
JONATHAN REINFURT

Spotlight **Clearing and Custodians:** Advisers are reaping the rewards as custodians bid for breakaways with greater enticements. Also, most popular clearing firms. **Pages 10-17**

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Frank Congemi: Broker has so much faith in American Funds, he says he is allocating all of his clients' assets to the fund family.

PAUL MORRIS

LOVE, AMERICAN STYLE

Advisers stay loyal to American Funds through ups and downs

By Trevor Hunnicutt

FINANCIAL ADVISER Frank Congemi has no doubt about the benefits of active management. He's just as certain when it comes to his manager of choice, American Funds. Mr. Congemi, a broker registered with Securities America Inc., is allocating all of his clients' money to that one firm.

"I've done away with a majority of the firms I used to do business with," Mr. Congemi said. "I don't care if people call me an American Funds salesperson."

While that level of dedication is unusual, the unshakable fealty of financial advisers is starting to pay off for American Funds. After historic sales declines since the financial crisis, net sales at the third-largest mutual fund brand in the world — behind Fidelity and Vanguard — turned positive last year for the first time since 2007. Those trends have continued each month this year through June, according to Morningstar Inc. estimates.

"From a momentum standpoint we have absolutely made a critical turn, particularly if you take this story all the way back to 2008-09," said Matthew P. O'Connor, director of North American distribution for American Funds.

From 2008 through 2013, the company suffered $251 billion in redemptions, a level that's more than all the U.S. assets in mutual funds sold by BlackRock Inc. Last year, investors put $332 million back into American Funds and with $9.3 billion added this year through

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Cost-cutting at Cetera on tap after Apollo deal

'Redundancies' at 11 broker-dealers targeted

By Bruce Kelly

Now that RCS Capital Corp. has dumped its wholesaling business, the company can better focus on the 11 broker-dealers and 9,500 financial advisers that make up its Cetera Financial Group, according to the company's top executives. In other words, the cost cutting and consolidation can begin in earnest.

RCAP announced last Thursday that private equity giant Apollo Global Management agreed to buy RCAP's wholesaling business for $25 million in cash. That business includes 140 wholesalers and national accounts salespeople, and more than 1,000 selling agreements with 300 independent broker-dealers. The business is focused on selling non-traded real estate investment trusts.

9,500
Number of advisers working at 11 B-Ds in Cetera Financial Group

As part of the deal, Apollo also agreed to buy $25 million in RCAP preferred shares and enter into a strategic relationship to have Cetera sell Apollo investment products. Two senior Apollo executives will join RCAP's board.

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Fiduciary foes to face pros at DOL hearings

By Mark Schoeff Jr.

Debate over a Labor Department proposal to reduce conflicts of interest for brokers working with retirement accounts is about to get hotter — and more public.

This week, the DOL will host four days of hearings about the proposed fiduciary rule — Monday through Thursday — featuring 75 witnesses.

The sessions, held at DOL headquarters in Washington, could get contentious. The individual panels will include two or three participants, often representing different sides of the debate. Each party will give opening comments and also engage in dialogue with DOL officials.

"It provides the Department of Labor staff the opportunity to maybe dig in a little bit on the contrasting views in the same panel," said Duane Thompson, senior policy analyst for Fi360, a fiduciary-duty consulting firm. "You're probably not going to find too many people in the middle."

TAKING ALL COMERS

By the end of this week, those with an interest in the fiduciary proposal won't be able to say they didn't have a chance to make their voices heard. Following the close of the initial comment period on the proposal, which generated more than 900 letters, the DOL accommodated any group that requested a spot on the hearing agenda, according to DOL spokesman Michael Trupo.

The DOL will publish a transcript of the hearing and open another comment period that will run from

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Inside

Feeding frenzy
Curian Capital's sudden exit from the TAMP world has competitors hungry for orphaned advisers.

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Budget hawk's budget
Presidential hopeful Scott Walker balanced Wisconsin's budget, but how does his own stack up?

