this interview.

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Fearing a tipping point, bond shops hold cash

Bloomberg News

TCW Group Inc. is taking the possibility of a bond market selloff seriously.

So seriously that the money manager, which oversees almost $140 billion of U.S. debt, has been accumulating more and more cash in its credit funds, with the proportion rising to the highest since the 2008 crisis.

"We never realize what the tipping point is until after it happens," said Jerry Cudzil, TCW Group's head of U.S. credit trading. "We're as defensive as we've been since pre-crisis."

TCW isn't alone: Bond funds are holding about 8% of their assets in cash-like securities, the highest proportion since at least 1999, according to FTN Financial, citing Investment Company Institute data.

Mr. Cudzil's reasoning is that the Federal Reserve is moving toward its first interest-rate increase since 2006, and the end of record monetary stimulus will rattle the herds of investors who poured cash into risky debt to try and get some yield.

The shift in policy comes amid a global backdrop that's not exactly rosy. The Chinese economy's growth is slowing, the outlook for developing nations has grown cloudy, and the tone of Greece's bailout talks changes daily.

Of course, U.S. central bankers are aiming to gently wean markets and companies off zero-interest-rate policies. In their ideal scenario, borrowing costs would rise slowly and steadily, debt investors would calmly absorb losses, and corporate America would easily adjust to debt that's a little less cheap amid an improving economy.

That outcome seems less and less likely to Mr. Cudzil as volatility in the bond market climbs.

> "IF YOU distort markets for long periods of time and then you remove those distortions, you're subject to unanticipated volatility."
>
> **Jerry Cudzil,** head of U.S. credit trading, TCW Group

"If you distort markets for long periods of time and then you remove those distortions, you're subject to unanticipated volatility," said Mr. Cudzil. He declined to specify the exact amount of cash he's holding in the funds he runs.

Price swings will also likely be magnified by investors' inability to quickly trade bonds, he said. New regulations have made it less profitable for banks to grease the wheels of markets that trade over the counter and, as a result, they're devoting fewer traders and money to the operations.

To boot, record-low yields have prompted investors to pile into the same types of risky investments — so it may be even more painful to get out with few potential buyers able to absorb mass selling.

Money-laundering plan would put onus on RIAs

By Mason Braswell

After more than a decade of deliberation, registered investment advisers are one step closer to having to monitor and report suspicious activity related to money laundering, according to a rule proposal from the Treasury Department's Financial Crimes Enforcement Network.

FinCEN filed a draft rule with the Office of Management and Budget on April 24 that is expected to be made public in July for comment. It requires RIAs to have anti-money-laundering programs and file suspicious activity reports under the Bank Secrecy Act, in line with the requirements already in place for broker-dealers.

"It's actually going to put more [responsibility] for surveillance on advisers for the activity in their client accounts," said Tom Nally, president of TD Ameritrade Institutional. "It's just another added thing that advisers have to do."

LILA PHOTO

"IT'S JUST another added thing that advisers have to do."

Tom Nally
President
TD Ameritrade Institutional

The Bank Secrecy Act did not apply to advisers under the original anti-money-laundering rules because RIAs were not defined as financial institutions. But FinCEN, the Treasury's anti-money-laundering arm, has been working with the Securities and Exchange Commission and other regulators since at least 2003 to broaden the definitions.

FinCEN first proposed including RIAs as financial institutions in 2003, but withdrew the proposal in 2008. Advisers already worked mostly through broker-dealers and custodians that were required to monitor for suspicious activity, the agency said.

A FinCEN spokesman, Steve Hudak, said he could not elaborate on the proposed rule since it had not yet been made public.

The agency, however, has been open in the last few years about its intentions to repropose some form of the rule to broaden the definition of financial institutions.

While the full text of the proposed rule has not yet been made public, Karen L. Barr, president and chief executive of the Investment Adviser Association, a trade group representing RIAs, said most firms should be able to adapt.

About 80% of firms already have an anti-money-laundering program in place, according to a 2013 IAA survey of 462 advisers.

"For those who do not already have the program in place, and that's true for many smaller firms, it will certainly be a burden to get up and running," Ms. Barr said.

The other difference is that now advisers may have to file suspicious activity reports, which are confidential notices sent to FinCEN when the adviser suspects something may be awry. Those who do not could face strict enforcement action, she said.

"Obviously, that's a serious matter," Ms. Barr said. "The SEC and other regulators have announced enforcement actions against banks and broker-dealers and others in recent years, and they're taking it very seriously."

Despite the added responsibility, advisers could be in a better position to spot suspicious activity than a broker-dealer or custodian in certain instances, Mr. Nally said.

While broker-dealers and custodians monitor for suspicious transactions, clients' reluctance to provide information about the source of their funds or their business, for example, is something advisers would be in a unique position to detect during account openings, Ms. Barr explained.

The IAA will likely review the rule and provide specific comments once it becomes public, she said.

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A guide to hiring and retaining talent for the long term

By Liz Skinner

Mark Johannessen leaves nothing to chance when it comes to holding onto Sullivan Bruyette Speros & Blayney Inc.'s best people.

The McLean, Va.-based advisory firm presents employees with a career path from the start and proactively helps them advance, or if need be, finds a new position that's better suited to their talents or interests.

ADVISER'S CONSULTANT
STAFFING

"WE HAVE ALWAYS had the notion of providing an opportunity for growth."

Mark Johannessen
Sullivan Bruyette Speros & Blayney

"We have always had the notion of providing an opportunity for growth," Mr. Johannessen said. "I am convinced that it's the No. 1 reason why we have been so successful at growing the firm the way we have."

Sullivan Bruyette Speros & Blayney started 25 years ago with seven people, and today boasts 43, including 11 directors.

The firm knows that in an industry with a recognized talent shortage, it has to work hard to keep its best people on the job.

Compensation is important, of course, but some advisory firms make the mistake of thinking that just by paying beyond the norm they'll be able to keep everyone they want.

Compensation should be "reasonable" and based on what other firms are paying in a particular marketplace, Mr. Johannessen said. But it's more important that employees know what that compensation is based on and what they need to do to earn more, if that's what drives them, he said.

SALARY, BONUS

Sullivan, Bruyette Speros & Blayney spells it all out to employees, showing them what the first couple of years of salary and bonuses will look like for different roles.

Mr. Johannessen has found that retaining the best employees also requires flexibility.

Practically, that's meant allowing an employee to work remotely from a couple of states away. With another employee, an extra computer screen made him happier doing his job.

Flexibility is especially important with younger employees, who have different work styles than older individuals, Mr. Johannessen said.

"It's about professionalism," he said. "If they're doing the job I want them to do, it doesn't matter if they left at 5 o'clock because they wanted to go ride their bike."

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Tip sheet

- Offer employees an established career path that provides a chance for personal growth. Employees should have specific guidelines on how long each step is likely to take and what responsibilities will change along the way.
- Provide training and development for employees at every level, including internal sessions on specific topics, external webinars and other educational opportunities.
- Reward a hard-working team with fun events and regular breaks, such as holiday parties, annual retreats, happy hours and monthly birthday celebrations, that are enjoyable and offer opportunities for the team to get to know each other better.
- Encourage participation in the industry by paying for memberships in business organizations and supporting employees who attend their conferences or take on a leadership role.
- Pay salary and incentive-based compensation that is based on the local market, and be clear about how raises, bonuses and other incentives can be earned.
- Provide the usual benefits such as retirement savings plans, but also think outside the box. Sullivan Bruyette Speros & Blayney has a "chill room," with a massage chair, music and candles where anyone can take a 20-minute break.
- Supply the tools employees need to succeed, especially high-quality technology.
- Allow people at every level of the firm to have a voice by being part of committees that help decide how the business works and runs.

— Liz Skinner

ISTOCK

Fund riding wave of gains with puts

By Jeff Benjamin

So far, so good is in no way the official marketing strategy of the Schooner Hedged Alternative Income Fund (SHAIX), but it certainly fits the fledgling fund's seven-month history.

Having gained 12.7% since the start of the year, the fund with just $81 million in assets should start hitting some financial advisers' radar, even if there are screens in place to weed out newcomers.

The fund's performance compares to a market-neutral category average this year of 0.6%. The S&P 500 is up 4.1% over the same period.

