July 27-31, 2015

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NEWSPAPER | VOL.19, NO. 28 |

Spotlight **Women and Investing:** Adding women to mutual fund teams improves the funds' performance. Also, adviser strategies for building female clientele. **Pages 10-16**

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'MY WORST CLIENT EVER'

EVERY ADVISER has had one — some have had more than one. Clients so ornery, stubborn or just plain difficult that you wish you had never laid eyes on them. They can disrupt an advisory practice, absorb an inordinate amount of staff time and cause many a sleepless night for an adviser.

InvestmentNews asked advisers to share their stories about their worst clients. Hopefully, there are some lessons here, not only about how to deal with these types of clients, but how to avoid them altogether.

Continued on Page 44

DOL facing time limit on fiduciary

Making extensive changes could put rule in jeopardy

By Mark Schoeff Jr.

After collecting 775 comment letters, many of them voluminous and offering myriad suggestions, the Labor Department will now be under pressure to complete its fiduciary rule before the administration leaves office in 18 months — a deadline some industry observers believe will be impossible to meet.

Labor Secretary Thomas Perez said he is listening to criticism of the department's proposal to raise investment advice standards for brokers working with retirement accounts, but it's unclear how extensively the rule can be modified and still make it to the finish line in time.

"As long as we don't lose sight of our North Star — an enforceable best-interests standard — we are flexible on the question of how to get this work done," Mr. Perez said. "This is about providing guardrails, not straitjackets."

> "I THINK THIS is going into the next administration."
>
> **Peter Chepucavage**
> General counsel
> Plexus Consulting Group

Making extensive revisions to the DOL proposal, however, will put pressure on the agency's deadline.

"If they make too many changes to the rule, they have to go back out for comment," said Peter Chepucavage, general counsel at the Plexus Consulting Group.

He doubts that it can be completed before the Obama administration's term ends.

"I think this is going into the next administration," Mr. Chepucavage said. "If it's a Republican administration, the proposal is dead."

Brian Hamburger, president of Market Counsel, agreed that prospects for the rule are dim.

"I don't think they have industry or consumer-group consensus," he said. "I don't think they have political backing. There's almost no likelihood that this rule will be finalized as written."

Continued on Page 48

Inside

NEWSPAPER | VOL. 19, NO. 28 |

2 Publisher's Note
3 On Retirement
4 On Medicare
6 Editorials
20 ETF returns
34 Best Practices
35 IRA Alert
36 Investment Strategies
37 Retirement Watch
40 Classifieds
46 Tech Connect

Keeping up with Jones
Attracting $8.1 billion, Edward Jones' proprietary mutual funds are outselling all but three competitors this year.
Page 2

The Donald's wealth
Advisers weigh in on how billionaire Donald Trump invests his money after the presidential candidate files financial statement.
Page 3

Flip-flop flap
A top Merrill adviser claims he was fired because he wore flip-flops to work and committed other workplace offenses.
Page 3

PUBLISHER'S NOTE

A new way for *IN* to help women soar

It's no secret that women are a minority in the financial services industry, especially in leadership positions.

For the past six-plus years, *InvestmentNews* has been making a concerted effort to bring attention to the lack of female representation in the financial advice business, through our news coverage, webcasts, videos and live events. Our goal in all these initiatives is to create change, facilitate dialogue and move the needle toward the advancement of women.

Suzanne Siracuse

At *InvestmentNews*, we believe another thing we can do to help this cause is draw attention to women who are shining examples for others.

With that said, we are proud to announce the *InvestmentNews* Women to Watch list.

Our mission in launching this initiative is to honor female advisers and industry executives for what they are doing to elevate the financial advice industry. We plan to select about 20 women who are distinguished leaders at their firms and whose work has made a lasting impact on the industry. We also are looking for women who have demonstrated a willingness to share their experiences with other women, who have given back to the industry and who represent role models for young women entering this profession.

NOMINATE A CANDIDATE NOW

InvestmentNews is accepting nominations for this annual program from all areas of the advice industry. If you are, or know of, a woman who is deserving of this honor, I encourage you to fill out a nomination form at InvestmentNews.com/W2W. The deadline for nominations is Sept. 7.

This initiative is not about assets under management. It is not about titles or compensation. Instead, it is meant to recognize women who are distinguished leaders, who are driven, who are innovators and who are willing to share their knowledge and experiences with other women.

We expect to receive hundreds of nominations and will have the difficult task of selecting just 20 for this honor. In November, *InvestmentNews* will devote an entire issue to these women and to other stories highlighting relevant issues surrounding women in financial services. The initiative will culminate with an awards ceremony and leadership summit in March.

Women to Watch is the latest in a series of initiatives that are focused on women by *InvestmentNews*. Last year, at the urging of many of our female readers, we held the first of our Women Adviser Summits, a one-day workshop at which hundreds of female advisers gather to share their secrets for building their practices and network with other successful female advisers and industry leaders.

We hope that Women to Watch will be equally impactful and we are truly excited to recognize and reward women in our industry for what they have done and are doing. We look forward to sharing their stories and hope they will inspire and encourage women for years to come.

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We'll be back.

InvestmentNews won't publish a print edition Aug. 3. Print publication resumes Aug.10.

Jones' upstart funds luring more assets than big stock shops

By Trevor Hunnicutt

As formidable stock-and-bond pickers, DoubleLine, T. Rowe Price Group Inc. and J.P. Morgan Asset Management are easily in the top echelon when it comes to winning money from investors.

But this year all of them, as well as scores of others, are being outsold by an upstart called Bridge Builder.

$8.1B Amount that Jones has taken into its active funds this year

The proprietary fund lineup that Edward Jones once said it wasn't planning to build is winning more assets into active funds, $8.1 billion, than all but three U.S. mutual fund brands year-to-date, according to Morningstar Inc.

Beneath the numbers is a continuing pivot by Edward Jones toward selling more of its own funds. The firm has been migrating funds in its mutual-fund advisory program, the industry's second largest, in an effort to simplify trading and lower costs, according to Bill Fiala, principal for investment advisory at Edward Jones.

Jones, known for its one-person shops and masses of trainees, has long used outside money managers, including American Funds, which is one of the top sellers of actively managed funds this year, along with the Vanguard Group Inc. and Metropolitan West Asset Management. Jones last year earned $49.4 million in revenue sharing from sales of American Funds mutual funds, according to the firm's website.

With Bridge Builder, Jones is using those managers as subadvisers. As with many so-called wrap programs, the fees for servicing, trading and managing funds are grouped together with the fee collected by the financial adviser. That's driving the costs of managing the actual money lower, though it's not clear the benefits are always being passed to investors.

Edward Jones: Once vowed it would never build its own proprietary funds.

EASIER TO FIRE

Using managers as subadvisers on its funds may make it easier to fire them for poor performance, as doing so wouldn't entail a potentially taxable event when they are replaced as

Continued on Page 45

No more special family deals at LPL

By Mason Braswell

Looking to stay ahead of regulators who are more closely eyeing retirement accounts, LPL Financial told its brokers last month that next year they will no longer be able to receive fees or commissions from such accounts belonging to direct family members.

Brokers will have until Jan. 1 to hand off the accounts to another colleague or set the fee to zero and rebate any commissions, according to Brett Weinberg, a spokesman for the firm. The rule applies to the "lineal family line," meaning parents, grandparents, children, children-in-law and grandchildren, and it affects individual retirement accounts, 401(k)s and other employer-sponsored retirement plans, he said.

ERISA ENFORCEMENT

LPL told its brokers in a notice last month that the move was being made proactively to get ahead of what it perceives as increased enforcement of the Employee Retirement Income Security Act of 1974 and rules around compensation on family accounts, according to Garrett Andrew Ahrens, founder of Ahrens Investment Partners, an LPL affiliate.

"There's going to be a lot more ERISA regulation," he said. "There's a lot more in the pipeline, and I think LPL is just preparing for it."

> "IT WOULD be hard to find anyone who manages retirement money who doesn't have a relative as a client."
>
> **Ed Slott**
> IRA expert

Receiving fees and commissions from a family member's account is considered a prohibited transaction under ERISA rules guarding against self-dealing, but regulators have not been enforcing the rule, according to Ed Slott, an IRA expert at Ed Slott and Co. If the rule were enforced, it could result in millions of retirement accounts losing their tax-exempt status, he said.

"Nothing has really been done about it because it would affect the whole industry," Mr. Slott said. "It would be hard to find anyone who manages retirement money who doesn't have a relative as a client ... That's usually where they get their clients from when they start out."

The reaction among brokers was that the rule was a positive change and would help eliminate potential conflicts of interest.

"LPL Financial and other broker-dealers are trying to be more proactive to execute proper policies and procedures according to [Labor Department] and ERISA guidelines to stay ahead of the curve," said Jon W. Ulin, founder of Ulin & Co. Wealth Management, an LPL affiliate.

Mr. Ahrens added that there were

Continued on Page 48

Merrill fires broker over 'inappropriate behavior'

By Mason Braswell

Was a top Merrill Lynch broker in Los Angeles too bullheaded for the thundering herd?

Marc D. Lowe, a senior vice president on a team that oversaw at least $2.5 billion in client assets, was fired earlier this month, with Bank of America Merrill Lynch citing "conduct involving inappropriate workplace behavior," according to documents the firm filed with state regulators.

Mr. Lowe's departure, which was disclosed in a Central Registration Depository Snapshot, a detailed employment record available through state securities regulators, shows the broker was discharged July 9.

An attorney for Mr. Lowe, Jeffrey Compton of Markun Zusman Freniere Compton, said his client's troubles started when Bank of America Merrill Lynch brought in a new manager to oversee Mr. Lowe's office of legacy Bank of America advisers.

FLIP-FLOP FLAP

The manager took issue when Mr. Lowe wore flip-flops to the office, although it was done after foot surgery and at the recommendation of a doctor, Mr. Compton said.

The second infraction occurred at a Halloween party, he explained.

"Somebody came dressed as a stripper, and [Mr. Lowe] made a comment that the manager found to be inappropriate," Mr. Compton said.

Lastly, Mr. Lowe got into an argument with some Bank of America representatives who came to the office.

"At some point in a heated discussion, somebody overheard him swear, which lead to a manager determining there was inappropriate conduct," Mr. Compton said.

"That's really the level of issues we're dealing with here," the lawyer said.

A spokesman for Merrill Lynch, William Halldin, confirmed that Mr. Lowe was no longer with the firm but declined to comment further.

Mr. Lowe is still looking for a new employer, Mr. Compton said.

In 2011, Mr. Lowe was ranked No. 24 on a list of top advisers in California that was compiled by Barron's, which reported that he was managing $5 billion in assets. Sources noted, however, that the managing director on the team, John Vilardo, may have overseen a large portion of the assets the team was credited with.

> "SOMEBODY CAME DRESSED as a stripper, and [Mr. Lowe] made a comment that the manager found to be inappropriate."
>
> **Jeffrey Compton**
> Lawyer
> Markun Zusman Freniere Compton

The rest of Mr. Lowe's 12-person team, including Mr. Vilardo and several other advisers and support staff, remains at the firm, according to their website.

Mr. Lowe is a legacy Bank of America adviser and worked with Banc of America Investment Services Inc. until he registered with Merrill Lynch in 2009, according to BrokerCheck.

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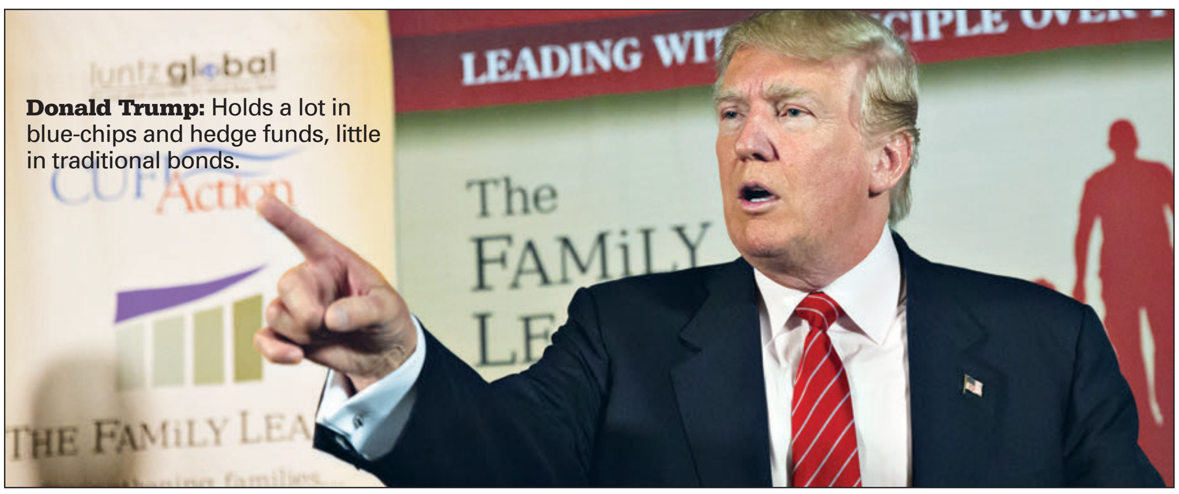

BLOOMBERG

Donald Trump: Holds a lot in blue-chips and hedge funds, little in traditional bonds.

Combing through Trump's assets

Advisers weigh in on where the presidential hopeful goes right and wrong

By Trevor Hunnicutt

Presidential hopeful and real estate mogul Donald J. Trump's investment portfolio reveals a scattered approach to money management, with a collection of hedge funds, stocks and cash across brokerage accounts.

A 92-page campaign disclosure report provides a window into the sprawling Trump empire, which includes the Donald J. Trump Revocable Trust, Trump World Publications, Trump Ocean Manager Inc. and DT Dubai II Golf Manager, in addition to vineyards and a private jet operation.

The statement of finances also itemizes scores of investments held at brokerage firms operated by Deutsche Bank AG, Barclays Bank PLC, Oppenheimer & Co. Inc. and JPMorgan Chase & Co. Mr. Trump appears to keep a good majority of his financial assets in blue-chip stocks, a good amount in hedge funds and relatively little in traditional bonds.

'BARBELL APPROACH'

"An adviser might call this a barbell approach: heavy on the aggressive end with individual stocks and heavy on the conservative end with cash, but not much for balance in the middle," said Gary Brooks, an adviser at Brooks Hughes & Jones.

Continued on Page 48

CFP Board says I can finally call myself a CFP

Some criticize altered definition of experience

I didn't think this day would ever come, but July 15, I received an email from the Certified Financial Planner Board of Standards Inc. that said: "Congratulations! You are now a certified financial planner."

I completed the financial planning certificate program at the University of Virginia in 2013 and passed the CFP comprehensive exam on my first attempt in November 2013.

But back in December 2013, when I received notice that I had passed the exam, I wrote a column noting that I probably would never be able to call myself a certified financial planner. Because of the CFP Board's narrow definition of work experience, it seemed that if I wanted to satisfy the requirement, I would have to quit my day job as a financial columnist and work in a financial services firm — something I was not willing to do.

A year later, the CFP Board expanded its definition of experience to include "support activities." In a Dec. 30, 2014, news release, the CFP Board said it "will now review activities and responsibilities reflecting financial planning knowledge and competencies that indirectly support the financial planner and/or the financial planning process." It said it would begin accepting applications July 1 and review applications on a case-by-case basis.

CRITICS OF CHANGE

The change touched off a firestorm of criticism. Michael Kitces, one of the most vocal critics, commented on his Nerd's Eye View blog: "The adjustments to the experience requirement may now be opening the door for virtually anyone with a job in the broad financial

Continued on Page 41

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You can go home again: Managing Medicare for expat clients

They may be abroad, but they have to meet enrollment deadlines


Katy Votava
On Medicare

More and more Americans are living abroad for extended periods of time. People may either be employed or retired in a foreign country as they approach Medicare eligibility and beyond. To preserve access to Medicare benefits without costly delays and penalties when they return to the U.S. for short- or long-term stays, expats — whether working or retired — need to keep a few critical issues in mind.

The general rules of Medicare eligibility, enrollment periods and penalty rules apply whether a person resides in the United States or a foreign land. People need to enroll in Medicare on a timely basis unless they qualify for a future special enrollment period, regardless of where they are. If they do not apply for Medicare on a timely basis and are not eligible for an SEP, they will have to wait to apply during the Medicare general enrollment period from Jan. 1 through March 31 of each year, with coverage beginning July 1 of that year. The consequence is that their access to Medicare coverage will be postponed for a period of months, during which time they will have to pay for healthcare in full, as well as pay lifelong penalties.

The easiest way to figure out how to help your expatriate clients is by examining the impact on Medicare Parts A, B and D individually.

Medicare Part A (hospital, limited home care, rehabilitation and hospice)

People need to enroll in Medicare Part A during their initial enrollment period, which is the seven months around their 65th birth month. (The three months before and the three months after.) There is no fee for Medicare Part A for the majority of enrollees. Therefore, most expats should sign up for Part A and avoid late enrollment issues down the road. Their next opportunity to join is during the GEP.

Medicare B (outpatient services)

Individuals also need to enroll in Medicare Part B during their IEP unless they are SEP-eligible. Medicare Part B requires an annual income-related premium of $1,260-$4,030 per person or $2,520-$8,060 per couple. It is important to determine if your clients are SEP-eligible and can forgo the cost of Part B coverage until a future date. The two major criteria that allow for a delay or discontinuation of Part B while abroad are:

• Having health coverage from an employer, an employed spouse or National Health Service that is primary to Medicare. The Part B SEP

Continued on Page 41

NFL star's BofA suit is a loss

By Mason Braswell

Bank of America Corp. has dodged a high-profile lawsuit brought by football star Dwight Freeney, who sued the company in February for $20 million in damages after a Merrill Lynch financial adviser allegedly played a role in leading Freeney into a massive fraud that eventually brought him to the brink of bankruptcy.

A judge in the U.S. District Court for Central California, Margaret M. Morrow, sided with the bank's arguments that there were problems with the original complaint, primarily over the choice to name Bank of America rather than Merrill Lynch, the subsidiary where the accused financial adviser worked.

Ms. Morrow cited case law that stated parent corporations were to be held liable for acts of a subsidiary "only in unusual circumstances."

> "THE PROBLEM here is created by the Byzantine structure of Bank of America."
>
> **Jeffrey B. Isaacs**
> Attorney
> Isaacs Friedberg

The financial adviser, Michael Bock, who is still working at a Miami branch office at Merrill Lynch, also had the complaints against him dismissed on the grounds that Mr. Freeney's case lacked "personal jurisdiction." Ms. Morrow said that the complaint's allegations were insufficient to establish Mr. Bock's contact with California and the court's authority over him.

"We are pleased with the court's decision," said a spokesman for Bank of America Merrill Lynch, William P. Halldin.

The relief may be short-lived, however, as Ms. Morrow gave Mr. Freeney and his attorneys 20 days to file an amended complaint to address the issues.

An attorney for Mr. Freeney, Jeffrey B. Isaacs, said that they plan to

Continued on Page 48

VIEWPOINT

EDITORIALS

SEC in-house justice system stacks the deck

THE Securities and Exchange Commission must revisit aspects of its use of in-house judges to try civil enforcement cases.

The agency must be fair in legal proceedings against the financial community and, just as importantly, it must appear to be fair, or Congress could step in and restrict its powers.

The perception that the agency's use of in-house judges is unfair has grown in recent months. A Wall Street Journal study found that when enforcement cases were tried before in-house judges, the SEC won more than 90% of the time (not far short of Communist Chinese prosecutors' record 99.9% success rate), versus 69% in cases tried in federal district court.

The disparity between the record in federal district court and the record before in-house judges is prima facie evidence of an unfair system.

In addition, a federal appeals court judge ruled in June that the SEC's use of an in-house judge to preside over an insider-trading case was "likely unconstitutional" because of the way the judge was hired. The Constitution required "officers," such as judges, to be appointed by the president, the courts or the people running the agency rather than a bureaucratic process, the appeals court judge said. The SEC hired the judge through its office of in-house judges without getting the appointment approved by the five commissioners.

And when one of the in-house judges rules against the agency, the SEC can appeal, as it did most recently in a case involving the Robare Group, a Houston-based financial advice firm.

The SEC claims the use of administrative law judges is fair, but unlike in federal court cases, defendants have no broad discovery right. Before trial, they are not allowed to obtain copies of documents the SEC has and cannot compel witnesses to provide pretrial testimony. Also, there is no jury. The initial decision is made by the judge hired by the SEC and any appeal is heard by the five SEC commissioners.

ODD AGAINST

The odds are against the defendant at that first appeal stage because the appeal is heard by the same five people who determined the case should go forward in the first place, i.e., that there was a good chance the defendant was guilty. In effect, the commissioners act as both grand jurors and appeals judges.

Theoretically, the commissioners review the record of the case with no deference to the administrative law judge's ruling, a claim that must be viewed skeptically given that the Wall Street Journal study found the commissioners decided in their own agency's favor 95% of the time between January 2010 and March 2015.

MOST DEFENDANTS would want a fair process rather than a speedy one.

If the defendant loses at that point — highly likely — he or she can then go to the federal appeals court. However, even there the deck appears to be stacked against the defendant because the court is required to defer to the SEC's expertise.

DISPARITY IN OUTCOMES

The SEC attributes the difference in outcomes partly to case mix. For instance, most of its complicated insider-trading cases have been heard in federal court, not by its in-house judges. But the disparity in outcomes is too great to be explained in this way.

It also argues that the administrative proceedings save the agency and the defendant time and money.

But there are too many questionable aspects to this process for it to be perceived as fair, and most defendants would want a fair process rather than a speedy one. The agency should not sacrifice fairness for lower costs.

The SEC must find a way to make the process fairer. It can, for instance, cut the five commissioners out of the initial decision to pursue enforcement action, leaving it to top officials of the enforcement division. That way, the commissioners do not serve as members of the grand jury and then as appeals court judges.

The agency must provide fairer pretrial discovery rules. SEC investigators must hand over their evidence to defendants before trial so the defense team has time to examine it and prepare responses.

The SEC can make such changes voluntarily, or it can resist and continue to insist there is no problem, and risk the chance that Congress will step in and clip its wings in ways it will not like.

Meanwhile, financial advisers should let their congressional representatives, and the SEC, know how they feel about the current process.

Clinton's capital gains proposal

Is Hillary Clinton's capital gains proposal an effort to encourage more long-term investment or a thinly veiled attempt to raise more revenue from upper-income taxpayers?

In speeches, Ms. Clinton, currently the front-runner in the race for the 2016 Democratic presidential nomination, says her proposal will encourage a broader view of investing that benefits the average person and the overall economy rather than focusing on quick profits, according to *IN* reporter Mark Schoeff Jr.

Critics charge that another reason for her proposal is to appease the left wing of the Democratic Party by raising more revenue from wealthy taxpayers, who depend on investment income more than wage income.

Under Ms. Clinton's plan, investments held for up to two years would be taxed at regular income tax rates — 39.6% or more for top earners. Right now, those rates apply for investments held for less than a year. Her plan would also create a sliding scale for long-term gains, but to qualify for the lowest rate of 23.8%, an investor would have to hold onto their investment for at least six years. Currently, an investor can claim a long-term gain and pay no more than 23.8% after one year.

Encouraging investors and corporations to put more emphasis on long-term growth as opposed to short-term gains is a worthwhile goal. Ms. Clinton may be onto something when she says that Wall Street suffers from "quarterly capitalism," meaning that public companies will go to almost any length to report quarterly profits.

REVENUE NEUTRAL

Advisers should be willing to support a plan that champions long-term investing at the expense of short-term trading. After all, isn't that what they preach to their clients?

But to get voters to buy into the plan, it should be revenue neutral. Encouraging investors to change their mind-set is a separate issue from arguing that the rich should be paying more in taxes. Combining the two is confusing at best and duplicitous at worst.