Page 3

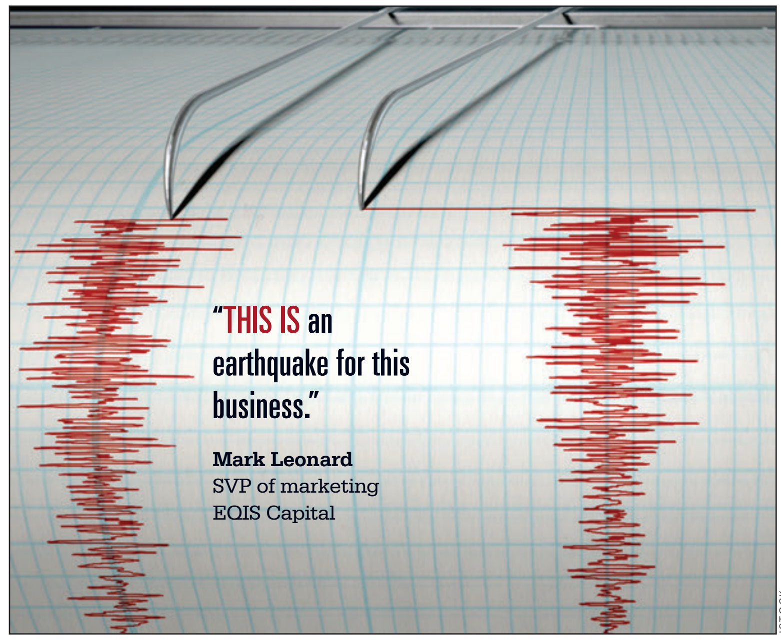
Curian exit sparks frenzy in TAMP space

By Jeff Benjamin

Curian Capital's unexpected announcement July 30 that it is closing shop at year-end has sent the $300 billion turnkey asset management platform space into a feeding frenzy, as competitors scramble to woo advisers currently working with the $11 billion platform.

The 12-year-old asset management subsidiary of Jackson National Life Insurance Co. has been relatively tight-lipped about why it is shuttering the operation, and industry counterparts are immediately more focused on capturing some of the market share.

"I'd call it the Oklahoma land rush," said John Coyne, president of Brinker Capital, which operates one of the industry's larger TAMPs at $18.3 billion.



ISTOCK

THE WELCOME MAT

In the wake of Curian's announcement, a number of firms issued public statements essentially rolling out the welcome mat to anybody currently doing business on the Curian platform.

"We're certainly reaching out to the adviser community to do their due diligence on our platform," said Mark Leonard, senior vice president of marketing at EQIS Capital, which operates a $1.25 billion platform that shares some similarities with Curian.

"We think that in a perfectly rational market, we would get all of Curian's business, just because of our similarity to Curian in terms of low [$25,000] minimums and the fractionalization of shares," he added.

That kind of optimism is rooted in the significance of Curian's plans to shut down, which will require all accounts be settled and cleared out during the first quarter of next year.

"This is an earthquake for this business, and I don't know if there's any precedent for it," Mr. Leonard said. "It's been crazy; the phone has been ringing off the hook. They've been coming through our website, direct phone calls to our president and vice president of distribution."

Jackson National representatives did not respond to requests for comment.

In an emailed response to inquiries regarding the reason for the abrupt shutdown, Curian Capital said: "Curian periodically evaluates its business in light of changing economic, market and industry conditions. Given the industrywide changes in technology, product offerings and market size, Curian has determined it cannot remain commercially positioned to provide clients high value investment programs over the long run."

NOT 'CUTTING EDGE'

Diane Woodward, a financial planner at Oak Tree Wealth Management, stopped using the Curian platform more than two years ago because she was not satisfied with the technology or the performance of investments she was using for her clients.

"It didn't surprise me to see this," she said. "Curian was not keeping pace with the cutting edge of the TAMPs."