Greg Levinson, president and chief investment officer of Schooner Investment Group, admits the fund has been riding the wave of an optimal environment, since the strategy benefits from the increasingly cautious mood in equity markets.

The portfolio is technically an income-generating vehicle that earns its performance through the sale of put options on between 100 and 200 underlying stocks.

RIGHT TO SELL

A put option gives the owner the right to sell a stock back to the fund at a preset price, typically after the actual price of the stock has fallen below the option value.

For example, Tesla Motors Inc. (TSLA) is currently trading at more than $254 per share, and a put could be sold on the stock for $220. This means that the owner of the option could sell the stock back to the fund for $220 if the stock price falls below $220 before the option expires.

"We generate our premium from the put sales," said Mr. Levinson.

That income, he added, acts like a bond, without the same kind of duration, credit or other bond-like risks.

But even as Mr. Levinson is selling puts based on the outlook for each underlying security, he admits there is risk associated with a broad market decline that could pull down all stocks at once.

"EVEN THOUGH IT hasn't really been battle-tested yet, I like it because it's simple."

Thomas Meyer
Chief executive
Meyer Capital Group

To help guard against that kind of punishment, the fund uses some of the income from the put sales to buy put options on the S&P 500.

The broad equity market has not seen a lot of volatility to test the insurance, but there have been 10 times this year when the S&P fell by more than 1% in a day — days in which the fund eked out a positive return.

The first instance was Jan. 5, when the S&P fell by 1.83%, and the fund gained 0.15%. On March 10, the index fell by 1.7%, while the fund was up 0.11% for the day.

On June 19, the S&P finished the day down 54 basis points, and the fund gained 14 basis points.

"The nature of the strategy is that you have exposure to the stock market, which means you have systematic and idiosyncratic risks, but by buying the index put we take out the systematic risk," Mr. Levinson said. "You wind up with streams of cash flow that are not correlated to the traditional fixed-income markets, and also not directly correlated to the equity markets."

Even though the fund is selling puts on individual stocks, the portfolio doesn't actually own the underlying stocks. But it is required to hold enough cash to purchase the stocks to meet any put option requests.

"The portfolio is really just a pile of cash used as collateral," Mr. Levinson said.

That cash pile adds a certain level of security, but it's the put options purchased on the broader indexes that is most appealing to Thomas Meyer, chief executive of Meyer Capital Group.

FIXED-INCOME ALTERNATIVE

He uses the fund for his clients as a fixed-income alternative.

"Those index puts can really kick in and buffer a portfolio, and that's what we're all after," Mr. Meyer said. "Even though it hasn't really been battle-tested yet, I like it because it's simple and you can understand it."

The battle test will eventually come, but in the meantime, the fund's biggest risk factor might be managing growth as money starts to move in.

"The fund is small and can be as nimble as it wants to be right now," said Todd Rosenbluth, director of mutual fund and ETF research at S&P Capital IQ. "But its success in the short term can cause inflows and that can force management to increase positions, and then their ability to get the exposure they want could be more difficult as it doubles or triples in size.

"The fund has seven months of history, and it has been strong versus the broader market," he said, "but that's not enough time to see how management handles greater volatility and a shift in investor sentiment toward other sectors."

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New York REIT names new chairman

By Bruce Kelly

Days after investors called for changes at the company, New York REIT Inc. tapped a new nonexecutive chairman and said it had authorized a $150 million stock buyback.

Randolph Read, a member of the REIT's board since December, is replacing William Kahane, who remains a director at the company, according a statement from the company last Monday after the stock market closed. New York REIT also said it hired Cushman & Wakefield and Holiday Fenoglio Fowler to sell certain of the company's non-core assets as part of the REIT's efforts to focus on high-quality New York City real estate.

LINKS TO SCHORSCH

Last week, an investment advisory firm that focuses on real estate and an investor in New York REIT called for changes at the company, including severing links to Nicholas Schorsch's privately held real estate sponsor and manager, AR Capital, or ARC. Mr. Kahane is one of the founding partners of ARC.

$150M
Stock buyback authorized by New York REIT

Listed on the New York Stock Exchange in April 2014, New York REIT's shares have fallen 13.2% in the past 12 months. Last Wednesday, the stock was trading at $10.22 per share.

"The actions announced today reflect our continuing commitment to enhance long-term stockholder value and to act in the best interests of our company's stockholders," Mr. Read said in a statement. "Many of our investors have reacted positively to our message."

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Introverted or extroverted? AEPG wants to know

By Trevor Hunnicutt

When Steven W. Kaye needs to figure out if he's making the right hire, he brings out his test book.

Mr. Kaye, founder and chief executive of the Warren, N.J. financial planning firm AEPG Wealth Strategies, advocates a movement within corporate organizations to sharpen their management by conducting personality examinations on current and prospective employees.

The approach is part of the firm's overall emphasis on the importance of employee retention, which Mr. Kaye sees as the most important way to maintain his business' growth.

> "IT'S RIDICULOUSLY expensive and time-consuming to rehire and retrain."
>
> **Steven W. Kaye**
> CEO
> AEPG Wealth Strategies

AEPG generated among the highest profit and growth reported by participants in the *InvestmentNews* Financial Performance Study of Advisory Firms. Last year, they won a Best Practices Award from the publication.

'WILL THEY PLAY NICE'

Mr. Kaye, whose firm uses the Myers-Briggs Type Indicator and the Personality Research Form methodologies, said he's looking to find out not only if "this person is right for the job, but will they play nice on their team."

Then, if an employee changes roles substantially, the firm retests them.

The results, he said, speak for themselves. "Unbelievably, scary accurate," Mr. Kaye said.

"Initially, employees are a tiny bit skittish because they don't know what their own personalities are and they don't know how the tests results will come out," he said. "We don't ask candidates to take the test until we've had two or three interviews and we like them a lot."

Personality testing also has helped the firm deal with conflict resolution, and soften the raw edges of prickly employees.

"We know certain aspects of their personality, and hopefully how to deal with them in a way which is most comfortable for them," Mr Kaye said.

While the effectiveness of workplace personality testing has been questioned, Mr. Kaye said it gives him a better understanding of "what makes someone tick."

AEPG employs Lynne Kirsner, a Baltimore consultant who conducts the evaluations and does other management consulting for the firm. "What's most important is the interpretation" offered after the testing is completed, Mr. Kaye said. (Ms. Kirsner did not respond to requests for comment.)

RED FLAGS

When an evaluation yields red flags, such as an obsessive personality, the company takes that result seriously.

"There's been a couple times that we felt it was minor enough that we could work on it, and there's a couple of times when it's been an obstacle and we couldn't hire that person."

AEPG, whose specialties include serving the financial planning needs of physicians, also provides cash bonuses for employees who earn new credentials, and they provide month-long sabbaticals for employees starting after they've had 10 years with the firm. Employees are also given semiannual evaluations.

Mr. Kaye, a golf aficionado who describes himself as the firm's largest rainmaker, said he provides unlimited free golfing lessons to his employees — a skill that he said can serve young advisers well.

And his firm is an active recruiter on college campuses and a consumer of salary-benchmarking surveys, which they use to "overpay" employees and win their loyalty.

At the end of the day, the goal is to make sure that top talent and clients don't walk out of the door because of a poor hiring or management decision.

"It's so ridiculously expensive and time-consuming to rehire and retrain," Mr. Kaye said.

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Steven W. Kaye: Uses personality testing to find employees that are right for the team.

Fund giants race to bottom in fees

In rising robo-rivalry between Vanguard and Fidelity, Schwab may win

Bloomberg News

Barraged by investment firms eager to manage their life savings, many Americans are making their choice — for nobody. They're shrugging off investment advisers altogether in the hunt for lower costs.

So fund giants Vanguard Group Inc. and Fidelity Investments are trying to win them over — with robo-advisers. The rivals, which have a combined $5.4 trillion in assets under management, are escalating the competition for customers in this new frontier. Assets held by robo-advisers will more than triple to as much as $60 billion in 2015, from about $16 billion at the start of 2014, researcher Aite Group predicts.

Robo-startups Wealthfront and Betterment are sparking this latest race to the bottom in fees. "This is the new rivalry," says Alois Pirker, a research director at Aite.

Vanguard has an ally in Wealthfront. The company's algorithms direct about 90% of the average portfolio to Vanguard funds. The firms don't have a financial relationship, and they're chasing different markets. "I'm a big fan of what's happened in the robo-world," Vanguard CEO Bill McNabb said.