Indeed, if Ms. Clinton really believes that long-term capital gains should be rewarded because they will spur economic growth, she should seek to provide real incentives by lowering rates, not raising them.

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

More
After selecting a robo platform, advisers need to market it to clients and prospects.
Page 29

What robos have to offer

Advisers have a lot to consider when picking an automated investment service to use with their clients. Here is a rundown of the features and functionality of the top adviser-targeted platforms.

Robo	Consumer version	Tax loss harvesting	Risk profiling	Automatic rebalancing	Client billing	Compliance reporting	Customizable portal for clients	Mobile app for clients	Cash allocation
Betterment	✔	✔	Age-based allocation	✔	✔	✔	✔	✔	✘ Fractional shares instead
Jemstep	✘	✔	✔	✔	✔	✔	✔	✘ Mobile responsive	Adviser's strategy
Trizic	✘	✔	✔	✔	✔	✔	✔	✘ Mobile responsive, app coming soon	✘
Schwab	✔	✔ $50,000 minimum	✔	✔ $5,000 minimum	✔	✔	✔	✔	4%
Hedgeable	✔	✔	✔	✔	✔	✔	✔	✘ Mobile responsive	✔ (Dynamically weighted based on market risk)
Marstone	In beta	✘	✔	✔	✔	✔	✔	✘ Mobile responsive for tablet	✘
Folio	✔	✔	✔	✔	✔	✔	✔	✘ Mobile responsive	✘
Upside	✘	✔	✔	✔	✔	✔	✔	✘ Mobile responsive	2% to create a trading buffer
Motif	✔	✘	✘	✘	✔	✘	✔	✔	✘
Wealthminder	✔	✘	✔	✔	✔	✔	✔	✘ Mobile responsive	Adviser's strategy
NestEgg/Vanare	✔	✔	✔	✔	✔	✔	✔	✘ Mobile responsive	✘

Robo	Price	Account minimum	Active/ Passive	Products	Integrations with	Custodians
Betterment	25 basis point platform fee paid by client	$0	Passive	ETFs — iShares, Vanguard, etc.	eMoney, MoneyGuidePro, BlackDiamond, Orion, Fortigent	Betterment
Jemstep	Starts at 15 bps and decreases to 8 bps	At each adviser's discretion	Active and passive	All	Fiserv, Salesforce, Orion, Xignite, TD Ameritrade Institutional Veo, Docusign, various marketing automations, e.g. Marketo, Eloqua	TD
Trizic	Starts at 10 bps and decreases to 5 bps	$0	Active and passive	ETFs, including iShares, mutual funds, equities	TD Veo, DocuSign	TD
Schwab	Advisers with less than $100,000 in custody with Schwab, 10 bps; more than $100,000, free	$5,000	Passive	ETFs	Schwab Alliance	Schwab
Hedgeable	Yearly fee: 30-75 bps	$0	Active and passive	All	Mint, Personal Capital, eMoney, Albridge, Advent, Black Diamond, TurboTax, Coinbase, CircleUp	FolioFn, Interactive Brokers, Mid-Atlantic Trust, Scottrade, Drivewealth, Stifel, Placemark
Marstone	In beta — expected rollout is 4Q	$5,000	Passive	ETFs	Yodelee	Pershing
Folio	Basic plan: $4 -$15 per trade. Folio Unlimited: $0 to $3 per trade and $29 a month	$0	Active and passive	Stocks, ETFs, REITs, ADRs, mutual funds	A suite based on firm	Folio
Upside	10-25 bps	$5,000	Up to adviser	ETFs and mutual funds	In development	Dozens
Motif	15-25 bps	$0	Active and passive	Stocks, ETFs, ADRs, CEFs	In development	Pershing
Wealthminder	$10 per month per client or $75 per year per client	$0	Up to adviser	Any publicly traded security	No	Whichever the adviser works with
NestEgg/Vanare	15 bps down to 10 bps for technology, 25 bps with subadviser	At adviser's discretion	Active and passive	All, including UMAs	iRebal, TD Ameritrade, Hidden Levers, FolioDynamix	TD Ameritrade, National Bank of Canada

✔ Service offered ✘ Service not offered

Spotlight
Women and Investing

INSIDE

12 Results from *InvestmentNews'* survey on working with female clients.

14 Engendering trust helps advisers win and solidify relationships.

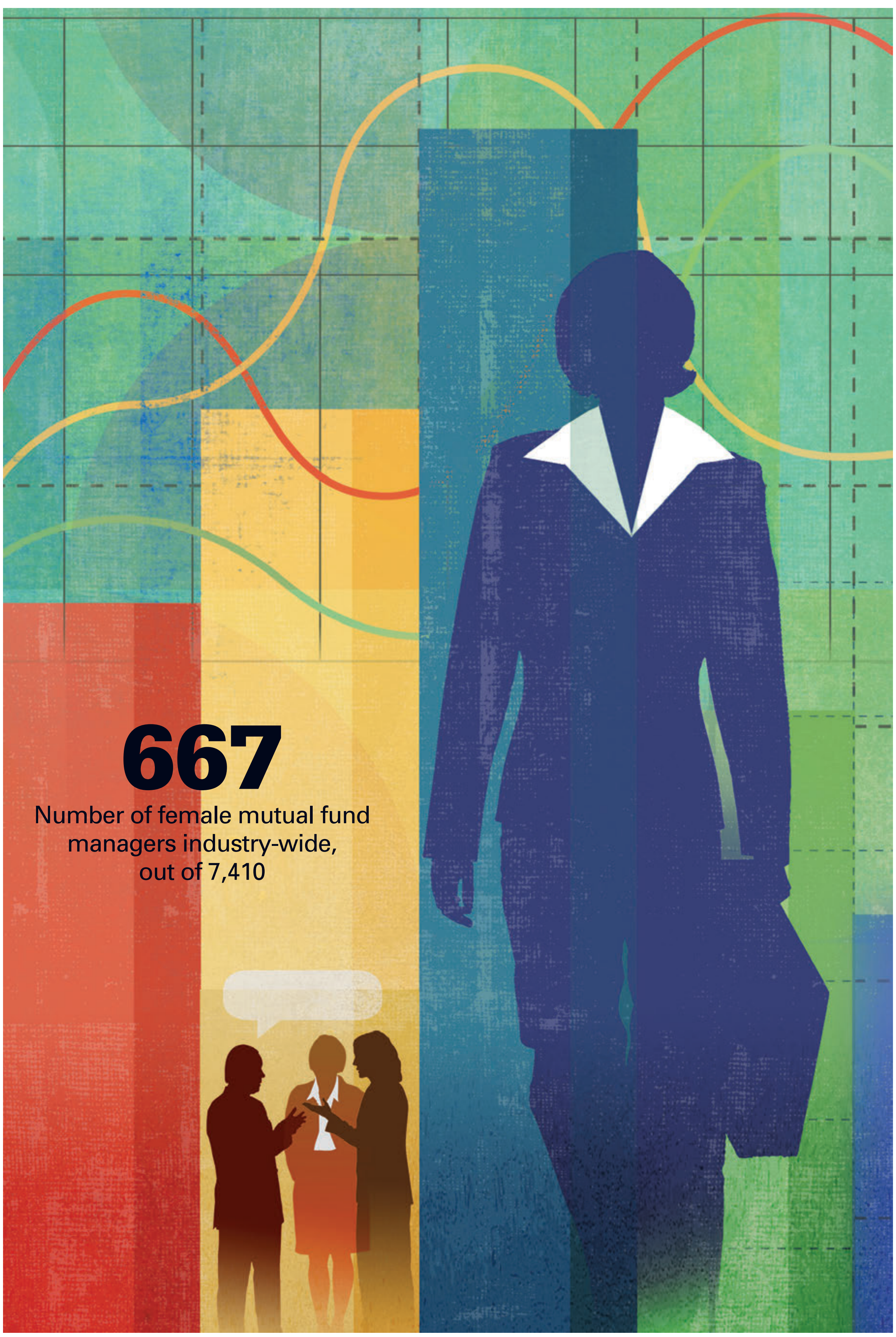
14 Focus on risk awareness, not just risk tolerance.

Online Blogs, videos and more at InvestmentNews.com/women2015

UPPING THE GAME

Statistics show mixed-gender investment management teams outperform single-sex crews

By Liz Skinner



STEPHANIE DALTON COWAN

THE $12.6 TRILLION mutual fund industry is coming up short when it comes to women portfolio managers, and investors may have the most to lose from this deficiency.

A recent analysis by Morningstar Inc. estimated that only 9% of the nation's 7,410 mutual fund managers are female, or about 667 women industrywide. Of the 20 largest fund families, Dodge & Cox had the greatest percentage of female portfolio managers, with six of 24 being women.

Women manage about 2% of the total amount invested in mutual funds, or roughly $252 billion, according to Morningstar.

The numbers are better when teams of managers are included, with females having a manager role at about 21% of mutual funds that use investment teams rather than single portfolio managers.

That's good news because these mixed-gender funds produced superior financial results than those run solely by men or women, said the Morningstar report, which was issued last month. These funds beat their single-manager counterparts in both five-year and 10-year category rankings.

That conclusion didn't surprise female investment professionals.

"It is incredibly important to have both men and women on a team together," said Lisette Cooper, chief executive and chief investment officer of Athena Capital Advisors, an RIA that provides investment and other services to private clients and institutions. "We each have certain kinds of ways of approaching problems and when you have a diverse group of people working toward the same goal, you get a better result."

> *"When you have a diverse group of people working toward the same goal, you get a better result."*
>
> **Lisette Cooper**
> CEO, CIO
> Athena Capital Advisors

Biologically, women have a more empathetic and nurturing role than men, and they tend to be better at seeing other people's perspective, Ms. Cooper said. Additionally, women managers tend to be less overconfident and are better at taking holistic information into account when making investment decisions, not just focusing on quantitative information, she said.

CONSERVATIVE APPROACH

These attributes likely extend from certain characteristics of female investors in general, namely their more conservative and risk-averse natures and the desire to make sure their finances will provide them a secure life, not just a double-digit investment return.

The trouble is, with fewer than 700 women portfolio managers and about 8,000 mutual funds, there are not enough to go around.

Mary Ellen Stanek, managing director and director of asset management for Robert W. Baird & Co., agrees that mixed-gender teams have more to offer investors than funds that are run by all men or all women. In the com-

Continued on Page 16

Women and Investing

Unique market, unique needs

In July, more than 750 financial advisers participated in an *InvestmentNews* survey on women and investing. Below is a snapshot of adviser strategies for building their female clientele and the characteristics they've seen in that population. How does your approach and experience stack up?

Strategy for attracting female clients

We do not have a strategy	46.8%
Events	36.3%
Social media (LinkedIn, Facebook, Twitter, etc.)	30.6%
Hire more female advisers	27.6%
Website	23.5%
Charitable organizations	19.2%
Email campaign	10.3%
Newspaper/magazines	7.9%
Radio	3.2%
Television	2.4%

How female clients chose you as their financial adviser

43% Referral from a family member or friend

27% Someone with whom they have a shared interest or personal relationship

If the husband is making most of the financial decisions, how often is his wife brought into the decision process/meeting or calls?

Never	1.7%
Always	42.9%
Sometimes	55.4%

Among married clients, the percentage of households where a woman makes the most financial decisions

91% or more	1.3%
81%-90%	2.5%
71%-80%	3.1%
61%-70%	5.6%
51%-60%	11.7%
41%-50%	14.5%
31%-40%	17.2%
21%-30%	18.7%
11%-20%	12.6%
1%-10%	6.3%
Don't know/not sure	6.4%

Characteristics female clients value the most

Understanding of investment/financial environment	4.6%
Responsiveness/communication skills	13.5%
Ability to translate personal needs into a strategy	20.4%
Listening skills	22.6%
Shared values, integrity and trust	34.1%

Compared to your male clients, female clients:

	Yes	No
Take more time to make investment decisions	57.5%	42.5%
Express more concern during periods of market volatility	44.9%	55.1%
Are more accepting of your investment recommendations	77.1%	22.9%
Are more aware of how much they will need to retire comfortably	45.1%	54.9%
Are more conservative about making financial investment decisions	74.2%	25.8%
Require more time of our firm's financial advisers	46.3%	53.7%
More risk averse	67.0%	33.0%
Are more focused on long-term planning than on short-term rates of return	84.7%	15.3%

Top financial concerns of female/male clients

Female		Male	
Running out of money	80.3%	Investment returns	76.3%
Retirement planning	64.0%	Retirement planning	65.4%
Providing for family	53.1%	Providing for family	51.2%
Long-term care	46.9%	Running out of money	48.1%
Widowhood	32.4%	Estate planning	37.5%

How advisers are improving their relationship with their female clients

Education about planning/investing	64.1%
Meeting with spouses together	56.0%
Scheduling one-on-one meetings	38.5%
Helping them work better with spouse	19.7%
Women-only events	18.5%

Source: *InvestmentNews* Data

GERARDO TABONES

Women and Investing

It all comes down to trust

Advisers share ways to interact with female clients and bolster retention

By Liz Skinner

MOST FINANCIAL ADVISERS do not have a plan in place to target female clients specifically, but the vast majority would like to add more women to their client roster.

The reasons why are pretty simple: Women live longer than men, they stand to inherit from their parents, as well as their spouses, and they are making more household financial decisions than ever before.

Advisers are thinking carefully about how they interact with female clients, recognizing they have different financial worries than men and that they invest differently, according to an *InvestmentNews* survey of 774 financial advisers early this month.

Those who are successful at attracting and retaining female clients tend to build up trust through interests or values they share with women.

"Having someone who is really invested in their financial well-being and who understands all the details of their lives is what creates such loyalty between us and our female clients," said Joy Kenefick, who represents half of the adviser team of Tillotson Kenefick Private Wealth Management of Wells Fargo Advisors.

More than one-third of the advisers surveyed said shared values, integrity and trust were the top characteristics their female clients value most about them, other than the actual financial services provided.

LISTEN AND LEARN

About 22% of advisers said clients most value their ability to listen, 20% said it's their ability to translate their personal needs, and 13.5% said responsiveness and communication skills are their most important attribute to clients, the survey found.

Ms. Kenefick and business partner Marcia Tillotson, who together manage about $450 million, don't make decisions for their female clients. Instead, they arm clients with the knowledge to understand their choices and the confidence to make the decisions, Ms. Kenefick said. More

Joy Kenefick, seated, and Marcia Tillotson.

NELL REDMOND/THE NEW YORK TIMES

than 50% of their clients are women — most married and some single.

The adviser pair requests both spouses attend meetings and will change meeting times, location and anything else that might be keeping one spouse away. Most often, it's the wife who doesn't come to planning meetings until the advisers make it clear they expect her to be there, Ms. Kenefick said.

About 43% of advisers said they always bring the wife into meetings if the husband had been making most of the financial decisions, and 55% said they sometimes do, the adviser survey found.

DON'T FORGET THE SPOUSE

In fact, meeting with spouses together is something that 56% of advisers said they are doing to improve their relationships with female clients. About 64% of advisers are hosting education events about planning and investing to boost their female client relations, the survey found.

When men and women walk into a meeting, typically they will have different agendas, advisers said.

"Women want to know if they are going to be OK financially," said Dianna Parker, director of planning with Sagemark Consulting Private Wealth Services, who manages about $125 million in client assets. "Males start out being more interested in investment returns."

About 85% of the advisers surveyed said female clients are more focused on the long-term picture, compared with male clients, *InvestmentNews* found.

And women are more apt to think about additional risks they might face beyond those related to investments, according to Ms. Parker, such as the financial impact of a job loss or being left a widow.

"Husbands tend to feel more invincible," Ms. Parker said.

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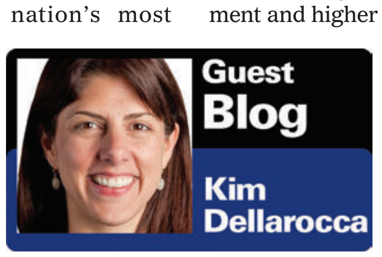
Focus on risk awareness

Many women's conservative posture means advisers need to move beyond risk 'tolerance'



TODAY'S WOMEN achieve more academic credentials than ever, earn larger salaries, run more businesses and are among the nation's most prodigious wealth creators. But when it comes to preparing for a secure retirement, women face unique challenges — and there's a persistent, troubling disconnect between these challenges and the conservative risk posture adopted by many women.

To address the unique financial dynamics that their female clients experience, successful financial advisers are taking a different approach to discussing risk — one that focuses on greater risk awareness rather than solely a shift in risk tolerance.

HURDLES TO SECURITY

Women have the same retirement priorities as men — retiring comfortably, maintaining their current lifestyles and covering health care costs for themselves or family members. But they're not entirely confident that they'll reach their goals. There's good reason for this: Several widely acknowledged factors degrade women's financial security during their lifetimes. Women may take time off to care for others and, despite greater income parity, often earn less than men during their careers. Women also live longer, which adds up to more years in retirement and higher health-related expenses. Those who are single, whether by circumstance or by choice, also will pay a higher tax rate than they would as part of a married couple.

THE DISCONNECT

Such an array of challenging factors might typically suggest consideration of aggressive investment approaches, with elevated risk. Yet although female investors span every level of risk tolerance, on average, affluent women are more conservative than men. Nearly half of women investors (48%) report being somewhat or very conservative in regard to their household's risk tolerance, as opposed to 36% of men who report this, according to the 2014 "Rebuilding Investor Trust" study from Sullivan and Northstar Research Partners.

Part of this difference may reflect women's concerns following the 2008 financial downturn. In addition, investment portfolios typically have lower risk profiles during women's longer retirement, making women appear more conservative, the study found. Regardless of the reasons, this percentage has held roughly steady since 2011, so women appear to be locked in a conservative stance despite improvements in the markets.

CHANGING A 'VISCERAL' REACTION

This apparent disconnect makes it even more critical for advisers to discuss risk with female investors and to

> *Women have the same retirement priorities as men, but they're not entirely confident they'll reach their goals.*

help them reframe their view of today's investment landscape. Women need an appropriate asset allocation even if, on a visceral level, they may prefer the seemingly "safest" approach to investing. They also need to have savings that not only are sufficient but liquid enough when

Continued on Page 16

Upping the investing game

Continued from Page 10

pany's six main bond funds for which she is the lead manager, two of the six managers are women.

"We are better together than we would be apart," she said.

Female investors tend to be more patient and see the greater good in the long run, Ms. Stanek added. They also aren't as aggressive as men when it comes to investing.

But unfortunately, most women typically aren't as comfortable as men are with making financial decisions, such as choosing investments. Women need to take the time to learn enough about investing that they build up some confidence, she said.

Women should search for and demand financial professionals who take the time to educate them. That doesn't have to be a female adviser, but in some cases women relate better to other women than males do, she said.

"Women are generally more comfortable dealing with other women," Ms. Stanek said. "The fact that not so many women are on our side is probably part of the issue for women as a whole."

About three-quarters of women strongly agreed that understanding retirement planning options and insurance coverage choices can be overwhelming, compared with about 60% of men surveyed by Lincoln Financial Group. The poll, taken in March and April, included 2,273 adults in the U.S.

Given their general lack of confidence, advisers need to make sure they are educating female clients about their finances in ways that appeal to them and without being condescending.

MAKE FIRM INVITING

Advisers, many of whom are women, who seek more women as clients make sure their websites, communications materials and even the events that they host are inviting to women.

Sharon Allen, president of Sterling Wealth Management, said programs that are tailored for women should encourage them to bring a friend because many women don't like showing up to events alone.

Advisers also should use a discovery process with female clients that includes questions that will uncover the issues she is most concerned about, Ms. Allen said.

"You can't just turn the font pink and call it for women," she said.

Kim Forrest, senior equity analyst at Fort Pitt Capital Group and assistant manager for the firm's mutual fund Fort Pitt Capital Total Return Fund, agreed the industry needs to do a better job of helping women feel comfortable making financial decisions.

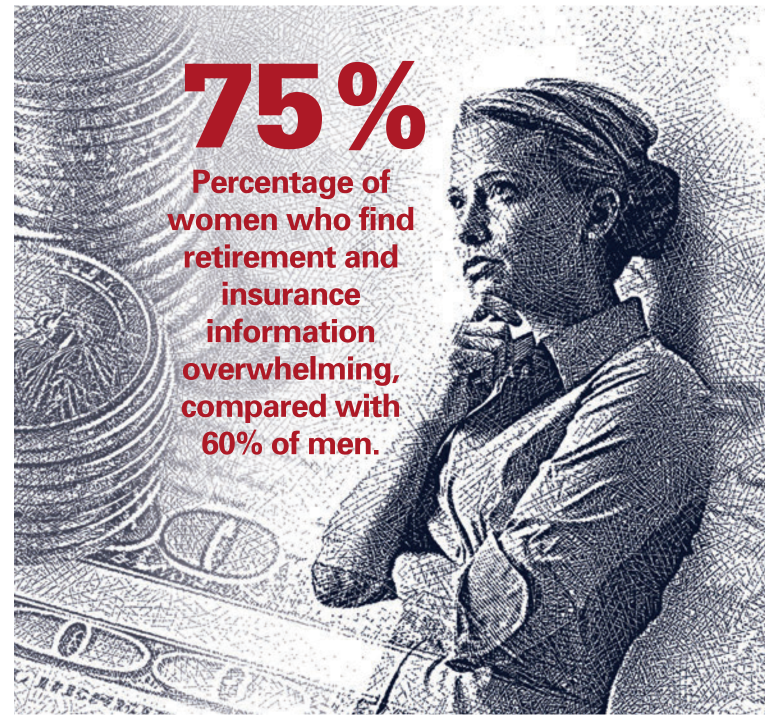
Investing women, too, have to step up and ask more questions, she said.

"Women are much more hesitant to ask questions about money than they should be," Ms. Forrest said. "It's their money."

One way advisers can encourage women to ask more questions about their investments and take more of an active role in them is to focus on the back story behind the stocks or other portfolio holdings, she said.

"Women like to hear the stories compared to listening to the returns," Ms. Forrest said.

Once women feel more confident about their knowledge and boost their financial acumen, more are likely to join the male-heavy investment profession and make it the norm for mutual funds to be run by teams of men and women.



Laura Lutton, Morningstar's director of manager research, said recognizing that women are increasingly controlling wealth may also be key to getting more female portfolio managers in place.

Women today represent about 45% of U.S. millionaires and are on their way to becoming the majority.

"Shifting demographics may prompt the most change in the fund industry," she said.

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Aware

Continued from Page 14

cash is required.

Many advisers are understandably concerned that broaching the risk topic with female clients might damage the relationship. It's true that when Spectrem Group in a recent survey asked high-income women what might cause them to consider switching advisers, 38% of them specified the "adviser does not understand my risk tolerance," while 30% of all other affluent investors felt the same way.

EXPLAINING THE RISK

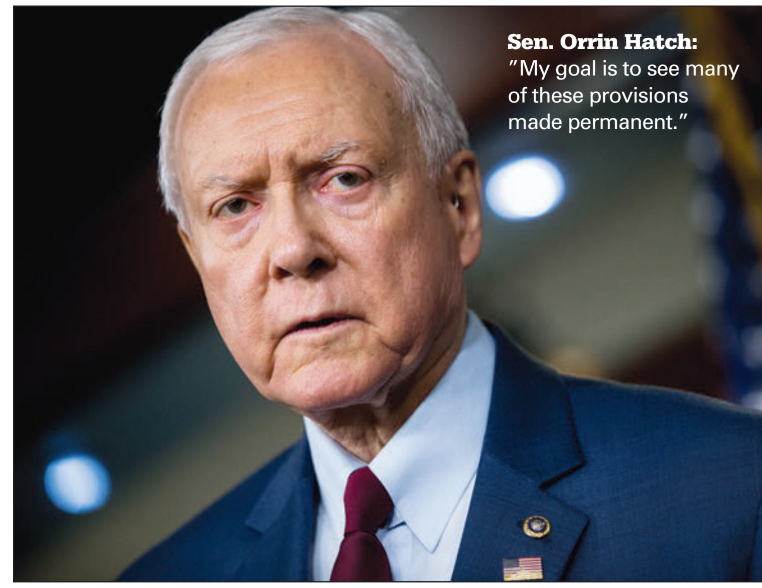
Although advisers should not push female clients to adopt a more aggressive investment approach, they can play a critical role in illuminating how a too-conservative approach might underdeliver vital income in retirement. Female investors don't need to fear or avoid risk. They just need to be aware of proven strategies for managing risk so they can pursue their goals with greater confidence.