TARGETING RETIREES

Vanguard in May unveiled its own robo-like offering, called Personal Advisor Services, for customers with at least $50,000. It targets retirees, or near retirees, compared with the millennials who flock to robo-startups. Vanguard's algorithm looks at age, risk tolerance, and other attributes it gleans from an online questionnaire. The client speaks with an adviser before finalizing the investment plan. Vanguard charges a relatively puny 0.3% of assets annually.

> **$60B**
> Estimate of assets that will be held by robo-advisers at the end of 2015.

Fidelity is embracing the robo-product route via the 3,200 independent advisory firms for which it clears trades and holds about $1.5 trillion in assets. Fidelity teamed up with No. 2 robo-firm Betterment in October to steer those advisers toward Betterment's software. The robo-programs pick portfolios, often based on Vanguard funds, and automatically rebalance them. Fidelity gets a referral fee, which it won't disclose, from its partner. "Financial firms can no longer wait for the emerging affluent to appear at their doorstep when they have enough assets," says David Canter, who heads a Fidelity unit serving independent advisers. "You have to think about them now."

In the rising robo-rivalry between Fidelity and Vanguard, the winner may be ... Charles Schwab Corp. The largest independent U.S. brokerage by client assets started a robo-offering for retail investors on March 9. By the end of May, the new program had $2.4 billion in client money and about 33,000 accounts. "The pressure is on," Mr. Pirker said.

Money-savvy millennials are better savers than boomers

By Jeff Benjamin

In addition to being more technologically savvy and more in tune with social media, the millennial generation, in general, is also better than the baby boomer generation at preparing for retirement.

While millennials, especially those in the early part of their careers, don't always max out their retirement plan savings contributions, they are earning a reputation for being financially focused.

A survey of 1,505 millennials with 401(k) plans found that 75% carefully track expenses, 67% stick to a budget and 40% have increased their retirement savings contributions over the past 12 months.

By comparison, only 64% of boomers track expenses, only 55% stick to a budget and only 21% have increased retirement savings over the past 12 months, according to the retirement savings and spending study conducted by T. Rowe Price Associates Inc.

"The majority of my clients are baby boomers, but I agree that millennials are generally more attuned to finances than boomers are," said Tish Gray, wealth planning adviser at Sagemark Consulting.

"The millennials have watched their parents go through hardships, including the 2008 financial crisis, and they're also more attuned to the higher divorce rates, which has them waiting longer to get married and buy houses," she added. "Millennials don't usually have a lot of assets for me to work with, but I always tell them to put as much as you can in your retirement savings."

> "ADVISERS NEED to begin incorporating millennials' preferences and practices into their retirement plan designs."
>
> **Aimee DeCamillo**
> T, Rowe Price
> Retirement Plan Services

When it comes to saving, the study found that millennials are saving 8% of their income on average, while baby boomers are saving 9% on average.

But millennials are more likely to live within their means, with 88% describing themselves as pretty good at paying down and avoiding new debt and 74% saying they are more comfortable saving and investing extra money than spending it.

"It's encouraging to learn that millennials are so receptive to saving for retirement and are generally practicing good financial habits," said Anne Coveney, senior manager of retirement thought leadership at T. Rowe Price.

"These millennials are working for private-sector corporations, with a median personal income of $57,000 and an average job tenure of five years, so their circumstances may be somewhat driving their behaviors," she added. "When they have the means to do the right thing, it appears that they often do."

BETTER OFF

Nearly three-quarters of those surveyed said that they are somewhat or much better off financially than their parents were at the same age.

When asked to rank financial priorities, millennials listed saving for retirement and paying down debt as top priorities.

Part of the driving force behind the strong focus on retirement savings is that 60% of survey respondents are not expecting to receive anything in the way of Social Security income.

"The difference between millennials and baby boomers have significant implications for retirement plan sponsors and advisers," said Aimee DeCamillo, the head of T. Rowe Price Retirement Plan Services.

ISTOCK

"Baby boomers have largely shaped the defined-contribution system, but it's clear that millennials think differently and are more comfortable being auto-enrolled at higher levels," she added.

"Because millennials are the largest generation ever within the U.S. and are entering the workforce in large numbers, plan sponsors and advisers need to begin incorporating millennials' preferences and practices into their workplace retirement plan designs."

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Liquid alts flood turns into trickle

Bloomberg News

One of the hottest areas for money managers is quickly cooling off.

Flows into hedge fund-like mutual funds, a category that attracted almost a third of the money going into actively managed funds in the past six years, have slowed this year to the weakest pace since 2008. The strategies, which include nontraditional bond funds and alternative stock funds, attracted just $1.2 billion from investors in the first five months of 2015, according to Morningstar Inc., down from $39 billion last year and a record $96 billion in 2013.

The funds, whose rapid growth has prompted scrutiny from regulators, trailed last year as stocks and bonds rallied. The rapid drop in investor interest is a setback for firms such as Goldman Sachs Group Inc. and Pacific Investment Management Co., which had counted on the fashionable strategies to win back clients into higher-fee products amid a general flight to cheaper, passive vehicles.

WHO NEEDS THEM?

"Stocks and bonds did so well last year that a lot of people asked themselves: 'Why do I need to own alternatives?'" said Lawrence Glazer, managing partner at Mayflower Advisors, where he helps oversee $2 billion.

The prospect for such funds could improve if the stock market slumps or if interest rates go up rapidly.

The initial appeal of the new funds was simple, especially for investors who lost money in traditional funds during the 2008 financial crisis. If wealthy individuals and institutions could put their money into vehicles with the flexibility to make money in all kinds of markets, why not ordinary investors?

"The concept was sexy to a lot of people who had read about hedge fund managers making billions of dollars," said Burton Greenwald, a mutual fund consultant.

With the client cash came attention from regulators, who questioned whether individuals understood the risks of investing in such vehicles, known as liquid alternative funds.

Examiners at the Securities and Exchange Commission began looking into alternative funds last year for how they comply with leverage and liquidity rules, and whether their boards are appropriately overseeing their activities.

"Alternative strategies are bound to lag when markets are going up as much as they have," said Josh Charney, a Morningstar analyst.

Investors responded by pulling money out.

Mr. Glazer and others say individuals, known for chasing performance and timing decisions poorly, may be getting it wrong again. With interest rates finally set to increase and stocks moving sideways, investments that aren't correlated with traditional assets might be more attractive.

Avoiding the fate of dinosaurs as business changes

"It's not the strongest of the species that survives, nor the most intelligent, but the ones most responsive to change." — Charles Darwin

"Jurassic World" is making a killing at the box office. Interesting to think about how such powerful and dynamic creatures simply died, while a mammal as seemingly unimpressive as the duck-billed platypus continues to thrive. What was it that allowed one species to live through massive global disruptions and others to perish?

This is important because the business world is going through one of the most profound periods of change and disruption since the Industrial Revolution. The consumer revolution and the digitization movement that is empowering it are forcing us all to rethink how we work. However, not all of us have the same perspective when it comes to change.

FOUR STRATEGIES

When any industry is going through major disruption there are four strategies you can follow in order to avoid extinction. Below is a brief primer on the four, and how and when to use each:

1. Ignore it. Denial is not a strategy. But if you do not believe that the changes will notably affect your business, your clients or your employees, then doing nothing is a viable alternative. In our industry, if you think all the talk about a digitized industry is a fad and you are right, or if you have less than five years left in your practice and if your clients are over 65, then doing nothing is fine. You should ensure that you are considering such subtle implications on the long-term value of your practice if you do not evolve it with the industry.

2. Fight it. Sometimes the challenges to an industry are fickle and impermanent. Remember when accountants were going to take all our clients? If you believe that is the case, then simply resisting the change and explaining why you are not changing will work for a brief spell. Unfortunately, this strategy only works when a threat is cyclical, not secular and permanent. It was the right plan to explain to clients why you weren't investing heavily in Internet stocks in the late '90s, but another altogether to explain why you are ignoring the fact that clients can get a portfolio managed, rebalanced and reported on for no fees from the same custodian you are currently using! This strategy will work if you think digital and bionic advisory firms are a passing fad.

3. Go along with it. This is the safest strategy when you aren't sure how the landscape will evolve or you simply do not have the resources to evolve by yourself. Staying open to improvement and, once winning technologies take shape, adopting them into your firm is a safe path. But there's a little bit of a catch-22. On one hand, the earlier you adopt new tools, the more likely you will have to change frequently along the way; on the other hand, the longer you wait, the harder adoption will be. Make no mistake that the early adopters will have shaped the industry and established their position at the top.

4. Lead it. This plan is right when you have a clear perspective on where the industry is headed and the resources to do something about it. First movers have a lot of advantages, including becoming the dominant market shapers, but they also suffer the pain of being pioneers, which means needing to be able to withstand mistakes. Invariably, new winners evolve.


GETTY IMAGES

Evolution was a new idea when Charles Darwin conceived of the notion after visiting the Galapagos Islands in the 1830s. He correctly surmised that the ability to adapt and be agile is the single biggest determinant of a species' survival. So what was the secret of the duck-billed platypus? Probably that it was an odd hybrid — a small water-born mammal that lays eggs like a reptile, has fur like a mammal, has a bill like a bird, webbed feet like a sea creature and breathes oxygen. It was built to withstand whatever changes occurred to the environment and could hide in water or come out to land in whatever temperature shifts occurred.

Digitization has consumed whole industries already, and it will leave our industry forever different, and whether you go extinct is really up to you. Ensuring your business is built to survive the change is no passing fad, but all change has to start at the top. So are you building a dinosaur or a platypus?

Joe Duran is chief executive of United Capital. Follow him @DuranMoney.

THE TAX-CONSCIOUS ADVISER
Rey Santodomingo

Reasons an adviser surpasses a robo

The human touch allows unique strategies to be constructed for high-net-worth investors

Robo-adviser services are programmed to recognize the importance of investing with an eye toward maximizing after-tax returns, but may miss the nuances around high-net-worth clients' needs.

These online investment services can work well to provide investors access to diversified portfolios composed of ETFs, and most also offer the added service of tax-loss harvesting of those ETFs. But while the online options available may be great for investors with relatively simple tax situations and portfolios, affluent investors are often better served by an adviser who has the ability to tailor a strategy for their unique situation.

Affluent investors often have a wide range of existing investments, including low cost basis stock, stock options, hedge fund holdings and actively managed separate accounts. On the tax side, affluent investors may be subject to the alternative minimum tax, the unearned income Medicare contribution tax or the phaseout of itemized deductions. Advisers have more tools to build strategies around existing investments while taking into account the investor's unique tax situation than online investment services do.

TAX ALPHA

One of the most powerful tax management tools at the adviser's disposal is the separately managed account. While ETFs provide effective diversified exposure to the market, separately managed accounts can be customized to address the specific needs of affluent investors more effectively in terms of account transitions, managing concentrated or low-basis positions, charitable gifts and future tax planning.

For archived columns, go to InvestmentNews.com/taxconsciousadviser

A common use for a tax-managed separate account is the transition of an existing portfolio of stocks to an index-based strategy. To invest in an ETF portfolio, clients must completely liquidate their existing portfolio, which can result in a large tax cost. An adviser using a tax-managed separate account can help the client make this transition gradually at a lower tax cost.

Tax aware investment managers keep the securities in the existing portfolio that overlap with the index, and sell out of securities held at a loss to mitigate the realization of capital gains. A tax aware manager can prepare a set of potential strategies of varying tax costs for the adviser to review with their client. After the initial transition, the portfolio can be systematically loss harvested or the transition can be accelerated in order to reduce tracking error. Through ongoing discussions with the client with regard to tracking error and tax cost, the adviser can help the client make the transition over time.

CONCENTRATED POSITIONS

Concentrated stock positions present another opportunity for advisers to improve investment outcomes using tax-managed accounts. Some investors with concentrated stock positions may use an online investment service to build a diversified portfolio gradually. However, buying an index ETF that invests in the same stock, industry and sector as the concentrated stock position can be counterproductive in terms of increasing diversification.

Instead, advisers can help their clients design a custom tax-managed account that reduces overlap with a concentrated stock holding by excluding the stock, industry or sector, thereby improving a client's overall diversification. A careful analysis of correlation is required to select the proper exclusion. The tax-managed account is structured to provide the added benefit of using any harvested losses to help offset the gains associated with trimming concentrated stock positions. An adviser's oversight over the client's overall realized capital gains/losses can help match harvested losses with gains realized by selling stock.

Tax-managed accounts also create opportunities for advisers to help investors who have charitable-gifting goals. Typically, loss harvesting reduces the cost basis of the portfolio and results in low cost basis, highly appreciated securities. Alongside the adviser, the tax aware investment manager can help select the mix of securities that optimally reduces the embedded tax burden while satisfying the charitable-gifting goal and steering clear of charitable-gifting limits.

For some investors, it can pay off to realize gains in a tax-managed separate account ahead of a tax-rate increase, or to reset the cost basis of the portfolio for future loss harvesting. Working with advisers, clients can decide how quickly to realize long-term gains.

Rey Santodomingo is the director of investment strategy at Parametric Portfolio Associates, a registered investment adviser.

PRACTICE MANAGEMENT
John Pierce

How you can boost your client IQ

In order to attract better clients, advisers must first know and understand themselves

It's common knowledge that the key to success as a financial adviser is to know and understand your clients. But what many advisers fail to recognize is that in order to boost their client IQ, they must first know and understand themselves.

This form of self-awareness is also referred to as emotional intelligence and it goes beyond recognizing your emotions and physical presence. Emotional intelligence includes connecting with your values, motivations and overall purpose in life. It also allows you to recognize and manage the emotions of others.

EMOTIONAL INTELLIGENCE

These tips can help you develop your emotional intelligence, boost your client IQ and allow you to have greater impact on the lives of people that matter to you. As this happens, you reap the benefit of increased sales.

Hold your tongue. Developing deeper relationships with your clients and prospects starts with listening. It is easy to get so caught up

> **THE** sweetest sound to prospects' and clients' ears is their own voice, not yours.

in your passion that you end up talking and not listening to your clients' and/or prospects' needs and goals. It's time to close those mouths.

Now, actually listen. If your mouth is closed while a client or prospect is talking but you are in the process of formulating a response to what they are saying (before they finish speaking), then you aren't really listening. Instead, you are missing out on what's important to them, which is understanding their true objections and feelings. Make a new rule — in every meeting listen 70% of the time and speak only 30%. Always remember: The sweetest sound to prospects' and clients' ears is their own voice, not yours.

Learn one new thing. Commit to learning one new piece of information at every face-to-face meeting. We can easily get set in our operating rhythm and assume we have a great handle on what's going on in the lives of our clients and prospects. Instead, probe about their FORD:

- Learn something new about their **F**amily.
- Learn one new thing about their current **O**rganization.
- What people do outside of work is usually more important than their job, so learn what they do for fun: **R**ecreation.
- Lastly, explore their **D**reams.

DEEPER RELATIONSHIP

These are not starter questions for a prospect, but something you work toward as you develop a relationship. Many times you think you know what a client's dreams are, but things change over time. The FORD analysis will allow you to develop a deeper connection with your clients and prospects and may also open the door for you to provide better strategies.

For archived columns, go to InvestmentNews.com/practicemanagement

Curb your emotions. Because of our passion, we may be boiling, tense or uneasy under the surface because of what someone says or how they react. Emotionally intelligent people are aware of their personal reactions as they happen and control their emotions. By controlling what you are feeling, you will be more positive, productive and constructive in your response. By being in control you can respond based on your belief systems. Leaders master this very difficult art over time.

Make a change if you aren't happy. Life really is short. If you are unhappy, take the risk and change. You don't have to quit your job, but maybe you take concrete action steps such as building out your network through LinkedIn or joining a center of influence group that better represents your values. Start planting the seeds of opportunity. Once the seeds start sprouting, new opportunities will start blooming.

Look in the mirror, not out the window. A leader once told me, "If things are not going the way you want, look at the person in the mirror. Don't look out the window and blame external forces."

Commit to bettering yourself by becoming self-aware and engaged with your family, friends, clients and prospects. Increase your emotional intelligence, and you will harvest the rewards of deeper connections and increased sales.

John Pierce is the author of "Sell More and Sleep at Night." He spent more than 20 years at Merrill Lynch and Ameriprise.