The good news for advisers is that women might be ready to talk more candidly about risk. In Pershing's recent report on female investors, we found that they have high levels of trust in, and satisfaction with, their financial advisers. This provides a strong foundation for advisers to move the conversation to topics of deep concern to many women, including raising their risk awareness.

While tackling the topic of risk may seem perilous, this is perhaps the greatest contribution advisers can make to the well-being of their female clients. These discussions can help women pursue their goals while successfully managing the risks they face.

Kim Dellarocca is a managing director for Pershing, a BNY Mellon company.

Package of 52 tax breaks gains traction in the Senate


Sen. Orrin Hatch: "My goal is to see many of these provisions made permanent."

BLOOMBERG

By Mark Schoeff Jr.

A package of tax breaks, including one that allows tax-free charitable donations from individual retirement accounts, gained momentum in the Senate last Tuesday.

The Senate Finance Committee approved, 23-3, a two-year extension of 52 individual, energy and business tax measures that expired on Jan. 1.

The IRA provision allows someone 70½ or older to transfer required minimum distributions of up to $100,000 to public charities tax-free. The donations would be excluded from the IRA holder's gross income. Other provisions in the bill include deductions for state and local sales taxes, a research and development tax credit, bonus depreciation and renewable energy tax breaks.

The bill, which would extend the tax provisions through 2016, will head to the Senate floor, where

> "THIS GIVES ME HOPE we'll see something before the end of the year."
>
> **Tim Steffen**
> Director of financial planning
> Robert W. Baird & Co.

it could be attached to highway funding legislation. Even if that's not the vehicle, the committee's Republican and Democratic leaders want the extenders package to move quickly.

"They want to get this done sooner rather than later," said Dean Zerbe, managing director of alliantgroup, a national tax services firm. "The desire is to avoid the dust-up we had last year."

HOUSE VERSION

The House has passed legislation that would make several of the extenders permanent. The White House has threatened to veto those bills, saying they are not paid for and would increase the federal deficit.

All of the so-called tax extenders were renewed in December retroactively for 2014 but expired for this year as of Jan. 1. Congress often does not renew extenders until the last moment before they expire.

The uncertainty in the process can roil financial planning for clients who use the IRA charitable contribution provision.

Tim Steffen, director of financial planning at Robert W. Baird & Co., is happy to see extenders on a faster track than they were last year.

"This gives me hope we'll see something before the end of the year," Mr. Steffen said. "But there's still a long way to go. History has shown us that these things go down to the wire every year."

It's not clear how much of a challenge it will be to reconcile the Senate's two-year renewal with the House's effort to make several of the extenders permanent.

Senate Finance Committee Chairman Orrin Hatch, R-Utah, said he would "defer litigating the issue of permanence until a later time. But, make no mistake ... my goal is to see many of these provisions made permanent."

COMPREHENSIVE REFORM

Many lawmakers would rather deal with extenders as part of comprehensive tax reform. But the prospects are dim for that effort before 2017.

"This legislation is going to lock these policies in place for two years, past the next election," said Sen. Ron Wyden of Oregon, the ranking Democrat on the Senate Finance Committee.

Mr. Steffen and his clients are planning for congressional approval of the extenders.

"We've gotten into the habit of assuming that things will get fixed by the end of the year," Mr. Steffen said. "But we're putting the appropriate caveats on it."

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Young advisers want a future, not handouts

"The boss' showing confidence in me to respond to clients was the first step in most clients simply accepting my responses to their questions."

ELIZABETH CLOUGH, 36
Associate adviser at Rembert Pendleton Jackson
10 years in the business

"It is imperative to learn the basics in the support role so when you take the reins as the lead financial adviser, you are able to answer questions from Social Security optimization to something as minor as the process of rolling over a client's 401(k) into an IRA."

RIANKA DORSAINVIL, 28
Financial adviser with Financial Services Advisory
6 years in the business

By Liz Skinner

Eric Roberge dedicated three years to helping an adviser develop a business he expected to take over one day. He quit, though, when the adviser offered him a handshake promise instead of a written succession plan that spelled out his future with the firm.

Amy Hubble wanted to help her peers, other millennials who earn strong salaries but don't have enough assets accumulated to meet traditional advisory firm minimums. She left her employer after eight years to create a firm that can help this group with their finances.

Elizabeth Clough repeatedly spoke to her boss at a small advisory firm about how she might reach the next level in her planning career. She quit after six years, feeling like she was being asked to meet more and different goals without ever actually advancing.

"She would say, 'You need to do A, B and C and then we'll talk again.' Then once I did those, it became, 'Now you need to do D, E and F,'" Ms. Clough said of her former employer. "I just felt like there was this moving target toward moving up."

These young professionals, who participated with others in a round table of next-generation advisers hosted by *InvestmentNews*, all eventually found opportunities in the industry. Two created their own firms.

However, the challenges they describe here are common and go a long way to explaining why many young advisers abandon the business altogether.

With one-third of all financial advisers planning to retire in the next decade, according to Cerulli Associates Inc., the industry will need all of its young planners to stick around.

THREE CHANGES

Three changes would make the financial advice industry more nurturing and appealing for young professionals, according to this group of advisers who gathered in Dallas last month to attend the Financial Planning Association's national NexGen conference. Ten advisers, all certified financial planners, spoke with *InvestmentNews* for 90 minutes before the start of their meeting.

First, the industry needs to be more progressive in offering opportunities for new planners to earn equity stakes. Second, business models need to support serving younger individuals and couples, a natural clientele for young planners. Finally, firms should offer a detailed career path so advisers can advance to the next level at their firm, or attain the skills necessary to take the next step at another firm.

"If there's open communication and a career path, then it will be a little bit easier to stay and understand that there is a method and there is a reason why you are going through the various levels," said Rianka Dorsainvil, 28, a financial adviser with Financial Services Advisory.

Firms typically bring on a younger adviser to help energize the business and take on some of the older advisers' work so they can attract new, often bigger, clients, said Allen Kozel, 30, an associate financial planner at Stewardship Wealth.

Those older advisers, though, don't know what to do down the road when the younger adviser is "essentially running the place." There's no framework for small-business owners to be able to create a succession plan, he said.

"People don't expect you to know everything. People expect you to be honest."

"They are so focused on the business and so focused on their clients that they don't really know how to make a transition" to bring in other owners, Mr. Kozel said. "They don't know where to start or how to approach younger advisers."

Mr. Kozel, who is director of the FPA NexGen group in Houston, said he's now hosting regular happy hours that bring together chapter members and older FPA members, so the two groups can begin talking to one another.

"The goal is to at least facilitate discussion so they can understand what we're looking for, and we can see what they are looking for, and realize that we're really all on the same page," he said. "But without having that conversation, there's a really big disconnect."

Mr. Roberge, 35, solved the equity issue by starting his own advisory firm, Beyond Your Hammock.

Ms. Hubble, 30, also created her own firm, Radix Financial. She made sure its structure

"The only way we are going to really continue to advance the financial planning profession is by the general public understanding how we can add value."

ALLEN KOZEL, 30
Associate financial planner at Stewardship Wealth
6 years in the business

"Every planner does meetings differently, and every client responds differently. Listen and absorb what works in different situations."

AMY HUBBLE, 30
Founder of Radix Financial
8 years in the business

PHOTOS: LISA MEANS

"If a financial planner cannot effectively communicate with clients, then all the knowledge in the world won't be enough to help them be the type of planner that clients need."

MICAH SHILANSKI, 33
Partner with Shilanski & Associates Inc.
15 years in the business

"Get uncomfortable. The most significant advances in my career have come as a result of being uncomfortable."

RACHEL FIEWEGER, 26
Associate financial planner at RTD Financial Advisors Inc.
3½ years in the business

ERIC ROBERGE, 35
Founder of Beyond Your Hammock
13 years in the business

would allow her to offer financial advice to millennials as well as older investors.

Traditional business models that charge a fee based on a percentage of assets don't work for populations who haven't accumulated much of a portfolio yet, so most firms don't take on these clients. Yet people naturally like working with those who they can relate to, Ms. Hubble said.

"Unless you go out and start a firm that works directly with 20- and 30-year-olds, it's very hard in this profession to work with clients just like you," Ms. Dorsainvil added.

But some firms see the future now and are working to incorporate younger clients, and next-generation planners are helping.

Ms. Clough, 36, who landed happily at Rembert Pendleton Jackson nearly four years ago, said she is able to serve younger clients by charging a flat fee for certain planning arrangements.

Matt Davis, 26, an associate adviser at FJY Financial, said for younger clients who don't fit the typical mold, his firm has established a salary requirement and "strict goals" on how to get them to a point where they fit with the firm's traditional fee schedule.

"We have found ways to make it work because we certainly recognize that they are the future client base," Mr. Davis said.

Young advisers also want a defined career path that outlines the skills they'll need to move into more advanced roles, and how long the different steps along the way are likely to take.

SOMETHING TO REACH FOR

"Our generation needs motivation, we need to be assured that there's something out there that we can reach, that there's a goal," said Jennifer Calvi, 30, an associate financial planner at Quest Capital Management.

Andrew Sivertsen, 32, a partner at The Planning Center, said when he started with his firm he was shown a career track, which he knows is unusual in the industry. He attributes having that framework as a leading reason he has progressed so quickly in his career. Mr. Sivertsen became a partner 18 months ago.

He said, however, that new advisers can't expect to have their careers handed to them.

"Young planners need to take some ownership, too, and really say, 'Hey, this is where I want my career to go,'" he said.

Interestingly, one of the greatest irritations young advisers have is shared by most advisers, regardless of age. That is, clients not understanding the differences between a financial adviser who offers comprehensive planning and a broker or insurance agent.

"I get fired up when I say to a prospect, 'I'm a financial planner,' and they're like, 'Yeah, so is my brother-in-law,' and they work at MetLife," Ms. Hubble said.

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"I want to see more young planners serving young clients, whether it be from starting up an XY niche firm or finding ways to incorporate [them] into their firm's overall strategy."

ANDREW SIVERTSEN, 32
Part owner in The Planning Center
7½ years in the business

"If you're confident, informed and humble, clients will respect you, regardless of your age."

JENNIFER CALVI, 30
Associate financial planner at Quest Capital Management Inc.
8 years in the business

"Every financial planning firm [should] have defined career paths for employees who want to, at some point, buy equity in the firm, as well as for employees who have no desire to be an owner."

PHOTOS: LISA MEANS

MATT DAVIS, 26
Associate financial adviser at FJY Financial
3 years in the business

Exchange-Traded Funds – Equity

Second quarter 2015

Ranked by quarterly returns

	Name/ticker	3-month return	1-year return	Net assets ($M)	Expense ratio*	3-month average trading volume
1	iShares MSCI China Small-Cap ETF (ECNS)	22.13%	31.04%	$49.5	0.61%	7,127
2	Deu X-trackers Hvst CSI500 China A Shar SC ETF (ASHS)	20.58%	120.23%	$75.6	0.80%	155,094
3	KraneShares CSI China Internet ETF (KWEB)	19.31%	10.28%	$89.7	0.68%	121,084
4	ALPS Medical Breakthroughs ETF (SBIO)	18.86%	N/A	$122.4	0.50%	91,344
5	United States Gasoline Fund LP (UGA)	18.41%	-34.48%	$103.2	0.75%	59,091
6	United States Oil Fund LP (USO)	18.15%	-48.70%	$2,284.4	0.76%	21,207,413
7	Guggenheim Invest China Small Cap ETF (HAO)	17.16%	28.38%	$271.2	0.76%	286,889
8	Global X Nasdaq China Technology ETF (QQQC)	15.53%	14.91%	$22.4	0.65%	1,026
9	Global X China Materials ETF (CHIM)	15.35%	27.64%	$4.5	0.65%	2,410
10	SPDR S&P Biotech ETF (XBI)	14.60%	65.34%	$2,712.6	0.35%	1,090,212
11	WisdomTree Japan Hedged Financials Fund (DXJF)	13.33%	31.28%	$31.2	0.43%	20,600
12	iShares MSCI UAE Capped ETF (UAE)	13.29%	0.92%	$36.1	0.62%	19,286
13	Market Vectors ChinaAMC SME-ChiNext ETF (CNXT)	13.15%	N/A	$50.8	0.66%	161,675
14	Global X China Financials ETF (CHIX)	13.04%	46.32%	$108.7	0.65%	20,677
15	BioShares Biotechnology Products Fund (BBP)	13.04%	0.00%	$21.0	0.85%	21,845
16	PureFunds ISE Cyber Security ETF (HACK)	12.81%	N/A	$1,205.8	0.75%	900,826
17	PowerShares Golden Dragon China Portfolio (PGJ)	12.80%	8.91%	$222.7	0.70%	46,118
18	United States 12 Month Oil Fund LP (USL)	12.02%	-43.10%	$80.5	0.99%	74,662
19	Teucrium Wheat Fund (WEAT)	11.89%	-11.31%	$32.4	3.67%	17,412
20	Global X China Industrials ETF (CHII)	11.58%	46.63%	$8.5	0.65%	3,017
21	iShares MSCI United Kingdom Small-Cap ETF (EWUS)	11.23%	5.38%	$16.9	0.59%	4,976
22	Deu X-trackers Hvst CSI 300 China A Share ETF (ASHR)	10.95%	107.44%	$1,009.6	0.80%	2,426,405
23	Global X Central Asia & Mongolia Index ETF (AZIA)	10.93%	-22.40%	$2.7	0.69%	2,513
24	KraneShares Bosera MSCI China A Share ETF (KBA)	10.84%	100.28%	$29.6	0.85%	25,370
25	United States Brent Oil Fund LP (BNO)	10.52%	-50.10%	$105.2	0.90%	32,971
26	BioShares Biotechnology Clinical Trials Fund (BBC)	10.26%	N/A	$30.8	0.85%	25,652
27	Deutsche X-trackers MSCI All China Equity ETF (CN)	10.24%	65.35%	$17.1	0.70%	7,307
28	Market Vectors ChinaAMC A Share ETF (PEK)	10.22%	105.95%	$133.6	0.72%	128,526
29	PowerShares KBW Regional Banking Portfolio (KBWR)	10.01%	15.22%	$41.7	0.35%	8,104
30	United States Diesel-Heating Oil Fund LP (UHN)	9.88%	-30.91%	$5.8	0.75%	1,349
31	First Trust China Alphadex Fund (FCA)	9.40%	24.14%	$32.7	0.80%	2,326
32	PowerShares DB Energy Fund (DBE)	8.94%	-43.78%	$145.1	0.78%	96,184
33	First Trust Nasdaq ABA Comm Bank Index Fund (QABA)	8.83%	12.13%	$77.3	0.60%	12,946
34	Emerging Markets Internet & Ecommerce ETF (EMQQ)	8.70%	N/A	$11.4	0.86%	5,619
34	SPDR S&P Bank ETF (KBE)	8.70%	10.34%	$3,023.4	0.35%	1,382,908
36	PowerShares DB Oil Fund (DBO)	8.61%	-52.31%	$580.5	0.79%	407,864
37	SPDR S&P Regional Banking ETF (KRE)	8.54%	11.39%	$2,775.4	0.35%	4,089,634
38	iShares S&P GSCI Commodity-Indexed Trust (GSG)	8.45%	-37.37%	$851.3	0.75%	203,848
39	Global X China Consumer ETF (CHIQ)	8.26%	4.76%	$108.9	0.65%	19,438
40	iShares MSCI Emerg Mkts Energy Capped ETF (EMEY)	7.58%	-21.55%	$3.0	0.67%	1,567

Largest inflows

	Name/ticker	3-month estimated net flows ($M)	3-month return	1-year return	Net assets ($M)	Expense ratio*
1	Deu X-trackers MSCI EAFE Hedged Equity ETF (DBEF)	$5,531.1	-2.10%	10.64%	$12,154.0	0.35%
2	iShares MSCI EAFE ETF (EFA)	$4,097.5	0.63%	-4.36%	$60,941.3	0.33%
3	WisdomTree Europe Hedged Equity Fund (HEDJ)	$3,952.3	-5.98%	11.38%	$19,765.1	0.58%
4	Vanguard Total Stock Market Index Fund ETF (VTI)	$2,807.2	0.09%	7.21%	$57,159.1	0.05%
5	iShares MSCI Japan ETF (EWJ)	$2,431.3	2.99%	7.91%	$19,598.1	0.50%
6	Vanguard FTSE Developed Markets ETF (VEA)	$2,427.2	1.03%	-3.97%	$27,824.9	0.09%
7	Vanguard S&P 500 Index Fund ETF (VOO)	$1,849.7	0.28%	7.39%	$32,408.6	0.05%
8	WisdomTree Japan Hedged Equity Fund (DXJ)	$1,704.2	4.84%	29.18%	$18,153.8	0.48%
9	iShares China Large-Cap ETF (FXI)	$1,673.2	5.53%	26.70%	$8,075.2	0.74%
10	Vanguard FTSE Europe ETF (VGK)	$1,520.9	1.04%	-7.11%	$14,243.3	0.12%
11	Vanguard FTSE All-World ex U.S. Index Fund ETF (VEU)	$1,495.0	1.03%	-4.38%	$14,230.4	0.14%
12	iShares Core S&P Mid-Cap ETF (IJH)	$1,262.7	-1.10%	6.27%	$26,915.2	0.14%
13	iShares MSCI Germany ETF (EWG)	$1,062.5	-5.45%	-9.69%	$7,212.4	0.51%
14	First Trust Dorsey Wright Focus 5 ETF (FV)	$1,045.0	1.87%	23.56%	$3,770.3	0.94%
15	Vanguard FTSE Emerging Markets Fund ETF (VWO)	$1,018.5	1.73%	-2.41%	$47,665.8	0.15%

Largest outflows

	Name/ticker	3-month estimated net flows ($M)	3-month return	1-year return	Net assets ($M)	Expense ratio*
1	SPDR S&P 500 ETF Trust (SPY)	-$14,578.7	0.26%	7.31%	$170,512.1	0.10%
2	Vanguard REIT Index Fund ETF (VNQ)	-$1,924.4	-10.48%	3.79%	$23,728.7	0.12%
3	iShares Russell 2000 ETF (IWM)	-$1,304.6	0.43%	6.57%	$29,690.0	0.20%
4	iShares U.S. Real Estate ETF (IYR)	-$1,285.5	-9.16%	3.10%	$4,222.6	0.45%
5	iShares Core S&P 500 ETF (IVV)	-$994.3	0.26%	7.36%	$67,701.8	0.07%
6	United States Oil Fund LP (USO)	-$982.0	18.15%	-48.70%	$2,284.4	0.76%
7	SPDR Gold Shares (GLD)	-$954.9	-1.45%	-11.31%	$26,773.7	0.40%
8	Consumer Staples Select Sector SPDR Fund (XLP)	-$874.0	-1.75%	9.51%	$7,209.9	0.15%
9	SPDR Dow Jones Industrial Average ETF Trust (DIA)	-$810.0	-0.34%	7.06%	$11,036.5	0.16%
10	Consumer Discretionary Select Sector SPDR Fund (XLY)	-$805.7	1.87%	16.23%	$10,307.0	0.15%
11	Utilities Select Sector SPDR Fund (XLU)	-$706.3	-5.80%	-3.03%	$5,536.5	0.15%
12	iShares U.S. Energy ETF (IYE)	-$676.6	-2.00%	-23.60%	$1,455.8	0.45%
13	iShares Select Dividend ETF (DVY)	-$647.9	-2.73%	0.84%	$13,868.7	0.39%
14	SPDR S&P Dividend ETF (SDY)	-$556.4	-1.87%	4.45%	$12,925.5	0.35%
15	iShares Transportation Average ETF (IYT)	-$548.8	-7.20%	-0.47%	$841.0	0.45%

New launches

Ranked by average daily volume during the second quarter of 2015

	Name/ticker	Classification	3-month average daily volume	Expense ratio*
1	Pacer Trendpilot 750 ETF (PTLC)	Large-cap core	423,509	0.60%
2	Pacer Trendpilot 450 ETF (PTMC)	Mid-cap core	148,060	0.60%
3	Innovator IBD 50 Fund (FFTY)	Financial services	108,048	0.80%
4	U.S. Global Jets ETF (JETS)	Industrials	93,520	0.60%
5	Tuttle Tactical Management Multi-Strategy Inc (TUTI)	Alternative multi-strategy	54,920	1.28%
6	Pacer Trendpilot 100 ETF (PTNQ)	Specialty/miscellaneous	47,223	0.65%
7	AlphaMark Actively Managed Small Cap ETF (SMCP)	Small-cap growth	29,602	0.90%
8	PowerShares S&P 500 ex-Rate Sens LV Portfolio (XRLV)	S&P 500	24,490	0.25%
9	Deutsche X-trackers Japan JPX-Nikkei 400 Eqty ETF (JPN)	Japanese Funds	21,401	0.40%
10	WisdomTree Japan Hedged Dividend Growth Fund (JHDG)	Japanese Funds	14,785	0.43%

One-year anniversary

Ranked by average daily volume during the second quarter of 2015

	Name/ticker	3-month average daily volume	3-month return	1-year return	Net assets ($M)	Expense ratio*
1	WisdomTree Int'lHedged Dividend Growth Fund (IHDG)	176,440	-1.79%	9.08%	$358.6	0.58%
2	Deu X-trackers Hvst CSI500 China A Shs SC ETF (ASHS)	155,094	20.58%	120.23%	$75.6	0.80%
3	PowerShares Variable Rate Preferred Portfolio (VRP)	126,901	-0.84%	2.29%	$255.8	0.50%
4	iShares Core MSCI Europe ETF (IEUR)	75,787	1.10%	-6.72%	$545.6	0.14%
5	iShares Core Dividend Growth ETF (DGRO)	42,200	-1.01%	5.45%	$178.1	0.12%
6	iShares Core MSCI Pacific ETF (IPAC)	31,559	1.05%	2.51%	$410.5	0.14%
7	iShares MSCI Qatar Capped ETF (QAT)	21,454	2.32%	8.41%	$51.5	0.61%
8	WisdomTree Japan Hedged Financials Fund (DXJF)	20,600	13.33%	31.28%	$31.2	0.43%
9	Merk Gold Trust (OUNZ)	19,743	-1.45%	-11.31%	$61.3	0.40%
10	iShares MSCI UAE Capped ETF (UAE)	19,286	13.29%	0.92%	$36.1	0.62%

As of June 30. Excludes leveraged and inverse funds, and exchange traded notes. *Most recently reported net prospectus expense ratio. N/A = not available
In case of a tie, funds are listed alphabetically.