SEC launches exams aimed at 'high risk' advice

Initiative will focus on issues involving the best-interests standard

By Trevor Hunnicutt

Securities regulators announced a program last week to examine the retirement planning guidance provided by financial advisers, placing new scrutiny on an industry already debating requirements that brokers act in the best interests of investors.

The Securities and Exchange Commission said last Monday it would conduct a string of examinations of broker-dealers and other financial advisory firms as part of a multiyear initiative aimed at "higher-risk areas" of retail advice.

The agency said those areas include advisory firms' "sales, investment and oversight processes, with particular emphasis on select areas where retail investors saving for retirement may be harmed."

The new initiative coincides with a hotly disputed proposal, supported by the Obama administration, that would require brokers to act in the best interests of their clients when serving the popular retirement plans used by employees.

While some advocates welcomed that proposal by the Labor Department as an approach to rein in incentives for brokers to steer investors into costly and underperforming investments, top industry officials said the rules would force brokerdealers to adjust how they compensate financial advisers or face greater legal liability.

The SEC could target a potentially broad set of firms and practices as part of its new program to examine retirement planning guidance, which will include examinations conducted by the agency's Office of Compliance Inspections and Examinations. That division is responsible for more than 10,000 advisory firms and 4,500 broker-dealers.

CONFLICTS OF INTEREST

In a statement, the agency said it could look at whether compensation to advisers creates conflicts of interest, how those conflicts are managed by firms and whether advisers' marketing materials are accurate, and check if advisers' due diligence on investments is adequate. It said it also would look at specific recommendations advisers make to clients, for instance, the often-profitable decision by brokers to recommend selling assets held in an employer's retirement plan to roll those assets over into an individual retirement account.

"They're looking at the big indie firms, the big dual registrants out there that have a large market with the retail investor, and right now most of those investors are looking for retirement savings," said Amy Lynch, president and founder of FrontLine Compliance, a consulting firm that works with advisers. "Those would be the firms they'd be trying to visit and see how they supervise the activity of their reps."

"THEY'RE LOOKING at the big indie firms, the big dual registrants out there that have a large market with the retail investor."

Amy Lynch
President
Frontline Compliance

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Momentum against DOL fiduciary

Continued from Page 3
can majorities to the DOL proposal, which was introduced in April and is designed to reduce conflicts of interest for brokers working with retirement accounts. Critics say it would significantly raise liability risks and regulatory costs for brokers and potentially force them to abandon investors with modest retirement savings.

NOT FINAL

Even though an appropriations rider is the most efficient way to kill an administration policy, supporters of the rule say the riders could be stripped prior to enactment of a final spending bill.

The Financial Planning Association sent about 65 of its members to Capitol Hill last Wednesday to meet with about 80 lawmakers and their aides. Fighting the riders was at the top of their agenda.

"Mostly, we heard that the whole process isn't over," said Karen Nystrom, FPA advocacy team leader. "This is not the end, if the riders go through."

> "THE RIDERS are clearly a mark that Congress is going to keep an eye on what the department is doing."
>
> **Jason Rosenstock**
> Partner, Thorn Run Partners

The appropriations process will continue into the fall, when the government fiscal year ends Sept. 30. At that point, if Congress has not approved individual spending bills for certain government agencies, it could roll them all up into an omnibus funding bill, as it did last year.

Riders are in flux when lawmakers negotiate a huge spending agreement.

"It's not a done deal," said Barbara Roper, director of investor protection at the Consumer Federation of America. "The deal making on a big omnibus like that is so intense, riders could fall by the wayside."

GOP MAJORITIES

But unlike last year, when a similar rider to stop the DOL rule was not included in an omnibus spending bill, Republicans now control both the House and Senate. It's too early to tell what the ultimate fate of the riders will be, said Jason Rosenstock, a partner at Thorn Run Partners, but they will stay in play throughout the appropriations process as the DOL continues to work on the rule.


BLOOMBERG

Susan Collins: Maine senator says DOL proposal is far too sweeping.

"The riders are clearly a mark that Congress is going to keep an eye on what the department is doing on this," he said. "It's going to keep pressure on the department to be responsive to some concerns that Congress and the industry have identified."

Earlier in the week, Labor Secretary Thomas Perez indicated he will forge ahead with the rule despite the noise from Capitol Hill.

"I see no sign that they're wavering in their commitment to finalizing a rule," Ms. Roper said.

Most lobbying around the DOL rule is meant to stop it, according to Ms. Nystrom. The FPA contingent provided a different perspective.

"What we heard over and over again was, 'You are the first voice of reason we've heard instead of just saying it's unworkable,'" Ms. Nystrom said. "I think they were listening."

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Peak inside the plan of a retirement planning prof

Bloomberg News

Americans worry about affording retirement, but that doesn't usually translate into hard-core financial planning. Then there's David Littell, the 61-year-old director of the retirement income planning program at the American College of Financial Services. If anyone ought to have a well-thought-out plan, it's this guy.

So we asked him what's in it. Here's how a retirement income geek puts theory into practice.

LONGEVITY

Matching increasing longevity with increased savings is among the biggest challenges facing retirement savers. It's not an abstract one for Mr. Littell, whose father retired at 75 and is 103.

Mr. Littell's doing well on the savings side. He earns a salary in the low six figures and has saved throughout his career, putting 10%, on average, into a defined-contribution plan.

A $20,000 IRA rollover made years ago has more than quadrupled and is his biggest retirement asset. Most of the money is in a variety of low-cost stock mutual funds. He also has a small defined-benefit plan, which was frozen.

Mr. Littell and his 70-year-old husband, Edward Selekman, have been together for 30 years; they married about a year ago. They own their home and have long-term-care policies. Mr. Selekman, a psychotherapist who worked out of their suburban Philadelphia home, just retired. They have no children as a couple; Mr. Selekman has three children from a prior marriage. If Mr. Selekman hadn't retired, Mr. Littell said he probably wouldn't be thinking about retirement himself. Now he's thinking he'll retire in about three years, rather than five or 10.

After training financial reps on the importance of getting clients to really plan what their retirement will look like, Mr. Littell is realizing it's not so easy. "This idea that somehow you have this clear picture of what you want as you approach retirement is kind of a fantasy," he said. "Life's more fluid than that."

HOUSING COSTS

For example, there's a "crazy expensive" continuing care retirement community in California they're interested in, but if they move there, it means much higher expenses than for other options.

Mr. Littell expects to work in retirement, educating consumers, but work won't be the highest priority. And, having been a fencer in the 1988 Olympics in Seoul, he would like to coach fencing; he coached the men's and women's varsity teams at Haverford College from 2000 to 2006.

David Littell: Competed in the 1988 Seoul Olympics, and hopes to coach fencing in retirement.

DAVID LITTELL VIA BLOOMBERG

The wisdom of waiting as long as possible to take Social Security is one of the personal finance Ten Commandments. Here's how that works in Mr. Littell's situation.

The Social Security benefit paid at the full retirement age of 66 is 100% of what's called the primary insurance amount. Mr. Selekman took Social Security at 70, so he got four years of what's called deferral credits. At 8% a year, those credits add up to a 32% increase, so he gets 132% of his PIA.

SPOUSAL BENEFIT

When Mr. Littell turns 66, he will make a "restricted filing for a spousal benefit." Doing that gets him half of Mr. Selekman's PIA (not half of his enhanced benefit for waiting). Doing the restricted filing lets Mr. Littell get some benefit for four years while deferring his own benefit. At 70, he'll get 132% of his own PIA.

Traditionally, investors nearing retirement with a lot of money in equities would move money into bonds. But low interest rates, which can make buying a future stream of income in an annuity expensive, and the fact that we're living longer, are changing that calculus.

The simplest annuity Mr. Littell and his husband own is a deferred income annuity on Mr. Selekman's life. They paid $60,000 for it late last year, and it will start paying a little more than $500 a month when Mr. Selekman turns 74. They chose an annuity that doesn't provide a benefit after Mr. Selekman's death because it provides the largest lifetime income payout.

Another somewhat serendipitous element of his plan comes thanks to a low-cost variable annuity. He bought it long ago with money from a small inheritance, less because he wanted guaranteed income than to defer taxes on the account's growth.

The VA uses older mortality tables and has guaranteed interest rates built into it that you can't get today — its payout is 7.5% for a 65-year-old man.

Then there's Mr. Littell's indexed annuity with an income rider. The account balance is indexed to the stock market. It will never appreciate as much as the market, but the account balance will never drop below zero. The income rider promises a minimum monthly payout when turned on, depending on the buyer's age. The payment is comparable to that of a deferred-income annuity, Mr. Littell said, but the income payments could be higher since there's exposure to equities.

Unlike a regular income annuity, with this one you still own the account balance even after you turn on the rider. So at your death, there may be money left for a beneficiary. If you live a long time, the balance could go to zero, since each payment reduces the account.

BUYING INCOME

Mr. Littell will invest more in annuities over time. "The older you are, the cheaper it is to buy income, for the lovely reason that the payout period is shorter for the insurance company," he said.

Mr. Littell and his husband own their home free and clear. At 62, he plans to open up a reverse mortgage letter of credit. That allows him to lock in the ability to borrow against their home. If the stock market goes down, it can be a good way to supplement income without having to sell investments in a down market, or having to take money out of a retirement account early and pay taxes and penalties on it.

Schwab launches robo aimed at advisers

Continued from Page 2

"Advisers are irreplaceable in the equation because of their planning and advice," he added.

With Institutional Intelligent Portfolios, advisers will have the ability to access technology-enabled investment strategies for their clients, Mr. Clark said.

The retail version of Schwab's robo has gained traction in the industry since its March launch. Within a month of that debut, it accumulated half a billion dollars in assets under management and as of last Tuesday, it was managing about $2.9 billion.

Mr. Clark said the institutional robo-adviser platform will elicit interest from across the industry.

The platform will be customizable for advisers, who can use it to create their own investment strategies and add their own logos to the interface.

Advisers will have to adhere to a 4% cash allocation requirement, however. That's less than the portion retail Intelligent Portfolios customers must allocate to cash — ranging from a minimum of 6% to a maximum of 30% — which caused a stir when the free consumer version of the robo-adviser came out in March.

$2.9B Assets managed by Schwab's retail robo-adviser

Competitors such as Wealthfront and advisers argued that forcing investors to hold so much cash was a sneaky way to make money off of consumers that carried a missed-opportunity cost. Schwab stood by its requirement, saying cash was and always has been a good stabilizer.

Competitors are still critical of the custodian's robo endeavors. That said, other robo-advisers are hoping that a rising tide lifts all boat. Schwab's marketing muscle is sure to raise the profile of automated investment services.

"Much like their initial launch had on our retail product, I'm confident that their entrance into the [registered investment adviser] market will further accelerate the growth of our institutional product," Nick Gavronsky, the head of product at Betterment Institutional, wrote in an email.

The number of digital offerings for advisers is growing quickly.

"It's a trend you'll see momentum behind," said Matt Fronczke, an analyst and engagement manager at kasina.

"The core business model is to service consumers rather than advisers, so you are seeing these robo services being provided as tools to more efficiently implement but also deliver services," he said.

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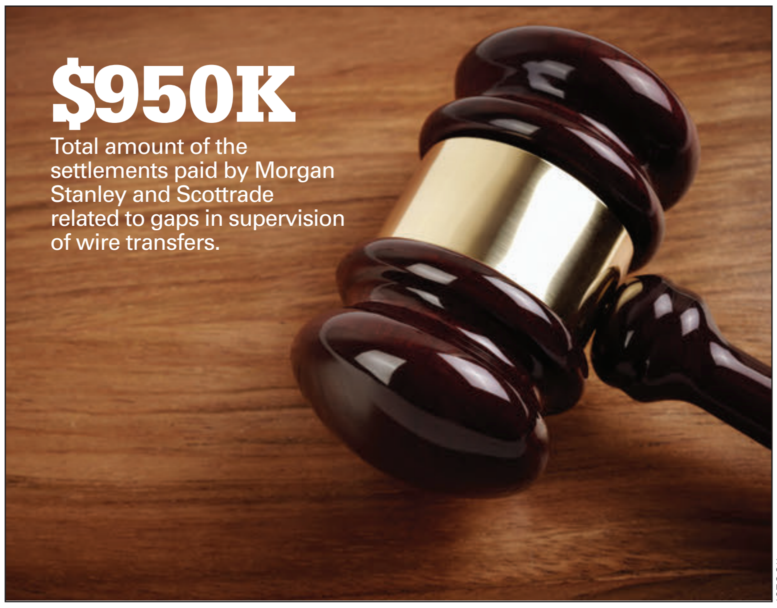
Finra hits two B-Ds on oversight

Continued from Page 4

"Today, clients receive multiple notifications of wire transfers and the appropriate supervisory procedures are in place," Mr. Ellis said.

Christine Jockle, a spokeswoman for Morgan Stanley, did not return a request for comment.



ISTOCK

CIRCUMVENTING POLICIES

Rogue brokers who use their position to circumvent firm policies are a constant concern for firms, according to Todd Cipperman, a compliance consultant with an eponymous firm.

"The scary part for firms is that you get a lot of brokers and then it's hard to supervise them all," Mr. Cipperman said. "It's hard to stop someone from forging signatures unless you require two signatures, but then they just forge the second signature, too."

The violations at Morgan Stanley occurred from June 2009 to November 2014, according to Finra's complaint. Finra said that Morgan Stanley failed to have "reasonable supervisory systems and written procedures" regarding the transfer of money from a customer account to a third-party account.

For example, the firm had inadequate requirements for checking whether customer signatures on third-party transfers were forgeries, Finra said. The firm also failed to do adequate reviews when there were multiple transfers of funds to the same third-party account and had issues with a third-party service provider that mislabeled transfers, according to the complaint.

FORGED SIGNATURES

As a result, three brokers in two offices in Paramus, N.J., and Fort Lauderdale, Fla., were able to convert nearly $500,000 through fraudulent wire transfers and forged signatures, according to the complaint.

Finra said all three brokers were terminated by Morgan Stanley when the violations were uncovered, and they have since been barred from the industry.

For two years, from 2011 to 2013, Scottrade had similar issues and failed to obtain customer confirmations for third-party wire transfers of less than $200,000, according to Finra.

"Any time you get money movement out of client accounts, that always raises concerns and will get Finra's attention," Mr. Cipperman said. "Firms have to be cognizant of their policies and procedures about supervising money movement."

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Advice on health care, Social Security

Continued from Page 4

retirees' concerns and likely will for years to come," the paper said.

For many retirees, their second greatest fear is running out of money. Social Security is one of the few sources of retirement income that clients can't outlive. The paper cites an Urban Institute report that estimates the average married couple receives about $556,000 in lifetime Social Security benefits.

SEAT AT THE TABLE

"If a half a million dollars is not enough to convince today's financial adviser that Social Security deserves a seat at the table, then Social Security's role in the context of Medicare should," the paper said. It pointed to a Nationwide consumer survey that showed nearly three in four Americans say Social Security is their top source of expected retirement income to pay for out-of-pocket health care costs. Monthly Medicare Part B premiums, which vary based on income, are deducted directly from Social Security benefits.

"As retirees see more of their Social Security benefit eaten up by health care costs and push back retirement dates to pay for health care, financial advisers cannot afford to ignore the role that health care costs play in people's retirement plans," the white paper said.

An increasing number of retirees and pre-retirees are looking to financial advisers for Social Security claiming advice. A 2013 survey by Social Security Timing, a software company owned by Senior Market Sales, found that 60% of respondents wanted their financial planner to analyze their Social Security claiming options, and 61% said they would look for another adviser if theirs couldn't recommend an optimum Social Security claiming strategy. Yet a 2014 report by Practical Perspectives and GDC Research found that only 36% of financial advisers recommend specific Social Security claiming strategies and only 13% offer health care advice.

"IF YOU IGNORE Social Security and Medicare decisions, I don't believe you are acting in your clients' best interests."

Chris McDonald
Associate director, Senior Market Sales

ISTOCK COMPOSITE

"The bottom line is the financial planning industry as a whole is not meeting expectations when it comes to incorporating social insurance into the financial plan," the white paper concluded. "That means there is an immediate opportunity for advisers who do step up and offer these services to differentiate themselves from the majority who don't."

COMBATING ROBOS

It's also a great way to combat the rise of robo-advisers. "Financial advisers will find greater opportunity in helping consumers maximize their Social Security and minimize health care costs than in solely focusing on investment and tax strategies," the white paper said. "Those who can synthesize advice on a variety of complicated topics into a comprehensive retirement plan will provide value above and beyond what's available through technology alone."