Source: Lipper, a Thomson Reuters company

Exchange-Traded Funds – Fixed Income

Second quarter 2015

Ranked by quarterly returns

	Name/ticker	3-month return	1-year return	Net assets ($M)	Expense ratio*	3-month average daily volume
1	WisdomTree Brazilian Real Strategy Fund (BZF)	**5.86%**	-21.26%	$15.3	0.45%	16,906
2	Guggenheim CurrencyShares Brit Pound Sterlng Tr (FXB)	**5.86%**	-8.32%	$38.6	0.40%	28,084
3	Market Vectors Emg Mkts High Yield Bd ETF (HYEM)	**4.89%**	-1.82%	$412.3	0.40%	194,655
4	ProShares 30 Year TIPS/TSY Spread (RINF)	**4.28%**	-12.13%	$4.7	0.75%	14,093
5	WisdomTree BofA Merrill HY Bd Neg Duration (HYND)	**4.10%**	-4.83%	$10.9	0.48%	5,375
6	Guggenheim CurrencyShares Swedish Krona Trust (FXS)	**3.64%**	-19.95%	$23.8	0.40%	579
7	Guggenheim CurrencyShares Swiss Franc Trust (FXF)	**3.63%**	-5.73%	$166.3	0.40%	9,484
8	Guggenheim CurrencyShares Euro Trust (FXE)	**3.59%**	-19.01%	$404.8	0.40%	890,326
9	ProShares Sh Term USD Emerg Mar Bond ETF (EMSH)	**3.31%**	-2.71%	$7.6	0.50%	794
10	Market Vectors International High Yield Bond ETF (IHY)	**2.97%**	-7.57%	$167.1	0.40%	45,887
11	PowerShares Chin Yuan Dim Sum Bond Portfolio (DSUM)	**2.38%**	2.87%	$124.8	0.45%	7,673
12	iShares Global ex USD High Yield Corp Bond ETF (HYXU)	**2.34%**	-17.04%	$239.4	0.40%	20,846
13	Market Vectors ChinaAMC China Bond ETF (CBON)	**2.22%**	N/A	$30.0	0.50%	20,345
14	iShares Emerging Markets High Yield Bond ETF (EMHY)	**2.13%**	-3.79%	$239.4	0.50%	79,756
15	WisdomTree Barclays U.S. Agg Bd Negative Dur (AGND)	**2.13%**	-3.53%	$36.3	0.28%	11,239
16	iShares 1-3 Yr International Treasury Bond ETF (ISHG)	**2.08%**	-16.76%	$147.7	0.35%	12,257
17	PowerShares Global Short Term Hi Yield Bond Ptf (PGHY)	**1.83%**	-1.03%	$28.3	0.35%	5,793
18	Guggenheim CurrencyShares Singapore Dol Trust (FXSG)	**1.78%**	-7.76%	$3.7	0.40%	810
19	WisdomTree Emerg Mar Corporate Bond Fund (EMCB)	**1.43%**	-2.34%	$94.0	0.60%	4,199
20	Guggenheim CurrencyShares Canadian Dollar Trust (FXC)	**1.42%**	-14.61%	$219.0	0.40%	52,879
21	SPDR Barclays Short Term Intl Treasury Bond ETF (BWZ)	**1.37%**	-15.67%	$199.6	0.35%	105,092
22	Deutsche X-trackers Emer Mkt Bond - IR Hdg ETF (EMIH)	**1.34%**	N/A	$6.2	0.50%	234
23	SPDR Barclays International High Yield Bond ETF (IJNK)	**1.30%**	-8.88%	$25.0	0.40%	2,781
24	WisdomTree Commodity Currency Strategy Fund (CCX)	**1.28%**	-17.56%	$6.8	0.55%	742
25	PowerShares Fund Emerg Mkts Local Debt Ptf (PFEM)	**1.21%**	-11.83%	$4.6	0.50%	805
26	ProShares German Sovereign/Sub-Sovereign ETF (GGOV)	**1.09%**	-16.90%	$3.6	0.45%	1,604
27	WisdomTree Chinese Yuan Strategy Fund (CYB)	**0.98%**	3.03%	$113.1	0.45%	26,408
28	Guggenheim Inv BulletShares 2019 HY Corp Bd ETF (BSJJ)	**0.96%**	-0.93%	$150.4	0.43%	28,918
29	Guggenheim CurrencyShares Australian Dollar Trust (FXA)	**0.96%**	-17.18%	$200.0	0.40%	50,308
30	iShares Emerging Markets Corporate Bond ETF (CEMB)	**0.83%**	-0.87%	$34.6	0.50%	8,072
31	SPDR BofA Merrill Emerging Mkts Corp Bd ETF (EMCD)	**0.82%**	-0.36%	$20.4	0.50%	7,414
32	Guggenheim Inv BulletShares 2017 HY Corp Bd ETF (BSJH)	**0.81%**	-0.18%	$534.6	0.43%	117,482
33	SPDR Barclays International Corporate Bond ETF (IBND)	**0.77%**	-16.03%	$191.2	0.50%	6,174
34	Guggenheim Inv BulletShares 2018 HY Corp Bd ETF (BSJI)	**0.74%**	-0.83%	$420.9	0.44%	93,959
35	Guggenheim Inv BulletShares 2016 HY Corp Bd ETF (BSJG)	**0.69%**	-0.13%	$793.2	0.44%	104,320
36	WisdomTree Emerging Currency Strategy Fund (CEW)	**0.67%**	-11.30%	$71.3	0.55%	15,085
37	FlexShares iBoxx 3-Year Target Dur TIPS Index (TDTT)	**0.66%**	-2.12%	$2,132.3	0.20%	8,189
38	SPDR Blackstone/GSO Senior Loan ETF (SRLN)	**0.64%**	2.38%	$671.8	0.70%	103,247
39	Guggenheim Inv BulletShares 2020 HY Corp Bd ETF (BSJK)	**0.63%**	-0.03%	$73.3	0.43%	16,583
40	First Trust Tactical High Yield ETF (HYLS)	**0.63%**	0.92%	$469.7	1.29%	44,530

Largest inflows

	Name/ticker	3-month estimated net flows ($M)	3-month return	1-year return	Net assets ($M)	Expense ratio*
1	iShares Core US Aggregate Bond ETF (AGG)	**$1,500.22**	-1.72%	1.87%	$24,966.0	0.08%
2	iShares 1-3 Year Treasury Bond ETF (SHY)	**$1,180.06**	0.10%	0.79%	$8,917.2	0.15%
3	iShares TIPS Bond ETF (TIP)	**$933.95**	-1.12%	-1.88%	$13,746.6	0.20%
4	iShares JPMorgan USD Emerg Mkts Bond ETF (EMB)	**$818.32**	-0.89%	-0.59%	$5,227.7	0.40%
5	Vanguard Mortgage-Backed Sec Indx Fund ETF (VMBS)	**$559.21**	-0.72%	2.16%	$1,469.1	0.12%
6	iShares 3-7 Year Treasury Bond ETF (IEI)	**$543.13**	-0.59%	2.34%	$4,932.4	0.15%
7	SPDR DoubleLine Total Return Tactical ETF (TOTL)	**$521.62**	-0.43%	N/A	$746.5	0.55%
8	Vanguard Total Bond Market Index Fund ETF (BND)	**$521.45**	-1.85%	1.72%	$26,989.0	0.07%
9	Vanguard Short-Term Corp Bond Idx Fund ETF (VCSH)	**$520.41**	-0.21%	1.17%	$10,347.2	0.12%
10	Vanguard Intermediate-Term Bond Index Fund ETF (BIV)	**$408.04**	-1.89%	2.41%	$5,992.6	0.10%
11	iShares National AMT-Free Muni Bond ETF (MUB)	**$405.03**	-1.06%	2.41%	$4,977.6	0.25%
12	iShares Short Maturity Bond ETF (NEAR)	**$358.31**	0.15%	0.54%	$991.6	0.25%
13	iShares U.S. Preferred Stock ETF (PFF)	**$341.50**	-0.98%	4.27%	$13,103.1	0.47%
14	Vanguard Interm-Term Corp Bond Idx Fund ETF (VCIT)	**$339.09**	-2.16%	1.80%	$5,375.5	0.12%
15	Vanguard Short-Term Bond Index Fund ETF (BSV)	**$328.59**	-0.06%	1.19%	$16,346.9	0.10%

Largest outflows

	Name/ticker	3-month estimated net flows ($M)	3-month return	1-year return	Net assets ($M)	Expense ratio*
1	iShares iBoxx $ High Yield Corporate Bond ETF (HYG)	**-$2,751.30**	-0.73%	-1.58%	$13,666.3	0.50%
2	iShares Short Treasury Bond ETF (SHV)	**-$2,646.41**	0.01%	0.03%	$2,139.4	0.15%
3	SPDR Barclays High Yield Bond ETF (JNK)	**-$1,496.04**	-0.71%	-2.51%	$9,720.5	0.40%
4	iShares 20+ Year Treasury Bond ETF (TLT)	**-$1,399.85**	-9.09%	6.60%	$4,555.4	0.15%
5	First Trust Enhanced Short Maturity ETF (FTSM)	**-$832.30**	0.03%	N/A	$131.9	0.25%
6	iShares iBoxx $ Inv Grade Corporate Bond ETF (LQD)	**-$461.96**	-3.88%	0.54%	$20,906.1	0.15%
7	SPDR Barclays Short Term HY Bond ETF (SJNK)	**-$297.07**	0.22%	-1.73%	$4,266.2	0.40%
8	iShares Floating Rate Bond ETF (FLOT)	**-$288.74**	0.08%	0.20%	$3,078.2	0.20%
9	Vanguard Long-Term Corp Bond Index Fund ETF (VCLT)	**-$241.69**	-7.61%	-0.42%	$945.3	0.12%
10	SPDR Barclays International Treasury Bond ETF (BWX)	**-$216.19**	-1.57%	-13.02%	$1,449.8	0.50%
11	Vanguard Total Internat'l Bond Index Fund ETF (BNDX)	**-$189.85**	-2.94%	3.51%	$3,266.2	0.19%
12	SPDR Barclays Long Term Treasury ETF (TLO)	**-$139.94**	-8.31%	6.19%	$164.5	0.10%
13	iShares Core U.S. Credit Bond ETF (CRED)	**-$132.28**	-2.95%	0.72%	$891.2	0.15%
14	Guggenheim Inv BulletSh 2015 HY Corp Bond ETF (BSJF)	**-$123.24**	0.39%	0.83%	$715.9	0.44%
15	Pimco Enhanced Short Maturity Active Exch Tr (MINT)	**-$120.46**	0.18%	0.61%	$3,543.1	0.35%

New launches

Ranked by average daily volume during the second quarter of 2015

	Name/ticker	Classification	3-month average daily volume	Expense ratio*
1	PowerShares Eur Curr Hedged Low Vol Ptf (FXEU)	Alt Cur Strategies	**62,328**	0.25%
2	WisdomTree West Asset Unconst Bond Fund (UBND)	Alt Credit Focus	**4,048**	0.55%

One-year anniversary

Ranked by average daily volume during the second quarter of 2015

	Name/ticker	3-month average daily volume	3-month return	1-year return	Net assets ($M)	Expense ratio*
1	iShares Core Total USD Bond Market ETF (IUSB)	**16,594**	-1.45%	1.63%	$394.8	0.15%
2	iShares Interest Rate Hedged High Yield Bond ETF (HYGH)	**4,204**	-0.26%	-3.66%	$105.8	0.55%
3	First Trust Managed Municipal ETF (FMB)	**3,727**	-0.88%	4.70%	$25.5	0.65%
4	iShares iBonds Dec 2018 Corporate ETF (IBDH)	**3,195**	-0.06%	1.70%	$32.6	0.10%
5	iShares Yield Optimized Bond ETF (BYLD)	**2,148**	-1.42%	0.92%	$11.2	0.28%
6	iShares iBonds Dec 2016 Corporate ETF (IBDF)	**2,001**	0.17%	0.80%	$25.0	0.10%
7	iShares Interest Rate Hedged Corproate Bond ETF (LQDH)	**1,478**	-1.20%	-2.87%	$23.6	0.25%
8	Deutsche X-trackers Solactive Inv Gr Sub Debt ETF (SUBD)	**219**	-3.36%	1.79%	$6.2	0.45%

As of June 30. Excludes leveraged and inverse funds, and exchange-traded notes. *Most recently reported net prospectus expense ratio.

Source: Lipper, a Thomson Reuters company

Portfolio Manager Viewpoints

Essential Ingredients for Unconstrained Investing

Todd Thompson
Head of Reams Asset Management fixed income credit research team

On May 19, Todd Thompson, head of the credit research team at Reams Asset Management, a division of Scout Investments, joined InvestmentNews contributing correspondent Consuelo Mack in a Portfolio Manager Viewpoints webcast to discuss aspects of unconstrained investing.

Consuelo Mack | What do you see as some of the challenges of fixed income generally and unconstrained specifically?

Todd Thompson | Investors' chief challenge in fixed income is the potential for permanent impairment, or the loss of principal value that can't easily be recouped in fixed-income securities if interest rates rise.

Unconstrained offers an opportunity to avoid permanent impairment while maintaining exposure to fixed income, which most investors need for diversification.

Mack | Could you outline your five requirements for becoming an unconstrained investor?

Thompson | No. 1, you need to decouple from a traditional broad market benchmark. Tethering to a broad market benchmark is one way to create a lot of risk in a portfolio. For instance, Treasuries and mortgage-backed securities are almost two-thirds of the Barclays Aggregate. Do you really want unintentional exposure in those sectors?

Unconstrained lets managers roam across the fixed-income landscape to seek value wherever it is: emerging markets, international bonds, investment-grade bonds and bank loans.

No. 2 is to accept a new definition of risk. The inherent flaw of contemporary risk models is that they give you a green light when volatility is low and tell you to get out of Dodge when it's high — the opposite of what long-term investors should be doing.

Ironically, we go back to an old-school definition of bond risk: What are the chances I won't get my money back?

No. 3 is to reconsider the investment horizon. The obsession with the minutest details of performance doesn't encourage people to step back, take some volatility and focus on risk-adjusted returns. A long-term perspective is essential in unconstrained investing — but a long-term, opportunistic perspective as opposed to a buy-and-hold approach.

No. 4 is to focus on total return rather than income. When spreads are tight, yield investors are tempted to do risky things to get extra income. It may work for a short time, but it normally ends in negative returns.

The operative phrase is to respond opportunistically. Everything should be viewed as tactical rather than strategic.

And No. 5 — perhaps the most difficult point for many people — is to cede fixed-income allocation decisions to a competent manager. Hopefully, that manager is nimble and has the acumen to respond to opportunities that are warranted on a risk-adjusted basis.

Mack | Is an unconstrained bond strategy a complement to or replacement for a core bond strategy?

Thompson | It depends on what an investor wants the bonds to deliver. If you need a hedge, where the holding goes up when everything else is going down, you'll probably be disappointed in unconstrained, because if unconstrained managers do their job right, you'll be correlated to risk assets short-term.

Mack | What are the characteristics of a good unconstrained bond strategy?

Thompson | Effective utilization of liquidity — if it doesn't find value, it's willing to sit on a lot of cash and cash equivalents.

We're highly liquid now because we see the market as bereft of value. That's a contrast to 2009, for example, when the strategy was probably 96% invested.

If you're following opportunism in a disciplined manner, your liquidity profile will shift.

Mack | What kind of fixed-income assets will offer you the types of opportunity you're waiting for?

Thompson | I'm not sure which pitches will come over the plate, but I know I'm going to have the liquidity to respond accordingly.

I also don't know which market will come into the buy zone first. We saw the tip of the iceberg in emerging markets early this year. Maybe the next big trade will be investment grade or high yield.

Mack | Is the high-yield bond market tapped out, especially with the advent of rising rates?

Thompson | The Fed got what it wanted with quantitative easing: people in the deep end of the swimming pool. Those people have assumed a lot of risk to get incremental income. The high-yield market is front and center there.

Mack | Are commercial mortgage-backed securities interesting at this point?

Thompson | We're finding value in particular niches of the mortgage market, multifamily, for one. These are apartment buildings Fannie Mae is trying to get off its balance sheet. Securities have bells and whistles that are accretive to us, including the prepayment penalty.

The commercial mortgage-backed sector has recovered from 2009. We're probably in the 11th inning of the second-lien game. Those are still classified as asset-backed securities, because the evaluations have rebounded.

Mack | How do you get to negative duration as a strategy?

Thompson | We use Treasury futures and the portfolio's natural duration. Our philosophy is to use this on a tactical basis. We look at the world in terms of real rates of interest and find the whole spectrum overbought. We're reactionary here so are going to respect market moves and position the portfolio dynamically.

Negative duration is a tool. The real driver for alpha on this product has been sector rotation, security selection and industry rotation.

Mack | How do you reconcile the fact that your turnover is over 400%, and yet you advocate a long-term approach?

Thompson | The markets for fixed income tend to overshoot, so our turnover goes from tranquil to elevated with volatility. We go where the party is, so to speak. We'll assess our disciplined buy point and where we need to exit. But sometimes those can create rapid gyrations.

Mack | With dealer inventory about a fifth of what it was before the crisis, there's no middleman. Yet you've said you embrace the illiquidity as an opportunity.

Thompson | Wall Street is a fifth of what it was before the crisis, so the shock absorber is gone. For instance, when there's a liquidation of oil and gas bonds in December and January, the Wall Street community acts as an agent, not as a principal. Stuff tends to fall because they're just going to mark it down and down until they find the clearing price.

If you're an opportunistic manager like Reams, you welcome and harness that. It means the canyon of value is going to be wider, and it normally leads to larger opportunities in the portfolio, but it also requires more of a measured approach in how we scale into positions. ❖

For more information, contact Scout Investments at 877.726.8842 or visit scoutinv.com.

Scout. Investments

Watch the full webcast with Todd Thompson and get CE credit: www.investmentnews.com/unconstrainedinv.

The risks of overfunding 529 savings plans

Leftover funds may be subject to 10% penalty and income taxes

Here's a typical scenario that happens in my world. A high-earning family walks in the door and wants to begin the retirement and financial planning process. The family is prepared, highly educated and committed to developing and sticking with a strategic plan. But here's what's also typical: the family has misconceptions about paying for college and the 529 plan funding process.

Typically, a caring family member will say to me, "Masood, one of our absolute key goals is to fully fund our children/grandchildren's college education by maximizing a 529 plan." This seems like a reasonable goal, and for many families it is the right choice.

But for others with the best of intentions, the story is different, and

> **MONEY IN** a 529 plan can count against a student's eligibility for need-based or merit-based financial aid.

maxing out that 529 plan can be the wrong advice on the adviser's part. Why? Because of the impact to financial aid and the penalties that can be incurred against unused funds.

Most 529 plans are similar in that they invest holdings in mutual funds and offer significant tax advantages as long as the money is used for qualified higher education expenses including tuition, room and board, books and other supplies.

FINANCIAL FOOTING

Parents and students have unknowingly negated this advantage by overestimating how much college will cost and contributing far more money than necessary.

Those utilizing 529 plans are often on stronger financial footing. A recent Government Accountability Office study found that the average household using 529 plans has a median financial asset value of $413,500, 25 times higher than the median asset value for families not using these accounts. But one's past financial success does not make one immune to the potential drawbacks.

I know of one situation in which a high-net-worth client was upset to find that money left over in a 529 plan (after his son finished college) was subject to both a 10% penalty and ordinary income taxes on earnings upon withdrawal.

A good tip to keep in mind for families who have more than one child is that they can avoid these penalties by rolling over excess funds into another beneficiary's 529 account. But single-child families, such as the client noted above, may be left paying the taxes and penalties unless their child decides to attend graduate school or they have other family members they can transfer the funds to.

It is also worth keeping in mind that money earmarked for college in a 529 plan can count against a student's eligibility for need-based or merit-based financial aid.

Merit-based financial aid can certainly be helpful even to those who are from high-income households. As of this writing, expenses average upwards of $40,000 a year for students who attend the average private four-year school and almost $19,000 for in-state residents who attend a public four-year institution, according to a recent study by The College Board. If a family has four children, for example, the expense of education can be steep. Needless to say, the figures I've cited will increase significantly in the years to come, adding to pressures facing families with young children today.

To be clear, every family should consider having some 529 allocation. The critical question is: how much?

When used wisely, college savings accounts can benefit families, but the disadvantages should always be taken into consideration.

It is important for families to consult with their advisers when planning for their children's and grandchildren's educations, and to set aside the right amount of money for these plans in order to optimize savings and avoid unnecessary taxes and penalties.

Masood Vojdani is founder and chief executive of MV Financial.

MetLife rolls out its first longevity annuity for IRAs

Contracts provide income stream starting far in the future

By Trevor Hunnicutt

MetLife Inc. last Monday unveiled its first longevity annuity for individuals' retirement accounts, becoming the latest company to seize on new rules allowing plan beneficiaries to use insurance products that defer income distributions far longer than usual.

The insurance giant tweaked its Guaranteed Income Builder, a deferred-income annuity, to make it available for individual retirement accounts as a "qualifying longevity annuity contract," according to a statement from the company. MetLife made such a product available for employer-managed retirement plans, such as 401(k)s, in May.

TREASURY RULE

QLACs are a variety of deferred-income annuity: Clients buy the contract now but don't receive an income stream until far in the future, as late as in the clients' 80s.

Last year, the Treasury Department announced a rule on longevity annuities, encouraging retirees to protect themselves against the risk of outliving their retirement savings.

The rules permit participants in 401(k)s and IRAs to use up to 25% of their account balance, or $125,000 — whichever is less — to buy a qualifying longevity annuity.

Money that goes into the contract is exempt from required minimum distribution rules that kick in at age 70½.

22%
Rise in deferred-income annuity sales last year, to a record total of $2.7 billion

SLOW ADOPTION

A number of carriers have worked to meet that demand, including American International Group Inc., Lincoln National Corp. and Pacific Life Insurance Co.

Yet broker-dealers have been slow to adopt the products.

The firms have wrestled with questions about who ensures the contract applications meet federal guidelines.

Like a number of other income-oriented investments, the products also have struggled against a backdrop of low interest rates.

Nonetheless, deferred-income annuity sales hit record levels last year at $2.7 billion, up 22% from 2013. That's still a small share of the $236 billion in annuities overall, according to LIMRA LOMA Secure Retirement Institute, a trade group.

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Websites help plan for death

By Alessandra Malito

It's not necessarily an easy conversation to have, but talking about issues related to ensuring that everything is in order post-death is one of the many responsibilities that financial planners owe to their clients.

Enter digital-archive websites that advisers can suggest clients take advantage of.

Take Everplans, for example. The one-year-old website just launched an institutional product that lets advisers personalize the web pages and share tips with their clients, give a referral to an attorney or ask clients to give them a call when they're done uploading.

The website is organized into numerous categories: home, medical, digital estate such as passwords and social media accounts, funeral preferences, vehicle information, financial adviser information, what to do with pets and even recipes. Clients choose who they want to view their "everplan" upon their death.

'KILLER TOOL'

"This is a tool that will enable them to have more detailed conversations than they have ever had," said Abby Schneiderman, co-founder of Everplans. "Technology is going to be the killer tool to help bridge the gap here, to make sure people can get as organized as possible."

Ayelet Hirshfeld, co-founder of digital-archive website Capsoole, said an online account that contains a client's important documents and other details allows advisers and family members to address their responsibilities in real time.

"Our lives are increasingly in the cloud," she said. "It allows them to be with you exactly at these times."

But Lucy Selby, an adviser with RelyOn Wealth Management, said there needs to be a balance between the online and human components of advice.

"I believe online helps, but I don't think it can be totally done online," she said. "It's just a tool."

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The real story on bond liquidity

History proves fear about havoc in the ETF market not grounded in fact

In the first half of 2015, investors put $24 billion of fresh money into fixed-income exchange-traded funds, pushing the total asset base to more than $325 billion. While bond ETFs were just 0.4% of the global bond market at year-end, there remains concern that bond market liquidity may deteriorate in light of ETF competition amid stressed conditions, such as pending Federal Reserve activity. As such, it's worth digging into how bond ETFs operate and what investors did during recent times of market uncertainty, including 2008, 2013 and 2014.

While bonds do not trade on an exchange, bond ETFs do and receive the benefits of transparency and intraday access. When sellers of bond ETF shares exceed buyers, the price of the ETF declines, just as it would for equity securities. If the price of the ETF shares deviates from the net asset value of the ETF's holdings, traders, including authorized participants, can take advantage of the valuation deviation by acting against this market trend. They would purchase the ETF when it trades at a discount and short the ETF if it trades at a premium.