It could also play a role in the ongoing debate over fiduciary responsibility. "If you ignore Social Security and Medicare decisions, I don't believe you are acting in your clients' best interests," said Chris McDonald, associate director of institutional sales for Senior Market Sales and a contributor to the report.

Questions about Social Security? Get my ebook at InvestmentNews .com/mbfebook.

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Experts' forecasts for rest of 2015

Continued from Page 1
of the year."

The conversation among panelists at the *InvestmentNews* round table quickly skipped past the question of whether the Fed should be raising rates to the repercussions of such a move on the markets — most thinking it will be tolerable.

Regarding the threat of another "taper tantrum" like the spike in bond yields in May 2013 on news the Fed might dial back quantitative easing, David Kelly, chief global strategist at J.P Morgan Asset Management, said: "Such is life."

Drawing an analogy to an adult's reaction to a child's temper tantrum, Mr. Kelly said: "The Fed needs to not worry too much about another taper tantrum. The correct policy is to ignore the tantrum."

Assuming our panel is on point, the issue for investors and financial advisers becomes how to adjust a portfolio accordingly.

BENEFITS OF A RATE HIKE

Hugh Lamle, president of M.D. Sass, likes to think of a rate hike as a kind of tax break for investors dependent on bond yields for income.

"These low rates have essentially been a tax on middle-class households because they've seen their incomes shrink," he said.

In terms of investment opportunities in a rising-rate cycle, Jonathan Brodsky, managing director at Advisory Research Investment Management, stressed that a tightening move should be interpreted as what he believes it really is: a sign of the strength of the U.S. economy.

Mr. Kelly reiterated the point, saying, "If rates are going up because of an improving economy, the natural reaction to seeing those resulting losses in bond portfolios is seeing money move to equities."

Time will tell whether a rate hike does lead more investors toward equities as the bond market adjusts to a scenario not seen in nearly a decade. But Mr. Kelly added that bond bear markets are never as scary and severe as equity bear markets.

That is a particularly important point for all those financial advisers who haven't known anything but falling interest rates, a point made by Ron Dugan, vice president and investment officer at Guidestone Funds.

Issues garnering the most headlines, like Greek debt, were dubbed by the panel as being least significant from an investing perspective.

"Investors and financial advisers should be expecting rates to rise because that's all we've been talking about for years now," he said. "I think people should expect one rate hike by the end of the year."

The panelists agreed that advisers should think outside the box when it comes to portfolio construction.

"Advisers need to look at what the downside risk is of a client's portfolio," said Steven Wruble, chief investment officer at RiskX Investments. "The whole idea of just using fixed income to generate income doesn't work anymore," he added.

With that in mind, and in the context of the unprecedented market environment, Mr. Wruble touched on the popularity of alternative mutual funds.

"Advisers are buying liquid alt funds conceptually," he said. "But as soon as you throw an alternative strategy into a '40 Act mutual fund, it is hasn't been tested yet."

While acknowledging the untested part, Mr. Kelly agreed that liquid alt funds are likely to gain appeal in an environment that favors the sale of such products and strategies.

Mr. Dugan pointed out that the biggest negative about liquid alt strategies is that they have become akin to an expensive insurance policy that investors are starting to believe they no longer need.

Even though liquid alt funds have been among the fastest-growing strategies over the past few years, Mr. Dugan said the marks against them continue to stack up — not the least of which is fees that are higher than those on most active funds.

"Advisers have been following along in the whole active versus passive debate, which is all about lower fees, and alts don't fit when you're talking about fees," he said. "The question is, how long can investors afford to keep that kind of investment in their portfolio?"

TIME TO GET ACTIVE

Ms. Picard, meanwhile, argued that the table is now being set for actively managed strategies.

"The rising tide lifts all boats, and low-quality stocks have led for the last five years, and we think this is the sweet spot for active management," she said. "We think this market will continue for a while, but you want to make sure when that rising tide pulls back you've got companies that are high quality, and that's when you'll see the benefits of active versus passive strategies."

Across the board, areas that are getting the most sensational headlines were dubbed by our panel as the least significant from an investing and markets perspective.

"I'm not worried about Greece," Mr. Lamle said. "Even if it defaults, it's really not that much different than Greece restructuring its debt. They're going to go through a difficult time one way or another."

A more important issue for advisers is going to be helping clients navigate an increasingly complex and punishing tax system, Mr. Lamle said.

"Investors thinking about asset allocation now need to think about which assets to put in a retirement plan and which to put in their individual accounts," he said. "Right now, we don't see that kind of dialogue."

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MIDYEAR INVESTMENT OUTLOOK

"Bear markets in bonds are not nearly as fierce as bear markets in stocks. It's like comparing a koala bear to a grizzly."

DAVID KELLY
Chief global strategist
J.P. Morgan Asset Management
$1.8 trillion under management

"Because we're a long-only shop and we own high-quality growth companies, it isn't as important to us when exactly the Fed raises rates."

MICHELLE PICARD
Portfolio manager of the Henderson U.S. Growth Opportunities Fund (HGRAX)
Henderson Global Investors
$132.6 billion under management

"If we could fast forward to year-end, I think that we could see overall the global economy will be in better shape than it is today."

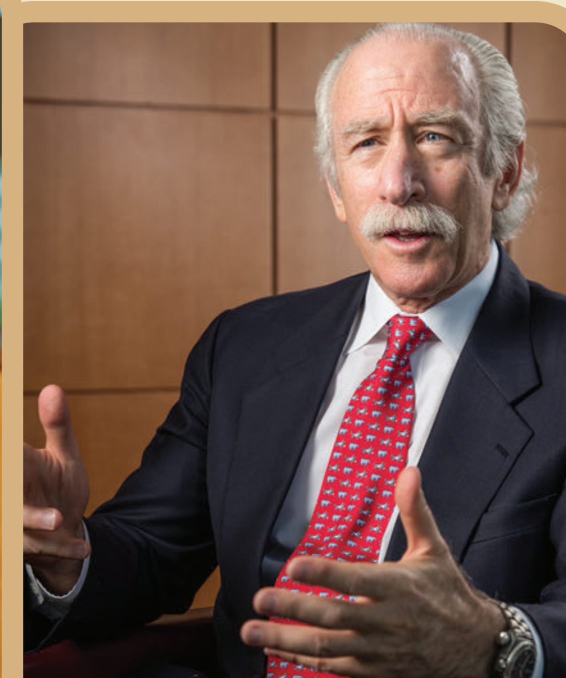
RON DUGAN
Vice president and investment officer
GuideStone Funds
$10.5 billion under management

"We like to think that a long-term time horizon is how we should do asset allocation, but across the table from clients, the time horizon is when that next quarterly statement comes for them."

STEVE WRUBLE
Chief investment officer and head of investment management research
RiskX Investments
$1.1 billion under management

"Emerging market valuations are about half of what you're paying in the U.S. The opportunities now are as good as they've been."

JONATHAN BRODSKY
Managing director, portfolio manager and research analyst of Advisory Research International Value Fund (ADVIX)
Advisory Research Inc.
$12 billion under management



"We're focused on where we can find special situations that can produce predictable streams of income."

HUGH LAMLE
President
M.D. Sass
$7.5 billion under management

PHOTOS BY TODD WINTERS

BLOOMBERG

Gay marriage ruling

Continued from Page 1

to their spouse tax-free. Like heterosexual couples, gay couples will have an unlimited marriage exclusion from estate taxes nationwide and portability of the deceased spouse's unused exclusion amount.

Two years ago in U.S. v. Windsor, the Supreme Court struck down the federal ban on gay marriage. Since then, all but 13 states have voted to support marriage equality.

Same-sex couples, ironically, also now have access to divorces because of last Friday's high court ruling in Obergefell v. Hodges.

Previously, a homosexual couple married in a state such as Massachusetts with marriage equality, who moved to one without, such as Texas, could not be granted a divorce because that state didn't recognize the marriage, said Matthew McClintock, a trust and estates attorney for WealthCounsel.

CLARITY

"Now all marriages are created equal, so if you need to dissolve your marriage you can," he said. "This provides a lot of clarity that we didn't have after Windsor."