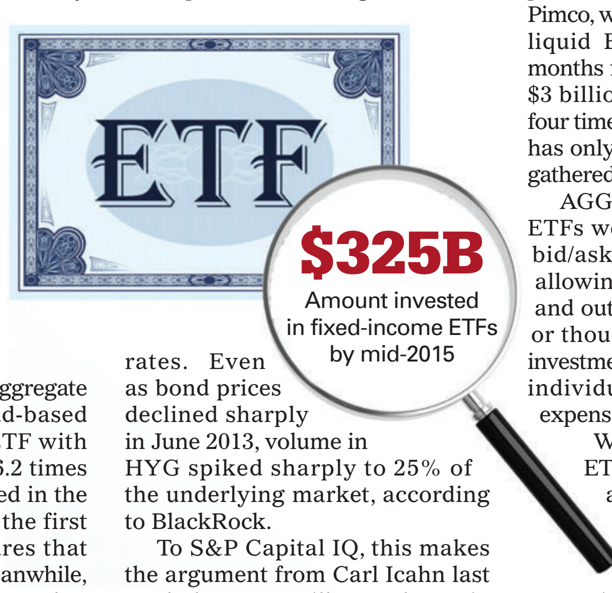
KEEPING PRICES ALIGNED

This trading activity has the beneficial effect of causing authorized participants to create or redeem ETF shares in a manner that changes the supply of outstanding shares to match demand. This typically results in keeping the price on the exchange aligned with the value of the ETF's underlying holdings. For example, as of July 17, while the five-day moving average price-to-NAV discount for Market Vectors Emerging Markets High Yield Bond (HYEM) was 0.55%, at the close of July 17, it traded at a more modest 0.12% discount.

Yet bond ETF trading activity should not be confused with bond buying and selling. Unlike mutual fund investors, ETF shareholders typically trade with one another through the exchange. Indeed, the volume of ETF shares can be many times greater than the amount of shares issued or redeemed directly by the ETF, according to a July BlackRock Inc. report on bond ETFs.

The iShares Core U.S. Aggregate Bond Fund (AGG), a broad-based investment-grade bond ETF with $25 billion in assets, had 6.2 times the number of shares traded in the secondary market during the first half of 2015 than net shares that were created/redeemed. Meanwhile, for Vanguard Total Bond Market (BND), a peer of AGG with $26 billion in assets, the ratio ranged from 3.8 times to 7.5 times between 2007 and mid-2015. The peak of secondary volume occurred during the financial crisis in mid-2008, just as bond liquidity was declining.

The iShares iBoxx High Yield Corporate Bond Fund (HYG), which focuses on the less liquid, speculative-grade market, has $14 billion in assets. The ETF traded 4.8 times more frequently on the secondary market than the total shares created/redeemed in the first half of 2015. During the summer of 2013, the Federal Reserve unexpectedly announced it would begin tapering back its $70 billion monthly bond program, causing widespread fears of higher interest rates. Even as bond prices declined sharply in June 2013, volume in HYG spiked sharply to 25% of the underlying market, according to BlackRock.



To S&P Capital IQ, this makes the argument from Carl Icahn last week that ETFs will cause havoc in the high-yield market hard to justify.

Of course, while bond ETFs trade frequently on a daily basis, some of the bonds inside the index the ETF seeks to track do not. This is where an asset manager's sampling efforts come in to play. Sampling provides an ETF with representative performance and risk exposure to the index, while it holds the more liquid securities. For example, BND held 7,540 bonds at the end of May, but its benchmark Barclays U.S. Aggregate Float Adjusted Index had 9,454; according to Vanguard, the average effective maturity and duration for the ETF matched the index, while the average coupon was slightly higher.

BOND LIQUIDITY IS THIN

Let's fast forward to the late September 2014 departure of Bill Gross as chief investment officer of Pacific Investment Management Co. and manager of the Pimco Total Return (PTTAX) mutual fund. During this "key-man risk" two-plus month period, $60 billion stampeded out of Pimco, with some shifting to low-cost liquid ETFs. Indeed, in the two months following his exit, AGG saw $3 billion of net inflows. This was four times the inflows the ETF, which has only a 0.08% net expense ratio, gathered in the prior two months.

AGG is one of 57 fixed-income ETFs we track that traded with a bid/ask spread of $0.03 or lower, allowing investors to easily get in and out of a portfolio of hundreds or thousands of bonds. For many investment styles, the cost of trading individual bonds is much more expensive.

While the bond market and ETFs will experience volatility as the Federal Reserve raises rates, we think ETFs will be a go-to investment vehicle for investors seeking liquidity and transparency.

Todd Rosenbluth is director of ETF research at S&P Capital IQ. This piece was originally posted on MarketScope Advisor.

Clients need fresh advice on portability

By Liz Skinner

With final rules out just last month, portability is an area of tax planning in which wealthy clients need help from financial advisers.

"Portability is a game-changer that has not fully seen the impact on planning," said Dennis Belcher, a partner at McGuireWoods, at the AICPA Estate Planning Conference in Salt Lake City last Monday.

The IRS issued rules June 12 on portability, essentially finalizing regulations on how unused estate-tax exclusions can be transferred from a deceased spouse to the surviving spouse.

"A few things changed, and there were some things that they indicated that will be changed in the future," Mr. Belcher said. "They are basically taxpayer-friendly."

One scenario the rules clarified is that when a spouse who has received a deceased spouse's unused exclusion makes a gift, the spouse can use up the deceased spouse's exclusion first — before tapping into his or her own, Mr. Belcher said.

> "PORTABILITY IS a game-changer that has not fully seen the impact on planning."
>
> **Dennis Belcher**
> Partner
> McGuireWoods

For planning, that means a spouse who has a deceased spouse's applicable exclusion amount and plans to marry again should make a gift and use the exclusion, because if the spouse's next married partner dies, then he or she gets that exclusion and loses the one from the previous marriage, he said.

FILING DEADLINE

To take advantage of the portability rule, an estate tax return must be filed when the first spouse dies, even if no tax is due. The normal filing time is within nine months after death, with a six-month extension available.

The IRS divided the deadline for electing portability into two categories in the new rules. A regulatory extension now will be given only to those estates that were not large enough to require filing an estate-tax return, or those under $5.4 million, Mr. Belcher said.

However, to get that extension, the spouse will need to get a private-letter ruling, a process that costs about $10,000.

"We are hopeful that the IRS will make it automatic so that you won't have to go through the filing," he said.

The regulations did not address portability in the area of pre-marital requirements. Pre-nuptial negotiations increasingly involve a requirement to have a portability return filed or portability elected, but it's unclear who should have to pay for that return to be prepared.

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Would you like a financial plan with those eggs?

Young CFP attracts millenials by building business around eating

By Natalie Kitroeff

The night before I was to meet with my new financial planner, I forced myself to open the online questionnaire she'd sent weeks earlier. It made me anxious immediately. The form asked about my primary monthly income, which I couldn't put my finger on, and my secondary and tertiary income, which I do not have. It asked me to list my regular expenses and estimate "one-time upcoming expenses," which it had never occurred to me you could estimate. "Do you have renter's insurance?" asked the Excel spreadsheet. (No.) "Do you have life insurance? Do you have a will?"

I closed the tab.

That feeling of unmitigated horror is what Pamela Capalad, a 29-year-old certified financial planner, has built her business on. Ms. Capalad quit her job as a wealth management adviser in November to put all her energy into Brunch & Budget, a service she started in February 2012 to help normal people manage their money without freaking out. Food figures prominently in that strategy.

"Everyone's stressed out about [money], everyone's nervous, everyone's embarrassed about it, everyone thinks they're making all these mistakes and they're the only ones doing it," Ms. Capalad said, awaiting a plate of baked eggs on top of short-rib hash. "The idea of getting to relax and have a meal with somebody just changes the conversation."

CLIENT PICKS UP TAB

Ms. Capalad generally meets clients only over meals. She invites them to pick a restaurant in New York City, where her business is based, and decide how much they can afford to pay (the cheapest option is $50). The client covers the food. Her website is plastered with photos of heart-shaped waffles, avocado toast and poached eggs dripping with hollandaise. She sends clients an email every Wednesday offering "weekly financial inspiration."

That cheerful model has helped Ms. Capalad attract a client base that has eluded many financial advisers: people under age 35. Two surveys released this spring found that just 29% of young people have sought advice from a financial professional and only 30% of financial advisers are actively looking for millennial clients.

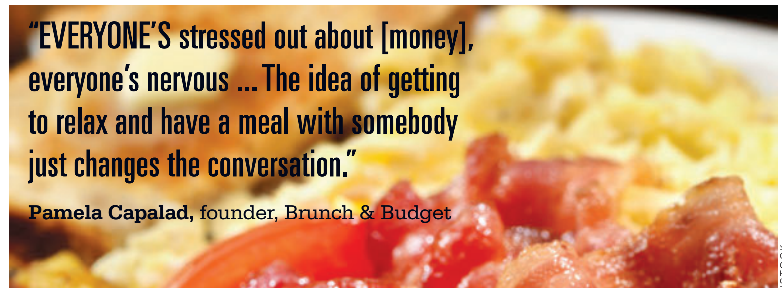
Meanwhile, 79 of the 95 clients Ms. Capalad has advised are millennials.

Ms. Capalad's approach tackles the anxiety about handling finances that plenty of young people feel, including me. Looking closely at my budget feels more like a punishment than a standard rite of adulthood: When I linked my bank accounts to the Brunch & Budget website, Ms. Capalad's system summarized my net worth: $802.

"That's totally typical," Ms. Capalad said. I assured her that my net worth would increase the next day, when I got my paycheck. She eventually pulled out an iPad and began asking me the questions I avoided on the questionnaire.

The first was strange: "What is important about money to you?" Ms. Capalad asked me to think about the things I spend money on that make me happiest. The idea, she said, is to separate expenses that matter from those that could be cut.

Travel is important to me, I announced. She suggested putting 10% of my paycheck into a savings account separate from my regular one. I acted as if I knew people could have more than one savings account.



ISTOCK

According to the calculations Ms. Capalad asked me to make, I spend $500 per month at restaurants. She told me to eat out once a week, instead of, say, four times. She also suggested deleting my Seamless account and replacing it with a couple of months on a food delivery service such as Blue Apron, which sends people all the ingredients they need to make certain meals.

At some point, the food ran out, and all that was left was Ms. Capalad asking patient, probing questions and tapping the answers into her iPad.

Ms. Capalad suggested, at one point, that I call my health insurer to make sure I know what code my out-of-network doctor should be using, so that I can make sure I'm getting covered for services. This sounded like a nightmare to me, but Ms. Capalad was determined to make it thrilling. "Yaaay, fun!" she said. I think she might be serious.

Natalie Kitroeff is a reporter for Bloomberg News.

No bull: Don't avoid taking risks

Guest Blog

Joe Duran

I was 18 when I first went to Pamplona, Spain, and ran with the bulls during the San Fermin festival. The weeklong festival in the northern Spanish town has been one of the largest street parties in the world for centuries. For seven days, bulls are released at 8 a.m., there is much celebration and rejoicing followed by the bullfights in the evening. Then follows a night of building tension as the next run approaches.

I ran several times on that first visit. While studying abroad in Madrid a few years later, I ran several more times. Those runs were really fun — scary but carefree. It's easy to take risks when you don't have a lot to lose.

Then, when I was facing my 40th birthday a few years ago, I decided to go back. I took a dozen of my closest friends. The feelings were quite different after the almost 20-year hiatus.

I was terrified. I was running a new financial firm, I had a wife and three daughters at home. We were all older, more aware of risks and, more importantly, we all had a lot of responsibilities at home. There was no rational justification for doing it again. Regardless, we decided to run. At the first big turn (nicknamed "hamburger corner" for obvious reasons) I lost my footing. The charging bulls peeled around my completely vulnerable derrière. When we finally reached the arena, we screamed and hugged each other, and I swore that would be my last run. After all, I had run in my teens, my 20s and my 30s and the risks were very clearly no longer worth it.

WHY DO IT?

But here I was on July 13, 47 years old and in the square with my friends about to participate in my 10th run. Why would I do something so risky? It's not justifiable, but let me share the reasons, if only to help explain why anyone should ever takes risks like this:

1. Everyone needs to be a little selfish. In middle age, we often become beasts of burden, providing to everyone around us. It's often impossible to find personal time among the daily chores of earning a living and ensuring you are a good family and community member. Taking a few days just to be together with friends, laughing, eating too much, staying up too late — reminding yourself who you are when you aren't dad or worker bee is invigorating. Few things bond a group of friends more than a facing big challenge together.

2. It's important to face our fears. A couple of years ago, my wife and I were attacked by four brick-wielding thugs in Buenos Aires. We got out OK after a very messy fight, but the psychological damage has been with me since it happened. Even though the fight went fine, I have been carrying a feeling of vulnerability and fragility that I wanted to confront. Going back to running the bulls was a good way for me to see if I had the willingness to continue taking risks. I have always believed growth takes risk, taking risk takes courage. This felt like the right test for me.

3. To remind yourself what really matters. Standing in the square for the 30 minutes before the run is an incredibly introspective period. Every ounce of you wants out; you want to be safely with your loved ones. You think about all the things that would be affected if you mess up. In the chaos of the run you are petrified about everything you can lose, and when it's done, you feel free and intimately connected to the people you love and the life you have created.

So was it worth it? Yes. I realized a nice symmetry between running with the bulls and life. As you run for your life with threats all around you, the choices you make at any given moment can change everything. One wrong turn and things could go really badly, but you have to keep looking over your shoulder and keep moving forward, challenging and pushing yourself. Even though you are afraid and exhausted, you keep going.

Joe Duran is chief executive of United Capital.

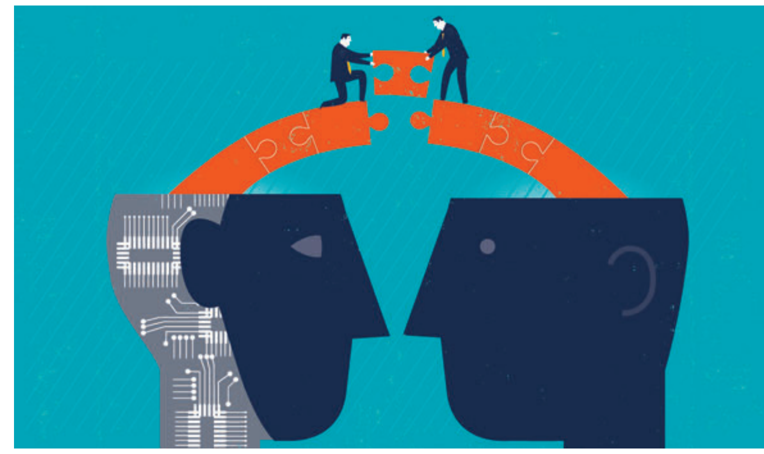
Joe Duran (bottom): With his team in Pamplona, Spain.

JOE DURAN

Market the robo component of your firm to draw prospects

Adding an automated platform is just the beginning for advisers

By Alessandra Malito


ISTOCK

Advisers who add a robo-platform to their practice may be ahead of the curve, but there's still more to be done — particularly marketing the platform to reach prospects and drive client acquisition.

It's more than just talking to clients about the functionality of the robo. They can do that simply by explaining that the platform has additional features to check and manage an asset allocation, making those portfolios easily accessible through web portals and apps.

Marketing comes down to where to place the robo-adviser on a firm's website and how to communicate to clients and get the word out to prospects that these new features are available.

Rick Keaft, senior vice president of business development and marketing at Redhawk Wealth Advisors, said his firm uses email signatures as a way to market its robo-offering. The firm has a link to the robo at the bottom of every email that its advisers send, allowing executives to track which links generate the most leads.

"It is very easy for the end user," Mr. Keaft said. "They click on the link attached to the adviser's email and start going through the steps."

TRADITIONAL APPROACHES

Jimmy Douglas is general manager of Advisor Launchpad, a company that helps advisers provide fresh content for their websites. He said traditional marketing can attract clients to a robo-adviser website or app. Examples of promotional content include an educational ebook, white paper and video.

Still, it's an uphill battle before robos are marketed more frequently, as many advisers are hesitant to embrace the robo movement fully.

However, many clients are demanding more comprehensive digital features and functionality, and advisers who are early adopters are embracing new technology to cast a wider client-acquisition net.

Jemstep, an adviser-facing robo-adviser software provider, has teamed up with marketing agency Trungale Egan + Associates, to help advisers get in front of new prospects.

The primary goal of the partnership is to maximize web traffic to an automated investment service's website and generate leads for advisers who are offering the robo platform. Advisers working with Jemstep will have access to email and social media channels to market their digital tools at no additional charge.

EXPLOIT THE PLATFORM

"Many investment advisers are not specialists at online marketing," said Simon Roy, president of Jemstep. "We want to make sure we enable firms to get the most out of the platform, and one of the key elements is marketing."

That is the natural next step after implementing a robo, after all.

"If you're going to have a robo platform, it only makes sense to include a marketing component — especially for smaller advisers who struggle to get the word out and market themselves," said Walter Lis, a digital strategist who works with financial advisers.

Mr. Roy said the ultimate goal for a successful robo-marketing strategy is having clients sign themselves up for the investment platform at a convenient time.

Although there are pressures to adopt a robo platform, according to a Corporate Insight study from February, only 5% of the 500 financial advisers surveyed said they saw an opportunity to use a robo-adviser.

In the 2015 *InvestmentNews* Technology Study, 3% of the 234 advisers surveyed said they currently offer any sort of digital advice. When asked if they plan to offer a robo-advice platform in the next six to 12 months, 11% said yes.

Sean McDermott, an analyst at Corporate Insight, said that may change as advisers gain experience with robos from larger firms, such as Schwab Intelligent Portfolios and Vanguard Personal Advisor Services.

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Dimensional breaks its own ETF barrier

By Trevor Hunnicutt

John Hancock Investments and Dimensional Fund Advisors will team up to bring their own exchange-traded funds to market for the first time, according to a filing with regulators this month.

John Hancock will use Dimensional as the manager on its first ETFs, a series of index funds that join an onslaught of products attempting to capture returns surpassing the market without hiring pricey stock- or bond-picking active managers.

Yet Dimensional will bring to ETFs a deep pedigree, both in the investment strategy that is sometimes called smart beta or factor investing and in selling funds to financial advisers.

Dimensional is one of the earliest proponents of factor investing. They blend elements of index-based investing and active investing in order to exploit market returns predictably and minimize trading costs. Many of today's smart beta products — from index providers including FTSE Russell, WisdomTree and Research Affiliates — are based on a similar premise.

The firm argues that trying to consistently beat the market is a fool's errand, and instead uses academic research like the factor models of the Nobel laureate Eugene Fama and Kenneth French to capture long-identified sources of excess returns. Mr. Fama and Mr. French both sit on Dimensional's board of directors.

DEVOTED FOLLOWERS

The popular fund company has relationships with a devoted group of institutions and financial advisers, who must be approved to use its products after participating in seminars offered by the redemption-averse firm. So far this year they're the sixth top-selling fund company, according to Morningstar Inc., bringing in $11.6 billion from investors.

Alex Potts, chief executive at Loring Ward Group Inc., said his firm will stick with Dimensional's traditional offerings in part because they are more discretionary. Dimensional funds are not strictly tied to an index, meaning they can use trading tactics to improve returns and tax efficiency. He said some advisers may view the ETFs as a departure from the firm's core philosophy.

"It will be confusing for advisers," said Mr. Potts, whose investment-outsourcing firm makes extensive use of Dimensional's lineup and manages $12 billion in assets. "Normally, running a sector fund wouldn't be anything they'd recommend for an individual's portfolios."

RECOGNITION OF SUCCESS

But Mr. Potts said a deeper relationship with John Hancock is a feather in Dimensional's cap and a recognition of their success in money management.

John Hancock, a more traditional mutual fund shop employing stock- and bond-picking fund managers, has been working to build an ETF lineup. Once an industry backwater, ETFs now account for more annual sales by advisers than mutual funds and manage $3 trillion globally.

"To my knowledge, [Dimensional] hasn't necessarily been against the ETF structure in and of itself, but rather didn't like the idea of not having control over who was able to buy and sell their products," said Phil Huber, chief investment officer at Huber Financial Advisors, which manages $849 million. "Working with John Hancock from a subadvisory standpoint would provide access to DFA's management to retail investors that may not have otherwise been able to unless they worked with a DFA-approved adviser."


TODD WINTERS

Phil Huber: Dimensional was unwilling to cede control of its funds.

John Hancock manages nearly $130 billion in mutual funds and money market funds. Dimensional manages $406 billion. Dimensional already subadvises John Hancock-branded mutual funds that have $3.2 billion in assets.

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Bill would let SEC up the ante on penalties

By Mark Schoeff Jr.

Penalties for breaking securities laws would increase almost tenfold under bipartisan legislation introduced in the Senate on July 9.

The bill would allow the Securities and Exchange Commission to levy fines of up to $1 million per offense by individuals and $10 million for each violation by firms for the most serious offenses, which would include fraud, deceit, manipulation and deliberate disregard for regulations.

The ceilings represent a substantial increase from the current limits of $160,000 for individuals and $775,000 for firms.

> "A PENALTY should mean something, and it should get the recidivists' attention.
>
> **Sen. Charles Grassley**
> Chairman
> Judiciary Committee

TRIPLE PAY

The caps would triple for perpetrators who have committed other violations within the last five years.

The measure would allow the SEC to assess the fines in cases brought in federal court as well as those heard by SEC administrative judges. Under current law, the SEC can assign penalties equal to the amount of investor harm, but only when the case is taken to court.

The authors of the bill, Sen. Charles Grassley, R-Iowa, and Sen. Jack Reed, D-R.I., want to give the SEC enough leeway with penalties to make an impression on violators.

'NOT A DETERRENT'

"If a fine is just decimal dust for a Wall Street firm, that's not a deterrent," Mr. Grassley, chairman of the Senate Judiciary Committee, said in a statement. "It's just the cost of doing business. A penalty should mean something, and it should get the recidivists' attention."

Mr. Reed said the legislation would help protect the more than half of U.S. households that depend on investments to finance retirement and education.

"They shouldn't have to suffer undue risk or incur losses while securities law violators get away with a slap on the wrist," said Mr. Reed, a senior member of the Senate Banking Committee. "This bill gives the SEC more tools to demand meaningful accountability from Wall Street."

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Reality bites when it comes to wages in retirement

Baby boomers have unrealistic notions of earnings to come

By Liz Skinner

Financial advisers will need to provide a vital reality check for many of the nation's 76 million baby boomers as they move into retirement over the next decade or two.

As much as 60% of this giant demographic has concluded that they will continue to do some work after officially retiring. However, their expectations of what they'll be paid for that work are unrealistic, a new survey shows.

Only 21% of non-retired boomers say they are willing to work for much less per hour during retirement, according to survey of 1,005 baby boomers around the country by Bankers Life's Center for a Secure Retirement. About a quarter of them said they aren't willing to take any kind of a pay cut once they are retired.

PULLING IN MUCH LESS

The reality is that 53% of employed retirees make much less per hour than they did before retiring, a companion survey of 2,295 retired boomers found.

More than 90% of not-yet-retired boomers also expect that they'll have special work arrangements such as flex-time, telecommuting or job sharing. The reality is, only a third of working retired boomers said they have such arrangements, the surveys found.

> "FOR THE AVERAGE middle-class American, there is surprise and some disappointment that their skills don't command a little higher wage."
>
> **Keith Weber,** president, Weber Consulting

Higher-level executives are typically able to command a reasonably high pay, for example on a board of directors, said Keith Weber, president of Weber Consulting.

But "for the average middle-class American, there is surprise and some disappointment that their skills don't command a little higher wage," said Mr. Weber, who helps advisers work with clients to plan a happy retirement.

Once informed about the pay they can realistically expect to earn for work during retirement, some people will decide to work full-time longer and put off retiring, he said.

But others make spending adjustments instead.

"The lesser salary for some is something they are willing to accept to get into something they enjoy more," Mr. Weber said.

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BLOOMBERG

President Obama: Retirement security for middle class a top priority.

Obama to DOL: Help state 401(k)s

By Mark Schoeff Jr.

President Barack Obama has directed the Labor Department to propose rules by the end of the year that "provide a clear path forward for states to create retirement savings programs," he said at the White House Conference on Aging this month.

The rules would ease any worries by state lawmakers that state-based retirement plans would run afoul of federal retirement law.

Washington and Illinois have approved state-run automatic savings programs for companies that don't offer their own retirement plans to employees. About 20 more states are considering similar measures, Mr. Obama said.

"We want to do everything we can to encourage more states to take this step," Mr. Obama said. "And if every state did this, tens of millions more Americans could save for retirement at work."

The Financial Services Institute and other industry groups have opposed private-sector state retirement plans, arguing that they cut into financial advisers' turf.

But Mr. Obama said they would help build the retirement savings of employees who currently don't have that option at work.

"Even if your employer doesn't provide those mechanisms, you still have a way of accessing it," he said. "Every dollar you put in, that's going to be a dollar that also then benefits from the same kinds of tax advantages that somebody with a million dollars is able to take advantage of all the time."

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Can a fine wine be a fine portfolio diversifier?

It lacks correlation to standard assets, but risks sour the taste

By Jeff Benjamin

If your clients have patience, money and some more money, investing in wine might be an ideal portfolio diversification strategy.

Beyond the steep transaction costs, insurance and storage fees; illiquidity; and general lack of regulatory oversight, wine can be a fine investment for the right person, according to Avinash Singh, senior manager at Aranca Investment Research.

"When it comes to investing in wine, information availability is not the same as with stocks or bonds, so the onus of research and knowledge is all on the investor," he said. "To get started investing, you really need two things: money and a knack for getting to know what good wine is."

While he admits the list of investment risks is long, Mr. Singh, in a new research report, also underscores the value of wine investing as an alternative asset class.

As a marketplace, the world of fine wine is known to be extremely diverse and inefficient, which can create big opportunities for those in the know.

CONVINCING CASE

But even the most popular index in the space, the London-based Liv-ex 100 Index presents a convincing case for dabbling in the category.

According to Mr. Singh's research, the benchmark's 9.2% annualized 10-year return through June is second only to gold's 10.4% annualized return among major assets classes.

But what's most attractive about wine is the lack of correlation among the major asset classes over the 10-year period.

The Liv-ex 100 had a correlation to the S&P 500 of just 0.23. In fact, the wine index's correlation to gold, real estate, bonds and emerging-markets stocks ranged between 0.17 and 0.38.

By comparison, the correlation between the S&P 500 and the S&P Global REIT Index was 0.82, or nearly full correlation.

That kind of data is probably not lost on the financial advice community, but the risks lurking in what is still a relatively uncharted market prevent most advisers from steering their clients toward wine investing.


BLOOMBERG

> "TO GET STARTED investing, you really need two things: money and a knack for getting to know what good wine is."
>
> **Avinash Singh**
> Senior manager
> Aranca Investment Research

"I have been personally interested in wine and have collected wine for over 15 years and know quite a bit about it, but I don't give advice to clients in this regard," said Assaf Pinchas, wealth manager at Allegiance Financial Group.

Mr. Pinchas described his personal wine collection as "valuable, but not necessarily an investment."

"My cellar has a certain worth, but I buy wine typically to drink it," he said. "If you know what you're doing, there's no question in my mind that you can make money on a regular basis investing in wine, but you have to be really sophisticated because the market is not very efficient."

INVESTIBLE QUALITY

For a sense of how easy it would be to make a poor decision when it comes to wine, Mr. Singh's research found that of the 24 billion liters of wine produced last year, only 1% is considered to be of investible quality.

It's for such reasons that most advisers put wine investing in the same category as stamp collecting.

"Whether it's wine or cars, I just don't know about people going into it as an investment or as an alternative investment," said Charles Sachs, president of Private Wealth Counsel.

"In my opinion, wine is a collectable first and foremost, and profit should not be a motivation for purchasing wine," he added. "If somebody is going into it because they enjoy wine, that's fine, and if they happen to make some money, that should be ancillary."

David Haraway, principal at Substantial Financial, said his limited knowledge with wine investing stops at the large bid-ask spreads and the sticky tax issues.

"I do know that, like stamps, art and other tangible personal property, it is disfavored by the tax code," he said.

Kristi Sullivan, owner of Sullivan Financial Planning, hasn't had any clients asking her about wine investing yet, but she would likely steer them in a different direction.

"I think of wine collecting as more of a hobby than an investment," she said. "If you're wealthy enough to have the time and do the research and have some awesome wine cellar set up, you're not really doing it for the money."

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Firms' goal: Social Security info without the hassle

Partners to develop ability to have benefits data on advisers' sites

By Alessandra Malito

One day, advisers may not have to tell their clients to go onto the Social Security Administration's website to get their most recent benefits statement. Instead, advisers will be able to encourage them to sign on to their own website or app.

That's because Financial Engines, Betterment and HelloWallet have recently struck a partnership with the SSA to develop software to incorporate Social Security data for individuals automatically onto their platforms. It is yet one more of the government's attempts to assist soon-to-be retirees with their financial planning.

With this new initiative, the information found in monthly Social Security statements would be released in a transferrable data file to be placed in a program. From there, advisers would be able to see a more exact number, as opposed to a projection that they create based on the guesses of their clients. It would help with creating financial projections and retirement plans.

> "IT GIVES the user better information in one step."
>
> **Aaron Szapiro**
> Policy and finance expert
> HelloWallet

"If [the SSA] makes the data available, it allows a separate advice engine or guidance engine to calculate that benefit in one step, so it makes it more seamless for the user," said Aaron Szapiro, policy and finance expert at HelloWallet, which Morningstar Inc. acquired last year. "It gives the user better information in one step."

A CRITICAL COMPONENT

Social Security benefits are a critical component of retirement planning for many Americans, and yet there is so much that goes into how to consider receiving the benefits, leaving many wondering about what payouts they can expect during retirement and when would be the best time to claim them.

In a true/false quiz that Massachusetts Mutual Life Insurance Co. gave to 1,500 adults, only 28% received a passing grade when asked basic questions about Social Security benefits.

"Basically what happens, you ask your clients what does your Social Security look like, and obviously they don't know," said Chris Chen, a financial adviser with Insight Financial Strategists. He said that while getting the statement off the SSA website isn't too difficult, having it downloaded directly to an adviser's platform would be helpful.

Kristi Sullivan, a financial adviser at Sullivan Financial Planning, said that getting information from the SSA can be irritating.

"It was a 55-minute wait to talk to someone," Ms. Sullivan said, adding that she had tried getting information about her own Social Security account. "It's a frustrating process."

Having a way to access a client's Social Security information easily would make it a lot easier to find the relevant numbers for that investor's retirement planning, she said.

Such an automated process would also help advisers and clients to avoid possible retirement planning mistakes.

"Because human behavior tends towards the easiest course of action, removing any roadblocks can yield step-changes in outcomes," Alex Benke, director of advice products at Betterment, wrote in an e-mail.

Betterment jumped into the retirement planning market in April.

Financial Engines, which works primarily in the 401(k) plan space, began to address this Social Security issue last year, when the company released a tool to measure an individual's potential benefits. With this new partnership, said David Weiskopf, vice president of corporate communications, near-retirees will gain a new perspective on their own finances.

"It is a great way to help people, particularly to get a much more accurate sense of what they are likely to receive, and then make decisions around how to make that happen," Mr. Weiskopf said.

A SLOW PROCESS

Although it will be a slow process to implement an automated solution for integrating Social Security data, it will be beneficial once accomplished, said Joe Elsasser, the founder of software provider Social Security Timing.

"If you look back just 10 years ago, there just wasn't the level of interest in Social Security claiming strategies as there is today," Mr. Elsasser said. "As more and more boomers retire, that level of access is going to become more and more important."

That's where the administration's newest initiative comes in.

"Forward-thinking policymakers understand that we will all be better served when systems talk to each other," Mr. Benke said. "Technology, powered by ever more data and streamlined experiences, is bringing fiduciary services to vastly more people than could access them in the past, and the government has a role to play here."

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Adviser's goals: Keep clients happy and profit growing

By Liz Skinner

Sheryl Rowling cares about where her firm stands in terms of assets under management, but it's the bottom line she wants to improve at Rowling & Associates.

"As a business owner, it makes more sense to focus on profit than sales," she said. "Once you have efficiency down, then, as you add new revenue, you get to keep more of it."

Her firm, which she created as a tax advice business in 1987 and now is 90% financial planning and 10% tax-focused, is all about automating functions so its people are free to do what they need to do — meet with clients and strategize.

The firm has two critical software tools to help raise efficiency. The first is its customer relationship management system, which allows the firm to track client information and work flow, and dole out tasks and assignments to keep client service moving along, Ms. Rowling explained.

The second is the firm's rebalancing software, which Ms. Rowling created because she couldn't find an easy-to-use solution on the market.

Now her Total Rebalance Expert is available commercially to other advisers.

"It allows us to stay on top of our client portfolios every day," she said. "Now we trade when it is right, not when the calendar says it's time to."

These time-saving technologies help San Diego-based Rowling & Associates keep up its high level of client service, even as revenue and profits have soared.

In fact, Rowling & Associates won a Best Practices Award for being a top performer among those who participated in the *InvestmentNews* Financial Performance Study of Advisory Firms in 2014.

> "THE BEST way to market to new clients is to do an excellent job with existing ones so they refer you."
>
> **Sheryl Rowling**
> Founder
> Rowling & Associates

Ms. Rowling said keeping clients happy is key to keeping profit growing.

"The best way to market to new clients is to do an excellent job with existing ones so they refer you," she said. "It's expensive to replace clients."

The firm resets its client minimums each year based on its average AUM per client, Ms. Rowling said. However, just because a prospect might have the money to become a client, that doesn't mean the firm is going to accept them.

PERSONALITY KEY

The firm considers "the personality of prospective clients," and if they look like they will be difficult to work with or don't value professional advice, the firm takes a non-traditional tack.

"We strive to allow them to decide against hiring us," Ms. Rowling said. "That makes things much nicer in the office."

She said her employees deserve to work with clients whom they like, and Ms. Rowling goes beyond the norm, it would seem, to keep her employees happy.

One perk she's instituted for the staff is a personal trainer who comes in four times a week and works with anyone who wants to improve their fitness.

Going forward, Ms. Rowling has two new lines of business in mind for the firm.

By the end of the year, she hopes to have a service in place to handle younger clients with fewer assets and another to help other investment management firms with asset allocation models and tax-loss harvesting opportunities.

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BEST PRACTICES

Rowling & Associates
San Diego

AUM:	$260 million
Revenue:	$2.5 million
Clients:	200 families
Personnel:	7.5 employees (two advisers)

Sheryl Rowling: Her employees deserve to work with people they like.

IRA ALERT
Ed Slott

Roth IRAs: Supersaving for college

Popular retirement vehicle has several advantages over a traditional 529 plan in many cases

Roth IRAs for college? Why would anyone use a retirement account to save for education expenses when there are accounts specifically designed for that? Roth IRAs add several different education savings dimensions. Here are three of them to consider.

FINANCIAL AID

When a child goes to college, if they want to receive student aid, the filing of a Free Application for Federal Student Aid is pretty much a must. The form is designed to calculate what's known as the expected family contribution. The EFC is essentially the amount that Uncle Sam thinks a person should pay for their own education and is calculated, in part, based on the assets of a student and his or her parents.

When reporting assets on the FAFSA form, most assets, including 529 plans, are included in the calculation. That means that saving for a child's education in a 529 plan — a plan expressly designed for that purpose — could end up increasing a client's EFC, reducing or eliminating the amount of financial aid for which they would otherwise qualify.

On the other hand, Roth IRAs (along with other retirement accounts) are not considered assets when determining a family's EFC. In addition, there's no cap to that amount, so clients may actually be able to accumulate significant sums in Roth IRAs and still qualify for student aid for a child.

FLEXIBILITY

To encourage people to contribute to 529 accounts, Congress created special tax breaks. As long as 529 plan distributions are used to pay qualified higher education expenses, distributions are 100% tax free (in some states, clients may also be entitled to a state income tax deduction). But if for some reason the funds in the 529 plan are not used for qualifying expenses, distributions can go from being tax-free to being taxable, plus a 10% penalty. True, a 529 plan set up for one child's benefit can be transferred to an account for another qualifying family member, but such a person does not always exist.

For obvious reasons, clients are encouraged to start saving for college as early as possible. But how are clients supposed to know for sure if their 5-year-old child will go to college, or whether the child might receive a scholarship? That could turn a tax-efficient account into a tax nightmare. If, instead of saving money in a 529 plan, your client had saved the same money in a Roth IRA and no longer needed those funds for education, it's an easy and tax-efficient transition to use those funds in retirement, which brings us to our next point.

TAX-FREE DISTRIBUTIONS

The primary purpose of contributing funds to a 529 plan is to enjoy tax-free distributions for education purposes, but a Roth IRA often provides the exact same tax benefits. If your client is over age 59½ at the time they take distributions from their Roth IRA and they've had *any* Roth IRA for five years or longer, then anything they take out of their Roth IRAs will be 100% tax- and penalty-free. That's true whether they use the funds for education-related expenses or for any other purpose. With more people waiting to get married and have children, it is increasingly common for education-related expenses to be incurred after the five years and 59½ requirements are met.

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Even if your client is not 59½ (or has not met the five-year holding period) at the time education-related expenses need to be paid, they may still be able to take funds out of their Roth IRA tax- and penalty-free. Roth IRA contributions can be distributed at any age, and at any time, 100% tax- and penalty-free. So, for instance, if they contribute $5,000 per year to a Roth IRA for the next 10 years before their child goes to college (and take no distributions in the interim), they'd be able to take $50,000 tax- and penalty-free from their Roth IRA.

In addition to Roth IRA contributions, amounts converted to a Roth IRA may also be distributed tax- and penalty-free. Even if your client is under 59½, Roth IRA conversions can be withdrawn tax- and penalty-free as long as the conversion took place five years ago or longer. So for example, if they convert $100,000 to a Roth IRA today at 50 and need to take that $100,000 out in six years to meet education expenses, the entire conversion amount will be tax- and penalty-free. And if they wait until they're 59½, any gains they earn on that $100,000 while it is in their Roth IRA can be withdrawn tax- and penalty-free.

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

INVESTMENT STRATEGIES

Jeffrey Rosenberg

Better believe it – Fed will raise rates

Though previous consensus forecasts turned out to be wrong, a rate hike is all but certain

Fear of rising interest rates certainly has been a prevalent outlook for each of the past five or six years. The pattern is now frustratingly familiar: quarterly growth rates and economic momentum surge at the end of the year.

Suffering from the greatest of faults in forecasting — extrapolation — the consensus expects this momentum to continue, providing the key fundamental rationale justifying an outlook for higher interest rates. We know this history well, as we have contributed to it.

The Federal Reserve does its part in contributing to this narrative by supplying a palliative year-ahead forecast for growth. And year after year, this rosy outlook is interrupted by a weak first-quarter growth outcome that throws the entire year's forecast off its bearings.

Though the growth rate reverses itself by the second half of the year, the resulting damage lowers the full-year growth trajectory. But over the years, this pattern also has lessened the Fed's confidence in its own economic assessments and willingness to contemplate raising interest rates over fears of continuing to overstate growth.

DISINFLATION FEARS

The start of 2015 followed this pattern. Though the consensus (ourselves included) held out higher interest rates for the year ahead, the start of the year jumped off right where 2014 ended: continued lower global interest rates following fears of worldwide disinflation (falling prices).

Though mainly fueled by falling oil prices, what economically should have been considered a transitory factor became the critical factor as disinflation (and related fear of deflation) led the European Central Bank into the expansion of its policy support through quantitative easing. This, in turn, fueled lower bond yields globally.

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Then, almost according to script, the data turned better. Surprisingly, they did so first in Europe, then in the U.S. And global bond yields followed higher. Though recent risk events in Greece led to "risk off" and lower interest rates, the apparently (at least at the time of this writing) successful "can kick" of the Greek problem yet again appears to have alleviated such concerns for now, leading to higher rates and return of investors' focus to the economic fundamentals.

And that leads to the expectation of rising rates, recently reinforced by Fed Chairwoman Janet Yellen in her semiannual monetary report to Congress. Again she intoned: "If the economy evolves as we expect, economic conditions likely would make it appropriate at some point this year to raise the federal funds rate target, thereby beginning to normalize the stance of monetary policy."

But the bond market response was lower — not higher — rates that day. That bond market yields went lower when the Fed said it would be raising rates later this year reflects that fact that such a notion has not just crossed everyone's mind. The Fed has been saying it, bond strategists (aka yours truly) have been saying it and even your distant relatives have been asking about it. So once the Fed does decide to raise rates finally — and we still maintain that September will bring that unmomentous event — should anyone be surprised?

SHORT-MATURITY BONDS

Well, possibly. And that remains one of the Fed's principal concerns, and why they keep telling you that they plan to raise rates. What residual concerns we have center on the aspect of the bond market most vulnerable to "liftoff." A repricing of Federal Reserve policy expectations tends to affect shorter-maturity bonds (say, two years to five years in maturity) greater than other areas of the yield curve, due to their greater sensitivity to Fed policy rates.

But it is not whether the Fed raises rates that matters, but rather in what kind of economic environment this occurs. Weak data and concerns over "foreign developments" will not be the circumstances under which we see the Fed act. Rather, the data will be positive and the backdrop supportive. While the prospects of a repeat of "taper tantrum" circa 2013 seem remote — the surprise factor this time around is decidedly missing — the impact to the front end of the curve keeps us cautious there.

But intermediate maturity rates should perform better and indeed already stand close to our year-end forecast of 2.5% for the10-year, implying a lower degree of interest rate rises for this segment once the Fed does finally lift off. We continue to expect the relative (i.e., adjusted for differences in duration) outperformance of this segment of the yield curve vs. shorter-maturity or longer-maturity alternatives.

Jeffrey Rosenberg is chief investment strategist for fixed income at BlackRock Inc.

RETIREMENT WATCH
Jonathan Rugg

Planning for the post-4% generation

Bengen's iconic retirement spending rate must be flexible, and only the beginning of the discussion

The 4% rule was created by a financial planner named Bill Bengen more than 20 years ago. His goal was to come up with a sustainable rate of spending that a retiree could safely withdraw from their portfolio on an annual basis. His research found that if a portfolio was invested 50% in large-cap stocks and 50% in intermediate-term bonds over a 30-year period, a retiree should be able to withdraw 4% (adjusted for inflation) per year without outliving his or her assets.

Later studies by Wade Pfau, a professor of retirement income at The American College, found that the estimated failure rate of this approach was around 6%, meaning that 94% of the projected outcomes resulted in a safe retirement. However, the largest drivers of projected outcomes are the return assumptions, as well as the sequence of returns. In today's low-rate and expected-low-return environment, this rule may become more relevant than ever.

RETURN ASSUMPTIONS

A recent paper by Mr. Pfau and fellow retirement researchers Michael Finke of Texas Tech University and David Blanchett of Morningstar Investment Management expands on this concept. If we assume that the current market prices of bonds are the best estimate of future bond yields and that long-run stock returns either have a constant risk premium over bonds or follow the formula of GDP plus inflation, plus productivity gains, plus dividends, then projected failure rates go up dramatically. The paper used bond rates from January 2013 with a constant equity risk premium, and projected failure rates increased from 6% to 57%. Even if rates were to increase and mean-revert over a five- or 10-year period, they projected failure rates to be in the realm of 18% to 32%.

In a prior paper, Mr. Pfau estimated that cumulative portfolio returns and inflation in the first 10 years of retirement account for approximately 80% of final retirement outcomes. A major market correction or even a low-return environment during this period can have significant consequences on a client's ability to compound returns over the next 20 years. Therefore, the asset allocation also plays an integral role. Generating decent relative returns is still important, but equally as important, in our opinion, is risk management. This can be done by structuring a portfolio to minimize drawdowns, since a large drawdown in the early years can have lasting effects on long-run success or failure.

CAUTIOUS APPROACH

Most retirees are walking a tightrope, which doesn't necessarily mean they are going to fall off. It just points to the fact that looking at risk is becoming more and more important, and adopting a cautious approach with continuous monitoring should become the norm. Bond yields are incredibly low and most forecasters' 10-year outlooks for stock returns are not anywhere near long-term historical averages. For someone approaching retirement today, that means those first 10 crucial years of retirement are facing head winds in the form of lower projected returns and a suboptimal return sequence. When analyzed on current return assumptions, Mr. Pfau finds that a spending rate closer to 2.5% is more realistic.

PLAN ADAPTATIONS

Many planners view a financial plan as a living, breathing document that adapts to changes in a client's personal circumstances or risk preferences. Why should the 4% rule be any different? Four percent seems like a limiting figure and can create a sense of paranoia when retirees are trying to enjoy the time of life they've worked so hard to enjoy. Instead of constantly worrying, retirees should have a more fluid and realistic understanding of their ability to spend during retirement without trying to stick to an arbitrary hard and fast rule.

For archived columns, go to InvestmentNews.com/retirementwatch

While we believe the 4% rule is a good starting point for a discussion about the planning process, it may no longer be adequate and requires educating clients about today's expected realities. Each client's situation is different. Perhaps some clients have other assets or sources of income — such as Social Security or a pension — to offset a lower drawdown rate. But in the end, it comes back to time-tested principles such as spending less, saving more and planning for the worst. If markets turn around and significant money remains after 30 years, it could go toward inheritance or charitable donations.

We advocate being flexible and having an evolving strategy with clients, but most importantly, having these conversations with clients from the outset. Managing expectations in this environment is critical.

Jonathan Rugg is vice president at investment advisory firm Charlesworth and Rugg Inc.

Advisers' big opportunity in the small 401(k) plan space

Education in the small plan 401(k) market for both plan sponsors and plan participants is vital to the success of a plan. Plan sponsors need education to make sure they understand their fiduciary responsibilities, are offering the proper mix of investment options, have implemented an appropriate plan design with the right mix of plan features, and are maximizing the benefit they provide their employees.

An education policy is imperative to ensure there is formal employee communication and an education strategy in place to inform participants about their benefit on an ongoing basis. Effectively executing on the education policy is fundamental to helping employees reach their retirement goals.

Unlike larger companies that typically have sufficient internal resources to facilitate a 401(k) plan properly, smaller companies lack the resources, time and staff to address what's required of them to institute a qualified plan. They desperately need the help and education advisers can provide to increase understanding of plans in general, build an education policy and appropriately educate employees.

According to the Guardian Small Plan 401(k) RetireWell Study, there were five areas where small-business owners perceived disadvantages with 401(k) plans, including cost, fiduciary risk (almost one-third of small-business owners didn't realize they were the plan fiduciary), the complexity of retirement plans and providing education to employees. These are all areas where advisers can provide considerable assistance, support and education.

PLAN HEALTH

Whether addressing concerns on cost through fee benchmarking or explaining the role of a plan fiduciary and its responsibilities, educational activities can go a long way toward improving overall plan health.

Basic questions about the current plan can help reveal opportunities: 1) Do owners know they are a plan fiduciary and do they understand what that means? 2) Do they have an education policy? 3) Do they have a diverse set of investment options that are monitored regularly? 4) What are the participation rates? 5) Does the current plan design maximize tax benefits for the owner and employees?