States also must grant same-sex couples equal rights when it comes to adopting children, Mr. McClintock said. Obviously, parenthood brings with it a whole new set of financial planning considerations.

But importantly for advisers, this ruling simplifies the planning process, in that it sets decisions for all couples on equal ground, no matter who they are married to or where they live.

"In some ways, it makes the planning easier and better since if they are married, we can consider Social Security and pension strategies that would not otherwise be available," Lisa Kirchenbauer, president of Omega Wealth Management, wrote in an email. "It actually helps potentially secure better retirements for committed gay and lesbian couples who get married."

Joshua Hatfield Charles, an adviser focused on gay planning and chief executive of Financial-360, said that for 15 years he has looked forward to the day when his specialty was no longer needed.

"It's closer today," he said last Friday. "Discrimination will persist, but it will be harder."

Advisers who specialize in financial planning for gay couples and individuals say there are still discriminatory issues gay couples have to consider when marrying.

Without employment nondiscrimination protections, some same-sex clients are not getting married because marriage licenses are a matter of public record and they worry they'll be fired, Ms. Johnson said.

"Gay couples can get married on Friday and fired on Monday," she said."

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LGBT no longer a niche

Just as the Supreme Court ruling for same-sex marriage will influence American society, it also will have an impact on the financial planning industry, according to advisers.

Planning considerations for gay couples will now more closely resemble that for heterosexual couples, making any niche expertise in serving them less necessary.

Steve Branton, senior financial planner at Mosaic Financial Partners, said his firm's location in the San Francisco Bay Area means it had already been targeting the lesbian, gay, bisexual and transgender community. But serving that market will now be magnified throughout the industry as more firms take the same approach.

"You'll see an expansion of marketing outreach nationwide, mostly in urban centers where gay couples with the resources to have a financial adviser tend to live," Mr. Branton said.

Holly Hanson, principal and founder of Harmony Financial Strategies, who wrote "The LGBT and Modern Family Money Manual," said it will take time for advisers to acquire more gay clients. But there's real opportunity there.

"It's a very underserved community," said Ms. Hanson, whose wife, Sophie, is a wealth planner at her firm. "Hopefully there's going to be more people willing to actually open up to these conversations."

Bringing up sexual orientation "is definitely a delicate subject," said Tom Balcom, founder of 1650 Wealth Management. But approaching it from a financial angle can ease the discussion.

— Mark Schoeff Jr.

Custodian fees to RIAs raise ire

Continued from Page 1

required to disclose the arrangement in Part 2 of their Form ADV, which is filed with the Securities and Exchange Commission. The problem, however, is that few investors likely know where to look for such disclosures or how to interpret them.

Ric Edelman, founder of Edelman Financial Services, a fee-only firm that manages about $14 billion in assets, is one adviser who avoids the practice altogether.

"It would not occur to us to collect a fee from the custodian that is directly tied to the client's investment," he said. "Advisers need to generate revenue, but they need to be careful that the methodology they're using doesn't create a harmful impact on the client."

Matt Cooper, president at Beacon Pointe Wealth Advisors, agrees.

"We don't participate in that because we would see that as a direct conflict of interest," he said.

LIPS SEALED

Schwab and Fidelity declined to disclose how many such agreements they have in place with advisers.

Among firms that accept such payments are HighTower Advisors, a firm with $30 billion in assets under management; Mariner Wealth Advisors, with more than $10 billion; GV Financial Advisors Inc., with $1.2 billion; and Encompass Wealth Advisors, a firm founded last year by former Morgan Stanley Wealth Management brokers who had managed $650 million.

"HighTower Advisors has arrangements with its custodians whereby the custodian pays HighTower Securities a fee equal to a fixed percentage of the total assets in certain mutual funds," the firm's RIA unit disclosed in its investment brochure filed with the SEC. "HighTower Advisors has a potential conflict of interest in recommending to clients that they use a specific custodian and invest their assets in certain mutual funds."

HighTower's chief executive, Elliot Weissbluth, declined to comment.

The firm does say in brochures, however, that it will offset client fees in certain cases.

Mariner also discloses receiving the payments and the related conflicts.

"Mariner's receipt of this compensation may create conflicts of interest in our recommending investments," the firm acknowledged on Page 20 of its 30-page investment brochure.

A spokeswoman for Mariner, Christa Spencer, declined to comment. "Not because we think it's bad," she explained. "We love the program."

Encompass disclosed that it is paid 0.17% of assets on certain mutual funds on Fidelity's no-transaction-fee program, and GV Financial said it is paid 0.16% of assets for money it directs to the platform.

Repeated telephone calls to Encompass and GV Financial were not returned.

The no-transaction-fee funds are generally more costly in the long term because of expense ratios, observers say. No-transaction-fee funds at Schwab, for example, can run as high as 0.45% of assets, while transaction funds not part of its OneSource platform typically carry a fee of around 0.1%.

A spokesman for Schwab, Rob

VINCENT RICARDEL

> **"IT COULD AFFECT somebody's judgment in terms of the products that they select for the client."**
>
> **Ron Rhoades**
> Expert in fiduciary duties of RIAs

Farmer, wrote in an email that the custodian has "very few" of these agreements in place and that those firms must disclose the relationship on their ADV.

A spokeswoman for Fidelity, Nicole Abbott, said the payments are made in order to help firms defray the cost of "shareholder support," which includes back office, administrative and custodial support services.

"These are not selling or promoting mutual funds," she wrote in an email.

"We don't see this as a growing trend in the industry," she added.

Regulators have been paying attention, although the ultimate test over the legality of the agreements is how they are disclosed.

The SEC in September brought a case against an Houston adviser, Mark Robare, whom it accused of failing to disclose the 12 basis points he received from Fidelity on assets in no-transaction-fee funds.

DISCLOSURE IS KEY

An SEC judge ultimately ruled, however, that the wording of Mr. Robare's disclosure was adequate and dismissed the charges. But the message was clear, said Les Abromovitz, an attorney and compliance consultant with NCS Client Services who has no involvement with the case.

"Although the RIA ultimately prevailed in this case, it is imperative that firms fully disclose all revenue-sharing arrangements that create a potential conflict of interest," he wrote in a note to clients. "Material conflicts of interest must be thoroughly disclosed on Form ADV."

A spokeswoman for the SEC, Judith A. Burns, did not return calls and emails requesting comment on whether the SEC was still focused on the revenue-sharing agreements.

Critics say that the disclosure may not be enough, even if it is meets the legal standard.

"It's legal if it's disclosed properly, but that doesn't make it right," said Ron Rhoades, a professor and expert in fiduciary duties of registered investment advisers. "It could affect somebody's judgment in terms of the products that they select for the client."

"I'm disturbed by it," he added.

In a well-publicized incident in 2013, New York-based Sontag Advisors, which has more than $4 billion in assets, ended the practice after it was featured in a story by Reuters that shed a negative light on the fees it was receiving.

"It looked dirtier than it was," Howard Sontag, founder of the firm, said in an interview. "But there's an appearance of impropriety when one points out that if you do X you get paid more than if you do Y."

He said he thought he was doing the right thing because his firm was using the revenue-sharing agreements to help lower the costs of services he provided to clients. The decision resulted in the loss of a "not insignificant" amount of revenue, and the firm took a "direct hit to the bottom line," Mr. Sontag said.

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Voya puts limits on sales of L shares

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firms.

Last July, the head of the broker-dealer examination program at the SEC, Kevin W. Goodman, said regulators are looking at whether investors are aware of the fees they pay for the share class and whether their sale is suitable. "We want to make sure these share classes aren't being chosen or marketed based on the higher commissions they generate," Mr. Goodman said in an interview at the time.

Nancy Condon, a spokeswoman for the Financial Industry Regulatory Authority Inc., declined to comment.

NEW REQUIREMENTS ADDED

Voya's broker-dealer — a division of the New York-based insurer, investment manager and retirement-services group formerly known as ING U.S. Inc. — also added new requirements for the sale of class L shares without riders.

The firm said those annuity contracts must be accompanied by a third-party cost analysis report, signed by the client, that clearly compares the dollar cost of that L share with a comparable B share offered by the same firm. That requirement will take effect July 13, according to the document, which is dated June 22.

"We based our decision on our review and evaluation of the transaction activity in L share class annuities, guidance provided by Finra and similar positions taken by other broker-dealers," the document said.

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September 3, 2008

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