The Guardian survey revealed there's a general lack of understanding of some basic investment terms among participants. Only 50% of those surveyed had heard of target date funds; 45% were aware of dollar cost averaging and only 39% were familiar with target risk funds.

While familiarity is one thing, comprehension is another. Two-thirds of participants who had heard of target date or target risk funds asserted they did not understand the term. Seventy-seven percent had heard of vesting but fewer than half said they understood the term completely.

Plan participants need a better grasp of basic retirement planning terms to understand how their 401(k) plans work and how they can be used to meet their financial goals and maximize their contributions. Lack of comprehension leads to a lack of engagement. In fact, almost 40% of all small participants did nothing with their 401(k) last year. While sometimes this may be a good thing, it also indicates they did not increase their contribution (only 16% of participants did) and did not rebalance.

CONTRIBUTION RATES

The Guardian study suggests the vast majority of plan participants are not contributing as much as possible to their plans. Only 15% of those under age 50 are maxing out their contributions, while only 11% of respondents over age 50 were contributing as much as allowed. Plan participants are also preoccupied with fund accumulation rather than on how the money they've accumulated will translate to actual retirement income. Fifty-four percent focused on looking at their 401(k) balance but only 29% paid attention to the income their account can generate in retirement. Participants are stuck in an accumulation mindset.

> **EMPHASIZE** education, which links comprehension, clarity and engagement.

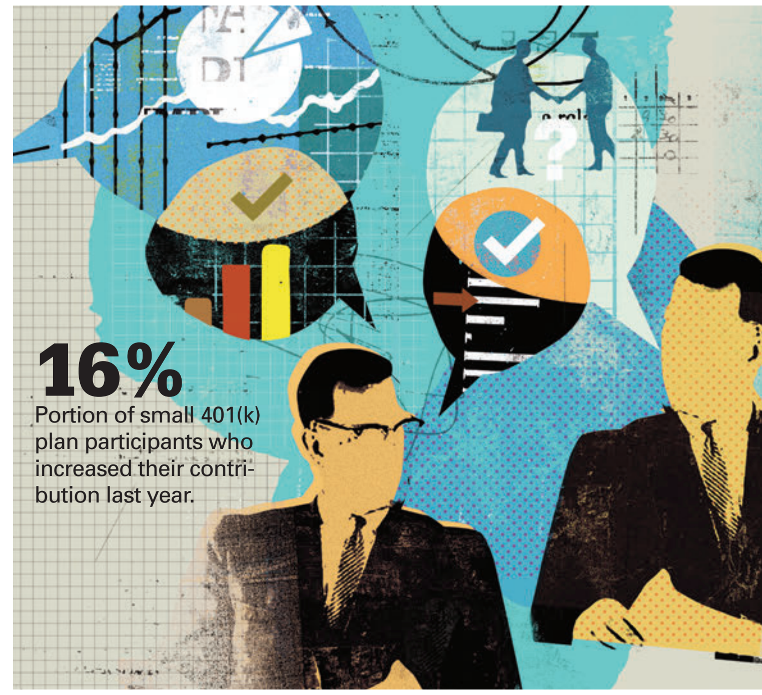
Advisers can use the power of a gap calculation to encourage clients to increase their contribution rates. When presented with information showing that their current contribution rate would only enable them to replace 50% of working income in retirement, 41% of those surveyed indicated they were likely to increase their contribution rates; 25% of participants said they would increase their contribution rates if it meant achieving a 100% income replacement ratio.

Participants also said they were more likely to increase their contribution rates if they had a better understanding of available investments in their plan, had a financial professional show them how to invest assets, had better education materials from the company servicing their 401(k) plan, or if they learned that others of the same age and income were saving a bigger proportion of their income than they were.

There is ample opportunity for advisers to address large voids in the small plan market and to help increase savings for employees. An emphasis on education, which links comprehension, clarity and participant engagement, goes a long way.

The more sponsors know, the more they can do to maximize the benefit they offer their employees, and the more participants know, the more they will save.

Douglas Dubitsky is vice president at Guardian Retirement Solutions.



16% Portion of small 401(k) plan participants who increased their contribution last year.

GETTY IMAGES

GETTY IMAGES

Identity thief explains the art of emptying bank accounts

Bloomberg News

Nightfall in Minsk means Dmitry Naskovets begins working the phone. At 24, Mr. Naskovets is tall and skinny, and still looks like the college kid he recently was. He's in his apartment's kitchen, in a respectable neighborhood in the capital of Belarus. He starts around 6 p.m. and usually doesn't quit until 3 a.m.

On this particular winter night in 2009, Mr. Naskovets checks the online orders that have come in. One of his clients has tried to buy a MacBook Pro online with a stolen credit card, but American Express blocked the purchase. Now it's Mr. Naskovets's job to work it out with Amex.

He calls the toll-free number, using software that makes it look as if he's dialing from the U.S. Any information the customer rep might ask for, Mr. Naskovets's client sends him instantly by chat. The questions don't usually get beyond the cardholder's date of birth, Social Security number or mother's maiden name, but the woman fielding this call is unusually thorough. She notices that the phone number on the account has changed recently, triggering extra security. She puts Mr. Naskovets on hold while a colleague dials the old number and gets the actual cardholder on the line.

ABSURD CONTEST

Thus begins an absurd contest: Mr. Naskovets against the man he's impersonating. The reps throw out questions to distinguish the fake. When did you buy your home? What color was the car you bought in 2004? Each time Amex puts him on hold, he knows the legitimate cardholder is being asked the same question. At last, the rep thanks him, apologizes and approves the purchase. Mr. Naskovets was even better than the real thing. (Amex declined to comment on the incident.)

Telling the anecdote years later, Mr. Naskovets is still amazed that Amex got it wrong. And he has a certain sympathy for the victim, who had to dredge up details from memory while Mr. Naskovets just read off a screen. "This guy has his credit stolen from him in front of his eyes," he says.

5,000 FRAUDS

From 2007 to 2010, Mr. Naskovets was an identity thief — the voice on the phone that explained questionable purchases to banks and gave final approval for fraudulent wire transfers. He didn't convince every agent; about a third of the time, the scam didn't work, he says. Hang up, move on. But he was successful enough to smooth the way for more than 5,000 instances of fraud, according to the Justice Department

"I understand it's bad," Mr. Naskovets says. "I understand that. But in the beginning, when you're sitting in Belarus, and you're very young and you need money … " he trails off. "You don't see blood, you don't see crying people in front of you. You're just pushing the button."

> "YOU CAN DO IT from your kitchen in your underwear with a beer."
>
> **Dmitry Naskovets**
> Former identity thief
> Now with CyberSec

Mr. Naskovets attended a public school with an intensive English program, with lessons six times a week from age 6 to 15, including classes in literature and translation. At 22, he was working for a Minsk car dealership when he ran into a former classmate named Sergey Semashko on the subway. He mentioned a job opportunity for someone with excellent English.

A few days later, Mr. Naskovets visited Mr. Semashko, whom he'd never known to be wealthy, in a mysteriously high-end apartment building. Mr. Mr. Semashko left the details of the job vague. Get a headset and a Skype account, he told Mr. Naskovets, handing him $500 — more than Mr. Naskovets earned in a month.

He set up an email account, f.sinatra54@gmail.com, and began to get messages from strangers via Mr. Semashko. The requests quickly became more obviously illegal — impersonating bank customers and getting bogus wire transfers approved. To Mr. Naskovets, it felt almost like a game.

"It's crazy and every day something new," he says. "You can do it from your kitchen in your underwear with a beer."

By mid-2007, his business was thriving. His hacker partners did the complex computer work of stealing account data, logins, passwords, Social Security numbers, and security questions and answers. They then would initiate fraudulent transfers or purchase expensive, easily resold items such as watches or Apple computers. With his conversational English, Mr. Naskovets provided the final piece, getting around the toughest security measures — if an outgoing wire required verbal confirmation, say, or a card company called to make sure it was really John Smith buying that $3,000 watch on eBay.

SERVICE VS. SECURITY

Mr. Naskovets did as many as 30 calls a day, charging about $20 a pop or a percentage of the transaction. For most jobs, customers provided the information he needed, usually culled from credit reports. If a bank asked for ID, Mr. Naskovets knew a guy who could email a PDF of a fake driver's license in seven minutes for $20. If he didn't know the answer to a security question, or an agent got suspicious, he had a strategy: feign impatience or frustration. American financial institutions focus on customer service at the expense of security, Mr. Naskovets says.

"Why are you asking me that?" he'd sputter. "I don't have time for this! I need to get this done!"

His accent wasn't much of a problem. Agents at banks followed a tight script. As long as he had all the answers right, he says, they weren't going to risk going to a supervisor

Continued on Page 46

CFP Board says I can call myself a CFP

Continued from Page 3
services industry (or even journalists writing about it) to qualify for 'financial planning' experience."

In an email last week, Mr. Kitces congratulated me on my hard-won designation and conceded that my professional experience of answering consumer and adviser questions within the context of an overall retirement income plan is "at least closer to direct client experience." But he expressed lingering concerns about the slippery slope of granting the CFP designation to those in financial planning support services.

"The CFP Board's decision to move further from direct client experience instead of closer to it still seems like a step in the wrong direction to building a bona fide and recognized profession," Mr. Kitces wrote.

'CURRENT AND RELEVANT'

Michele Warholic, managing director of the CFP Board's education, exam and talent services, said the organization continually reviews the experience, education and exam requirements "to make sure we are current and relevant to what is needed by CFP professionals and the public." Just think, prior to 1991, CFP applicants did not have to take a comprehensive exam.

When it comes to the new experience requirement, the CFP board focuses on whether a candidate has completed 6,000 hours of work experience — the equivalent of three years — regardless of how long it may take them to satisfy the requirement, Ms. Warholic said.

She equated the CFP experience requirement to the semester hours needed to complete a bachelor's degree. Some college students can squeeze the requisite 120 semester hours into three years, while others might stretch it out to 10. The required hours remain the same regardless of how long it takes the student to complete them.

IT IS A GRAYING industry, with more planners over the age of 70 than under the age of 30.

Ms. Warholic gave the example of a vice president of financial planning at a large firm with no clients of his own. He may spend 25% of his time supervising financial planning activities and 75% on managerial tasks. In that case, if he is credited with 10 hours of financial planning-related activities in a maximum 40-hour week, it would take 12 years, not three, for him to satisfy the 6,000 hours of work experience requirement.

CLAIMING STRATEGIES

In my case, I spend about 25 hours per week responding to questions about Social Security benefits and claiming strategies from individual consumers and financial advisers seeking answer for their clients. I use some of those questions as the basis for the blogs and columns that I write for *InvestmentNews* to help educate the broader financial adviser community about the nuances of this crucial retirement income program. And I regularly conduct Social Security seminars, both online and in person, for which advisers can earn continuing education credits. Altogether, the CFP Board credited me with 35 hours per week of financial planning-related experience since I began writing for *InvestmentNews* four years ago, satisfying the 6,000-hour work experience requirement.

If I can do it, so can you. And if you are inspired to take the CFP exam, see my Nov. 11, 2013, column on test-taking tips from the pros.

While I know this explanation won't satisfy all the critics, I am happy to join the growing ranks of certified financial planners, a group that has increased 30% since 2007 to about 70,000 practitioners. Unfortunately, it is a graying industry, with more planners over the age of 70 than under the age of 30. And only 23% of CFPs are women — a statistic that hasn't budged in a decade.

The industry needs new blood to carry out its mission of helping Americans plan and provide for their future. Hopefully, future CFP applicants will be younger and reflect an increasingly diverse population in terms of both gender and ethnicity.

(Questions about Social Security? Find the answers in my ebook at InvestmentNews.com/MBFebook.)

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Managing Medicare for expat clients

Continued from Page 4
can be used at any time during those coverages and up to eight months after the employee stops working or health coverage ends.

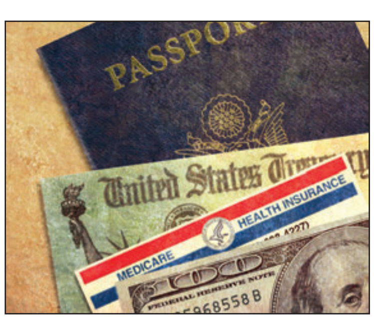
• Volunteering internationally for a tax-exempt nonprofit organization for at least 12 months. The sponsoring organization must offer health coverage. There is a six-month Medicare SEP when volunteer work stops, or health insurance ends, whichever is earlier.

If your client delays joining Medicare Part B until returning to the U.S. without SEP eligibility, they will pay a 10% per year penalty for every year without Part B coverage. That penalty can be costly and is paid in perpetuity on top of regular premiums.

Medicare Part D (prescription drugs)

Medicare Part D is only available while residing in the U.S. Individuals can join Medicare Part D or a Medicare Part C plan that includes prescription drug coverage under SEP rules within two months of returning to the States. If they do not, they will pay a lifelong penalty of 1% per month of the premium amount for every month they were eligible for prescription drug coverage and did not enroll.

It is easy to shop and apply for Part C or D coverage via medicare .gov. I recommend that folks do that in advance of returning to the U.S. to avoid coverage lapses and limit unnecessary out-of-pocket costs. Part C or D coverage is month-to-month, does not require a long-term commitment and can be canceled when the person goes abroad in the future.



PEOPLE CANNOT use Medicare Parts A and B outside of the U.S.

Retired military. When military retirees and spouses reach 65, they are entitled to "Tricare for Life" medical coverage. Medicare Parts A and B enrollment are required. Medicare Part D is not. An additional bonus of Tricare for Life is coverage of international health care services. Additional information can be found on tricare.mil/tfl

Other coverage abroad. Other than Tricare for Life, with rare exceptions, people cannot use Medicare Parts A and B outside of the U.S., so I urge folks to evaluate other types of health coverage while living abroad.

If your clients plan to move back to the U.S. one day or will travel back frequently, they need to think carefully about when to enroll in Medicare and what parts to enroll in. People can contact the Social Security Administration and Medicare to discuss their options. Those already living abroad can consult the Federal Benefits Unit of the U.S. Embassy or consulate where they live for personalized advice. The staff in those units have direct access to Social Security files, Medicare eligibility information and can process enrollment forms. In certain circumstances, beneficiaries are able to enroll in the various Medicare parts online as well.

Be sure to suggest to your clients that they include Medicare in their research and thinking about living abroad. That way they will enjoy the international lifestyle and have coverage that works for them when and where they need it.

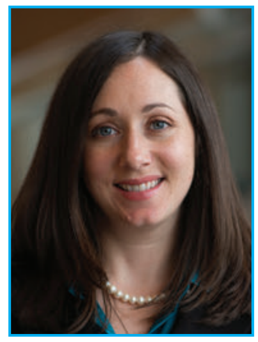
(Want to get more out of Medicare? Go to InvestmentNews .com/medicareguide.)

Katy Votava, Ph.D., RN, is president of Goodcare.com, a consulting service that works with financial advisers and consumers concerning health care coverage.

FEATURED EXPERTS

KEITH BLACK, PH.D., CAIA, CFA

Managing Director of Curriculum and Exams, CAIA Association



NADIA PAPAGIANNIS

Director of Alternative Investment Strategy, Goldman Sachs Asset Management

BOB RICE

Managing Partner, Tangent Capital, Contributor, Fox News

DAY TWO | SESSION TOPICS

- The Heroes of Benghazi: Lessons in Leadership for a New World
- Using Alternatives in an Unprecedented Interest Rate Environment
- Smart Beta: What is all the Hype About?
- Looking Toward the Horizon for the Next Wave of Alternative Products, Platforms and Strategies
- How to Leverage Tax-Efficient Strategies by Using Alternatives
- How to Attract and Retain High-Net-Worth Investors Using Alternative Investments
- FINRA 15-02: New Rules Affecting Account Statements

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Tales of terrible clients

Continued from Page 1

Chad M. White

Safe Harbor Wealth Management Inc.
Toms River, N.J.

The mean, wealthy widow

Love may be blind — but so is money.

Chad M. White learned that the hard way when he ended up with a client whose behavior was so disruptive he wanted to get rid of her almost immediately. But he kept postponing the inevitable because she was so wealthy.

"You hold on, hoping that they'll become nice to both you and your staff," said Mr. White, president at Safe Harbor Wealth Management, an LPL Financial affiliate.

He met his worst client at a finance seminar. There were problems from the start. She second-guessed almost all of his investment decisions, calling frequently to inquire about his transactions, Mr. White said.

"No matter what I did, it wasn't going to make her happy," he said.

The client was very focused on investments. Sometimes she'd call his staff, interrogate them harshly and demand to speak with her adviser. Her other sources of financial advice included her bank, where she held millions of dollars in certificates of deposit.

OTHER OPINIONS

One time, when Mr. White liquidated one of her index funds, she called the mutual fund company to ask its opinion. The company told her she should have kept the fund. So she demanded he undo his trade and buy the fund back.

"She had so much money, and I didn't want to lose her, so you start to make exceptions," Mr. White said. "I don't do that anymore. Now I get all my clients to sign off that I have 100% discretion on their accounts."

The lesson: "You don't want to lose a client that has $5 million, but it's not worth it if it's going to take away your peace of mind and your sanity."

— Trevor Hunnicutt

George Sisti

On Course Financial Planning
Woodinville, Wash.

The self-director

George Sisti wants clients who are going to trust him. If they don't, then they might as well not be his clients.

The financial adviser with On Course Financial Planning has had a number of bad client experiences, but there are some he'll never forget.

In one instance, a client unilaterally changed an investment in his portfolio without telling him.

"I'm a financial planner and therefore, I don't make recommendations based on what the market is doing," Mr. Sisti said. In other words, he's looking at long-term strategy.

But one of his clients wasn't.

"He was on board, but not really," Mr. Sisti said. "He was always ready to jump ship."

Ultimately, he did. Mr. Sisti had constructed a diversified portfolio for the client, but at one point, when international stocks suddenly started performing better than domestic equities, the client took it upon himself to go online and change the allocations from domestic to international. But he never told Mr. Sisti.

"Anybody whose business model is financial planning knows financial plans determine the portfolio, not timing the market," Mr. Sisti said. "He changed everything."

FIRED BY EMAIL

In another instance, a client fired him because the client was told he'd get a guaranteed 8% return somewhere else. It wasn't the firing that bothered Mr. Sisti; it was the way the client did it — via email.

"There's nothing that will take the wind out of your sails than getting fired by an email," he said.

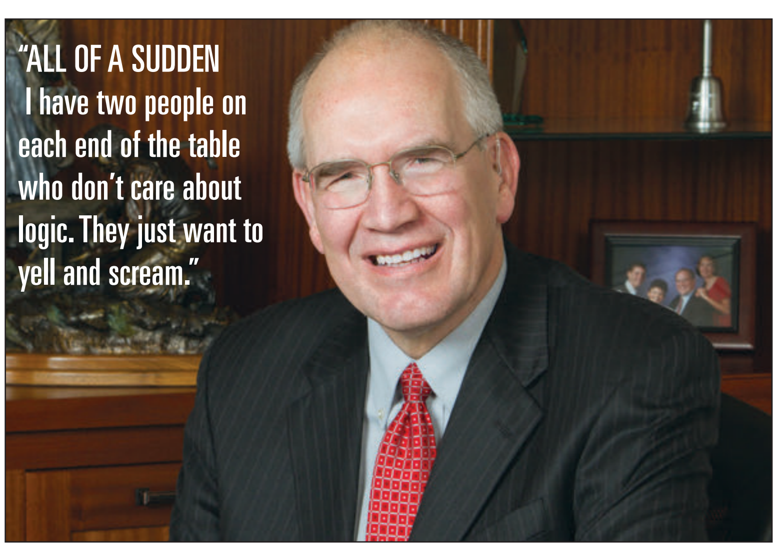
The takeaway for Mr. Sisti is to make sure you screen prospective clients carefully. Just as they are deciding whether they want to work with you, take the time to make sure you want to work with them.

"When they think they're screening you, you have to screen them at the same time," Mr. Sisti said. "Don't think you can ever change a client."

— Alessandra Malito

Wayne von Borstel

von Borstel & Associates
Portland, Ore.



The angry couple

Wayne von Borstel, a 30-year-veteran of the advice industry with his own registered investment adviser, von Borstel & Associates, has seen his share of problem clients.

There was the one who demanded an 18% annual return; he lasted eight months. There was another who jeopardized her and her husband's retirement by donating too much money to charity.

But his most difficiult clients were a couple who had hired him to help them plan for their marriage. They all met with an estate planning attorney, signed the necessary documents, and the two began investing for their life together.

HEADED FOR DIVORCE

Two weeks later, the clients were back in his office.

"She had decided he was a jerk and divorced him," Mr. von Borstel recalled. "And all of a sudden, I have two people on each end of the table who don't care about logic. They just want to yell and scream."

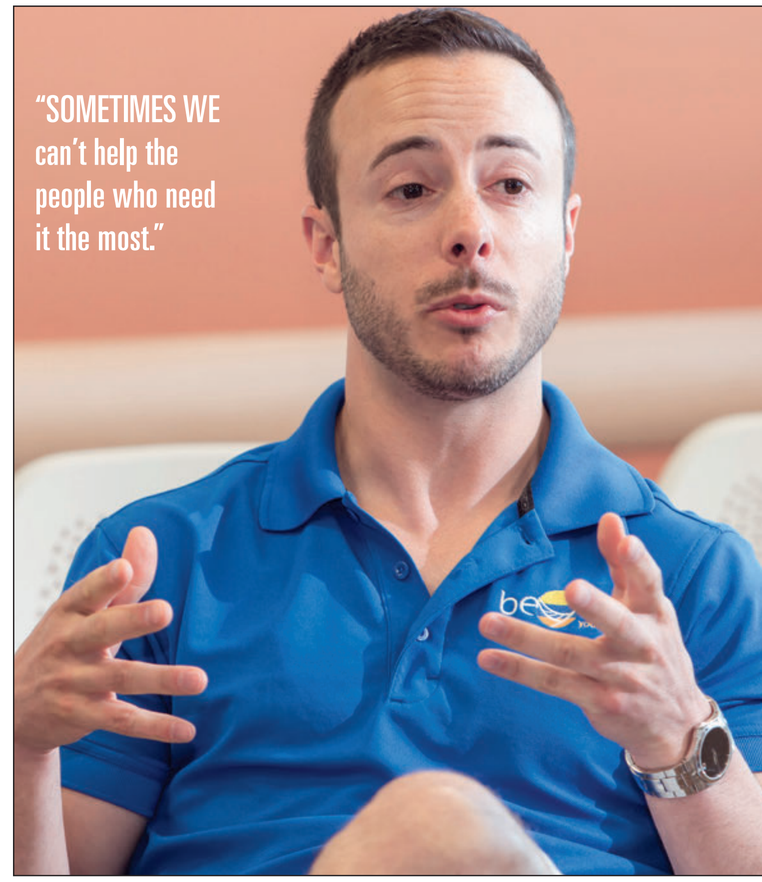
That was followed by a series of similar meetings trying to work out a fair way to take apart the plan they had put together, Mr. von Borstel said.

"You have to have five times the meetings because you never get anything really talked about," he said. "I was their trusted adviser, but no matter what I say, I'm trapped between those two. It's a lose-lose."

The two eventually stayed on, separately, as clients. Mr. von Borstel learned his lesson, however. He began including a special clause in his contract for hourly billing on "special projects."

"That way I can charge them enough so they'll fire me," he quipped.

— Mason Braswell



LISA MEANS

Eric Roberge

Beyond Your Hammock
Salem, Mass.

The spendthrift

Sometimes, no matter how hard advisers try to help their clients, it just doesn't work.

With one client in particular, Eric Roberge, an adviser with Beyond Your Hammock in Salem, Mass., found himself having the same conversation over and over about spending habits. With every meeting, the client would come up with a reason why she had to spend on a particular item or service. Mr. Roberge would disagree.

So the inevitable happened: Her net worth started decreasing because she was spending too much money.

"There are many reasons why a client would go ahead and do something like that even though it's something they shouldn't do," Mr. Roberge said. "They know they're doing it, but they just don't care."

Mr. Roberge said that as an adviser, his greatest concern is ensuring his clients are moving toward their greatest possible financial life — and he tries to do everything he can to get them there. So it bothers him when someone doesn't take his advice.

"I have invested time in my client and tried to do what is best for them," Mr. Roberge said. "So when something like that happens, in a way, I feel like a failure. And that hurts."

NO CONTROL

Mr. Roberge learned something from it though, and it's that he, like every other adviser, cannot control his clients. He still keeps fighting the good fight — and does so by continuing to talk to his clients about their spending habits. He asks them to envision their futures as debt-free, and what they would do with their money if they had no debt. The answer could be saving up for education or going on a family vacation.

Of course, there will always be clients who don't listen.

"Sometimes we can't help the people who need it most," Mr. Roberge said. "It's a tough reality to face, but one that advisers have to deal with from time to time."

— Alessandra Malito

Cullen Roche

Founder
Orcam Financial Group
Encinitas, Calif.

The impatient investor

Cullen Roche, founder of Orcam Financial Group, received a call in February from a prospective client who said he had been inspired by a recent blog Mr. Roche had written about the long-term impact of high fees, and wanted to move over his account from one of the wirehouses.

The client had been paying about 2% in account management expenses at his former firm for what amounted to a traditional 60-40 portfolio that could be easily replicated. Mr. Roche sat down with the client and began transitioning him over to less expensive funds, and charged him Orcam's typical fee of 35 basis points.

Over the next few months, the markets were relatively flat. Bonds had peaked and stocks were sluggish, and after a full quarter with Mr. Roche, the client had apparently had enough.

"The client was not even down, but the account was flatish, and I think he was suffering from a really short-term perspective," Mr. Roche said. "He called and informed me that he was moving the account because it had been flat for literally one quarter."

"My guess is he probably sold all those things and is moving back into something similarly inefficient as he was doing before," Mr. Roche added.

PERFORM LIKE A FERRARI

It's an extreme example of a common problem among clients. Investors always want their investments to perform like Ferraris when sometimes what they need is a

Continued on Page 45

Brad Sullivan

Sullivan Wealth Management Group
Roseville, Calif.

The shady bragger

In his first meeting with what proved to be his worst client, a red flag went up, Brad Sullivan said.

The adviser listened while the prospect, a prominent criminal defense attorney, bragged about how she got a client off for a hit-and-run accident.

It was his first year as a financial adviser and he could hardly turn down business, but he just had a bad feeling about her.

"Really, that just seems shady," Mr. Sullivan said. "If someone is almost in a way unprofessionally giddy about how successful they were at a lawsuit, then what's to stop her from being that way with our firm."

After one or two meetings, he suggested they part company.

'LIKE DATING'

"'I don't think we'd be the best fit for what you're looking for,'" he remembered saying. "You basically leave it at that. It's like dating. There's no need to get into why."

But Mr. Sullivan said it was a tough choice.

"That was hard, early on in my retail career, turning away a couple-million-dollar account," he said.

The experience has helped him craft his philosophy about the kind of business he wants to build.

"I work with all different types of people. I don't really care about race, sexual preference; I don't care about anything like that," he said. "But I need to be proud of the wealth that I help people protect and accumulate."

— Trevor Hunnicutt

Jones' upstart gains more assets

Continued on Page 2

a manager instead of being sold off. And the company said trading has become easier. But perhaps the most important benefit is cost. Mr. Fiala said Edward Jones doesn't build in the level of profit that usually comes with investment management.

"It improved efficiency, and it's driving down cost to our clients because we've embedded no manager profit in the Bridge Builder funds," Mr. Fiala said.

The firm's first effort on its own, the Bridge Builder Bond Fund (BBTBX), is up 2.2% over the last year, ahead of all but 13% of its competitors. The underlying investments are managed by Robert W. Baird & Co. Inc., J.P. Morgan Investment Management Inc., Loomis Sayles & Co. and Prudential Investment Management Inc.

EXPENSES

The fund's 0.21% annual expense ratio is much lower than the average fund of its kind, which charges 0.87% annually. But the investor is getting that as part of a wrap program that charges up to 1.5% to participate and 0.09% in administrative fees to access the funds.

After rolling that first fund out in 2013, the company followed with six more this year, including several stock-picking funds. On July 13, it opened its Core Plus Bond Fund (BBCPX), which already has raised $354 million. In all, the funds now include $16.8 billion. Edward Jones also is planning a tax-free municipal bond fund, according to Mr. Fiala.

> BRIDGE BUILDER HAS "improved efficiency, and it's driving down cost to our clients because we've embedded no manager profit."
>
> **Bill Fiala**
> Principal for investment advisory
> Edward Jones

The funds are sold exclusively through Jones' platform used by financial advisers whose compensation comes through fees paid by investors, not commissions. Jones has more than 14,000 advisers.

The number of funds available through the company's managed accounts likely will decrease to make way for the preferred Bridge Builder funds. Mr. Fiala said the average investor would likely be exposed to more managers because the firm is using several subadvisers on each of its funds.

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Twitter: @trhunnicutt

Continued from Page 44

slower and less expensive vehicle, Mr. Roche explained.

"I find myself almost being like a personal trainer for investors because they just can't stop eating the wrong things," Mr. Roche said. "I know [cyclical investing] is boring. I know it gets old, but in the long term, I know it's going to be better for you than constantly tinkering with things."

— Mason Braswell

TECH CONNECT

Big firms outpace startups in race for robo assets

By Alessandra Malito

If attaining the most assets under management is the name of the game, then startups in the robo-adviser space are not winning.

In Charles Schwab & Co.'s recently released second-quarter results, the company states that its own robo-advisory service, Intelligent Portfolios, and the adviser-facing version, Institutional Intelligent Portfolios, combined crossed the $3 billion mark in assets. That outpaces robo pioneers like Wealthfront and Betterment — with $2.5 billion and $2.4 billion under management, respectively — that have been around since 2008.

Vanguard Personal Advisor Services, a hybrid robo that mixes an online automated investment platform with an adviser call center, came out of beta in May and has already reached $21 billion in AUM.

Schwab's retail robo debuted in March.

The quick pickup of the two behemoths is attributable to a number of factors, but two in particular set them apart from their smaller counterparts: multiple positions in the industry and a recognizable brand.

It helps these bigger firms that each already had a huge, loyal customer base before they launched their robo-advisers. Vanguard transferred $10 billion in client assets to its automated investment platform. Alison Wertheim, a Schwab spokeswoman, said the firm is not reporting what percentage of Intelligent Porfolios' AUM came from existing assets.

On top of that, they are using their own products, such as exchange-traded funds, which means they don't have to charge a management fee like platforms such as Wealthfront and Betterment do. Schwab boasts a free platform, although investors do have to hold a minimum amount in cash.

"WEALTHFRONT AND Betterment ... are a ways away from the reach of Vanguard."

Craig Iskowitz
CEO
Ezra Group

ISTOCK

'FRICTION-FREE'

"We think there are many people who see value in a low-cost, friction-free way to get quality advice from an established, trusted brand," Ms. Wertheim said.

Vanguard charges 30 basis points for planning; it connects investors with human advisers, while Schwab does not.

Vanguard spokeswoman Katie Henderson attributes part of its success to its hybrid nature.

"It incorporates a relationship with the adviser, and we believe in the value of an adviser," Ms. Henderson said. "The role an adviser plays is not just to come up with a financial plan but also from an ongoing standpoint continuing to help a client when needed."

While it's not exactly a level playing field, the startups are staying competitive and continuing to add new incentives and features.

Betterment recently launched SmartDeposit, which checks an investor's bank account and automatically invests excess money above a predetermined baseline. Betterment spokesman Joe Ziemer said the company has doubled the amount of assets it manages in the last six months.

Wealthfront just dropped its account minimum from $5,000 to $500 and claims it had more clients sign up in the one week following the change than in all of 2012, according to spokeswoman Kate Wauck.

STRATEGIC PARTNERSHIPS

On all of these platforms, "portfolios are basically versions of the same thing," said Cullen Roche, founder of Orcam Financial Group. "I don't see why anyone would use the service if they have to pay a premium for the same products in the end."

Wealthfront, Betterment and the even smaller players in the robo-advisory space may want to consider strategic partnerships with firms that have their own line of ETFs. By doing so, they would be able to compete more effectively on price by not charging management fees, Mr. Roche noted in his blog, Pragmatic Capitalism.

There's another important factor in considering strategic partnerships: Investors tend to stick to what they are comfortable with.

When average investors give their advisers a portion of their assets, there's a good chance they'll choose a name they already know, said Craig Iskowitz, chief executive of Ezra Group, a technology consulting firm in the financial advice industry.

For smaller robos to catch up, they will have to spend "a massive amount of money" to boost brand recognition, he said.

"While Wealthfront and Betterment are going to attract some assets, they are a ways away from the reach of Vanguard," Mr. Iskowitz said.

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ID thief explains the art of phone fraud

Continued from Page 40

over a foreign accent.

Mr. Naskovets is cagey about how much he brought in — sometimes $400 a day, sometimes $1,000, sometimes nothing. He avoided transactions involving millions of dollars, preferring smaller stakes, less anxiety and greater freedom. "The bigger the money, the bigger the mental tension," he says.

"It was a good life," he says. "The most important thing was a kind of freedom from anything."

THE JIG IS UP

With his profits, he tried to start over outside Belarus. In 2009, Mr. Naskovets and his wife left for Prague with plans to start a pet-supply store. He was at home on April 15, 2010, when the power cut out. The doorbell rang; Mr. Naskovets opened the door and found a gun in his face. He was handcuffed as officers entered the apartment. A silent FBI agent stood watch. They bundled him off to Prague's Pankrác prison.

Belarus authorities arrested Mr. Semashko on the same day, and officials in Lithuania seized computers that hosted their business. Preet Bharara, the U.S. attorney for the Southern District of New York, trumpeted the arrests: "Dmitry Naskovets' website was essentially an online bazaar for dangerous identity thieves ... Today, we have shut down that business and protected untold thousands of potential victims of identity theft."

Mr. Naskovets' first instinct was to fight the charges. But his lawyer told him to accept extradition and make a deal. He pleaded guilty in 2011. In March 2012, Judge Lewis Kaplan sentenced him to 33 months, most of which he'd already served, and ordered him to pay $200.

'UNLAWFUL AND IMMORAL'

"I want to say thank you to the American government for giving me an opportunity to clean my hands in front of justice in such a humane and civilized way," Mr. Naskovets told the judge, "for giving me the opportunity to accept responsibility for all unlawful and immoral deeds and to start a new part of my life with totally different ideas in my mind."

"YOU CAN get life for two kilos of cocaine, but if you're going to get some bank fraud, OK, you're going to get 18 months."

Dmitry Naskovets
Former identity thief

Factoring in time served and a reduction for good behavior, Mr. Naskovets got out in September 2012. He faced a deportation order that would have sent him back to Belarus. Representing himself in immigration court, he argued that he risked torture if sent home, based on his run-ins with the security police. As a signatory to the U.N. Convention Against Torture, the U.S. cannot send someone back to a country knowing he's likely to be tortured. An immigration judge sided with Mr. Naskovets. The government appealed.

"You can get life for two kilos of cocaine, but if you're going to get some bank fraud, OK, you're going to get 18 months," Mr. Naskovets says. "So this is crazy."

ALLOWED TO STAY

While he was in prison, his case caught the attention of Stephen Yale-Loehr, a law professor who runs an immigration clinic at Cornell. With the help of Mr. Yale-Loehr and his students, Mr. Naskovets fought deportation in court for two years — and in October 2014 immigration authorities decided to let him stay.

By February 2015, Mr. Naskovets was living in Far Rockaway, N.Y. He was driving a friend's white Audi sedan, wearing a long black dress coat and new shoes, with new teeth and a haircut. He'd been taking an online course on the art business through Sotheby's. He'd also applied for a Discover card. "From the professional point of view, I'm analyzing how they work," he says, unimpressed. "They ask very secure, very tough questions — they think — like, 'What is your business address?'"

Mr. Naskovets and a partner have started their own company, CyberSec, which bills itself as a different kind of cybersecurity firm. "Their website touts the skills of "hackers who are now using their knowledge of computers to do good."

Not long after he got out of jail, Mr. Naskovets contacted the American Express security department to offer his help. "I was like, 'Because of you, I'm here. I'm good, so let me pay you back a little bit,'?" he says.

The company didn't take him up on the offer.

Clock ticking on DOL

Continued from Page 1

In August, the DOL will hold three days of hearings about the rule. It will then take more comments. A final rule could be released as early as next spring.

In an appearance before a Senate Health Education Labor and Pensions subcommittee on the comment deadline day, July 21, Mr. Perez said the agency would consider refining aspects of the proposal, including the so-called best-interests contract exemption that gives brokers latitude to charge commissions and a variety of other forms of compensation.

Introduced in April with strong White House backing, the rule has the political momentum to cross the finish line, according to Barbara Roper, director of investor protection at the Consumer Federation of America.

'ABSOLUTELY COMMITTED'

"I think the DOL and the administration are absolutely committed to getting this done," she said. "What they won't do is buckle to industry pressure on having meaningful restrictions on conflicts."

While the DOL is willing to tweak the rule, it says the proposal is necessary to prevent brokers from putting their clients into high-fee investment products that erode their retirement savings. Opponents say it would significantly increase liability risk and regulatory costs for brokers.

Mr. Perez told the Senate committee that the agency is considering modifying directives on disclosures, data retention and the details on when the best-interests contract must be signed.

Those aspects of the rule, and many others, were criticized in hundreds of pages of industry comment letters.

The Financial Industry Regulatory Authority Inc., the industry-funded broker-dealer regulator, said the rule introduces ambiguous new concepts, fails to incorporate existing securities laws and would confuse investors and financial advisers.

> "THERE ISN'T anything the DOL could do to get to a rule [opponents] would support."
>
> **Barbara Roper**
> Director of investor protection
> Consumer Federation of America

The Securities Industry and Financial Markets Association, the major industry interest group, said the rule would make receiving and giving advice much more expensive and hinder workers' and retirees' ability to save. The group called for DOL to scrap the rule and start over.

Almost every industry group said the proposal is "unworkable."

Among specific criticisms, the Investment Program Association, which represents nontraded real estate investment trusts and other direct-investment products not traded on securities exchanges, said the list of acceptable assets for retirement accounts contained in the rule is too narrow. The organization would like to see it broadened to include alternative investments such as nonlisted REITs and nonlisted business development companies.

GOES TOO FAR

The Investment Company Institute asserts the rule goes too far in expanding the definition of "fiduciary" by putting that status on call centers and websites.

"The effect will be the drying up of these interactions, which is not good for investors," said David Blass, ICI general counsel.

Two insurance-related groups, the National Association of Financial and Insurance Advisors and the Insured Retirement Institute, said the rule would curb the sales of guaranteed-income products, such as variable annuities.

On the other side of the debate, the Financial Planning Coalition — comprising the Certified Financial Planner Board of Standards Inc., the Financial Planning Association and the National Association of Personal Financial Advisors — praised the rule for providing "long-overdue consumer protections," and offered several ways it should be tweaked.

Even after modifying the rule, the DOL is unlikely to satisfy its staunchest critics.

"For most of the opponents, there isn't anything the DOL could do to get to a rule they would support," Mr. Roper said.

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Advisers assess Trump's holdings

Continued from Page 3

The portfolio appears to have minimal exposure to small stocks, international equities and bonds, he said.

"It might not be the model of a prudent portfolio from a fiduciary stewardship standpoint, but that doesn't seem to be what we should expect from the character of Trump ... Like a lot of people, there are many pieces to his investment puzzle, but even he couldn't tell you what the cohesive strategy is for it all. He has a collection of investments rather than a portfolio built on purpose to align with a goal."

A spokeswoman for Mr. Trump's presidential campaign, Hope Hicks, did not respond to a request for comment.

Mr. Trump, 69, displays an affinity for hedge funds and other similar alternative investments. His largest stake is in BlackRock Inc.'s Obsidian Fund, an unconstrained fixed-income product, in which he claims a stake of between $25 million and $50 million. That product pays more than $1 million in interest, dividends and capital gains a year, according to the disclosure.

When it comes to mutual funds, he has a favorite brand: Baron Capital Group. Mr. Trump disclosed owning 11 of the firm's products worth at least $7.6 million.

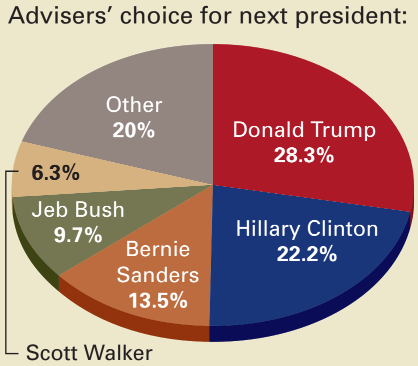
"Baron surprises me," said Bob Pugh, president of Insight Wealth Management. "They have expense ratios over 1% and haven't performed as well as cheaper ETFs, at first glance. Why would Trump put money in something like that?"

The disclosure shows billions in real estate and other assets that appear to more than balance against hundreds of millions in mortgage debts. The form is not entirely clear, however, providing only broad ranges of asset values and debts.

Calculating from the low end of the broad categories of value the form provides, Mr. Trump is claiming a net worth of at least $1.35 billion in his companies and real estate holdings, plus at least $70.5 million in liquid assets. He also has more than $265 million in liabilities.

Trump on top

Advisers' choice for next president:



Source: *InvestmentNews* Data, July 23, 587 votes

Given that, the placement of Mr. Trump's investments may not matter.

"Asset allocation doesn't matter as much for him," said Chad Carlson, a wealth manager at Balasa Dinverno Foltz. "Unless he's spending a monstrous amount, he can be 0% stocks or he can be 100% stocks ... Do what you want, Donald."

But Ted Jenkin, founder of oXYGen Financial Inc., said a man of Mr. Trump's age and liquidity profile could benefit from bonds that pay a fixed interest rate.

Among the surprises in the disclosures: Mr. Trump is a union man. His disclosure form shows the real estate mogul turned reality TV star collects a pension of $110,228, courtesy of the Screen Actors Guild.

Like Jeb Bush and Hillary Clinton, Mr. Trump has thrived on the speaking circuit. His biggest fee — three $450,000 appearances in less than a year for a multilevel marketing firm.

The disclosures also showed that Mr. Trump had some financial cushion from his parents. His father, Fred, was a real estate developer who amassed enough money by 1976 to create trusts for his children and grandchildren, according to the disclosures. The father's estate has been estimated at $250 million to $300 million.

It's nearly impossible from the federal forms to determine whether Mr. Trump — as he has claimed — is worth more than $10 billion. His claims about the size of his wealth have fluctuated over the years, and sometimes have been based on little other than his own estimation of the value of his brand.

This story was supplemented with reporting from Bloomberg News.

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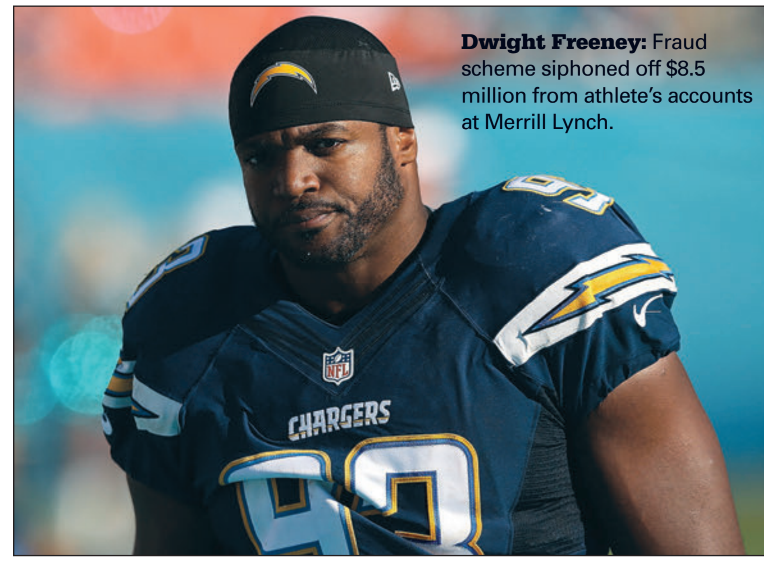

Dwight Freeney: Fraud scheme siphoned off $8.5 million from athlete's accounts at Merrill Lynch.

GETTY IMAGES

NFL star's suit is tossed

Continued from Page 4

refile and are "confident we can address the court's concerns."

Mr. Isaacs accused the bank of obfuscating its corporate structure so it could avoid liability for Merrill Lynch employees' actions.

"The problem here is created by the Byzantine structure of Bank of America and in particular its global wealth and investment management division," he said. "You have this very confusing corporate structure, which Bank of America tries to hide behind to avoid liability."

Mr. Isaacs said that they had initially avoided naming Merrill Lynch in an effort to simplify the filing and avoid litigation over the client relationship agreement with the wirehouse, which contains clauses on mandatory arbitration.

"It was really to keep the case as simple as possible, given the layers of corporate entities," he said.

In the original complaint, Mr. Freeney asserted that his financial adviser, Mr. Bock, was "instrumental" in helping a former associate take advantage of Mr. Freeney, but Ms. Morrow wrote that the complaint "does not contain such allegations."

FIRM, ADVISER BLAMED

In the original claim, Mr. Freeney, along with his company, Roof Group, claimed that the bank's global wealth and investment management unit played an "integral and indispensable part of the scheme." He blamed the firm and Mr. Bock for "aiding and abetting" a fraudster who siphoned off more than $8.5 million from his accounts at the firm, according to the complaint.

"In 2010, Dwight Freeney authorized Bank of America to manage his assets, including his NFL salary," Mr. Isaacs said in a statement. "Two years later, Dwight had lost more than $20 million because of BofA's fraud scheme."

It is the latest development in a series of court battles that have gone on since 2012, when the FBI arrested a former Merrill Lynch adviser, Eva Weinberg, and her associate, Michael Stern. Both are currently serving time in prison after pleading guilty to their roles in defrauding Mr. Freeney, according to the complaint.

Ms. Weinberg, who left Merrill Lynch in July 2010 to become a personal financial manager for Mr. Freeney, and Mr. Stern were engaged in an "elaborate and malevolent" scheme to defraud Mr. Freeney through a number of means, including stealing $2.2 million and having him take out a worthless $55 million life insurance policy with illegal kickbacks, the complaint said.

Mr. Halldin reiterated the firm's original statement.

"Although we sympathize with Mr. Freeney as the victim of a crime, the bank had nothing to do with the criminal scheme," Mr. Halldin wrote in an emailed statement.

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LPL bars family accounts

Continued from Page 2

other ways that advisers could be compensated on the accounts legally under the rule. It would have to involve payments coming from the plan sponsor directly in an hourly or flat fee for consultation, for example, or somewhere else where the fee did not come from the plan assets.

"I think it's a good rule, just one of the things that you need to work around to prevent future problems," Mr. Ahrens said. "You can do away with the conflict of interest and there are other ways" to receive compensation.

Mr. Slott said LPL was the only broker-dealer he had heard of to institute the policy.

"It's a unique step," he said. "But the step really should come from the regulatory bodies" in terms of creating some kind of exemption.

Representatives of Raymond James Financial Inc., Ameriprise Financial Inc. and Commonwealth Financial Network declined to provide information about their policies on retirement accounts.

Mr. Ahrens said that LPL executives may be looking to move first because the broker-dealer has become more sensitive to possible compliance issues.

"Their No. 1 priority is to clean up their compliance track record," he said. "They're committed to righting the ship, so I think they're being very thoughtful."

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