Without having any inside knowledge of what drove the decision to close the TAMP, Mr. Coyne

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BLOOMBERG

Puerto Rico is not Detroit, advisers say

By Jeff Benjamin

If your clients are invested in a U.S. municipal bond mutual fund, odds are they're exposed to Puerto Rico's crumbling financial situation.

But because the slow-motion train wreck has been chugging along for several years, with the U.S. commonwealth's government publicly stating its intention to not pay its bond debt, the news that Puerto Rico slipped into default status wasn't a surprise.

Even though about half of all U.S. muni bond mutual funds are exposed to Puerto Rican debt, market watchers and analysts are embracing a sense of relative calm as the story continues to unfold.

BANKRUPTCY NOT AN OPTION

"Whether or not they're in default today, they've telegraphed and publicly stated that they intend to default," said Scott Colyer, chief executive of Advisors Asset Management.

As a U.S. commonwealth, unlike a state or other municipality, Puerto Rico doesn't have legal authority to file for bankruptcy protection the way Detroit did a few years ago.

"Legally, they can't just give up and say they can't make debt payments," Mr. Colyer explained. "And there are several ways this could go,

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We'll be back.

InvestmentNews won't publish a print edition Aug. 17. Print publication resumes Aug. 24.

Camardas appeal dismissal in CFP Board case

Battle will continue over use of 'fee-only' label

By Mark Schoeff Jr.

Two Florida financial planners have decided to continue their legal battle against the Certified Financial Planner Board of Standards Inc. over how they can describe their method of compensation.

Jeffrey and Kimberly Camarda, managing members of Camarda Financial Advisors, last Wednesday filed an appeal for a public trial in a case that was dismissed last month by U.S. District Judge Richard Leon.

Mr. Leon threw the case out, arguing that a court cannot "second guess" the CFP Board about the way it enforces rules related to the investment advice credential it grants.

'LEGAL MERIT'

The Camardas said in a statement released last Thursday that a trial would demonstrate the "substantial legal merit" of their case, which they first filed in 2013.

"The road has been long for us and we do not undertake its continuation lightly," the Camardas said in the statement. "We believe there are grave wrongs to be righted here, with the welfare of the profession, and of the client public, hanging in the balance."

The CFP Board brought a disciplinary case against the Camardas in December 2011, holding that they represented themselves as fee-only advisers despite the fact that an arm of their firm, Camarda Consultants, sells insurance for commissions. Under CFP rules, planners cannot use the coveted "fee-only" description if they are affiliated with an entity that can charge commissions.

"We believe that the judge's decision will stand and that an appeals court will agree with Judge Leon that CFP Board 'followed its own rules through the disciplinary proceedings' and that there is 'no evidence that [the CFP Board] was motivated by bad faith or ill will' in disciplining the Camardas," the CFP Board said in a statement.

When the details of the case are released publicly, they will show that the CFP Board's disciplinary process was unfair, according to the Camardas. They criticized the organization for "offering blanket amnesty and private deals" to other planners who violated compensation description rules.


Kimberly and Jeffrey Camarda: "We believe there are grave wrongs to be righted here, with the welfare of the profession ... hanging in the balance."

TEMPORARY REPRIEVE

In September 2013, the CFP Board temporarily removed the fee-only label from its website and told the 8,000 CFPs using the term to reevaluate whether they complied with CFP rules before resetting it.

The Camardas also implied that the board's investigation of its former chairman, Alan Goldfarb, for mischaracterizing his compensation was politically motivated. Mr. Goldfarb resigned in November 2012.

mschoeff@investmentnews.com
Twitter: @markschoeff

Gov. Scott Walker: Stakes his presidential claim on his reputation as a budget hawk. At home? Not so much.

BLOOMBERG

Walker's debt burden

Candidate discloses student loans, card balances

By Mark Schoeff Jr.

Wisconsin Gov. Scott Walker's presidential campaign résumé is based in part on the fact that he has balanced his state's budget. His personal budget is another matter.

Mr. Walker's financial disclosure, which he filed with the Federal Election Commission on July 31, shows he is carrying between $10,000 and $15,000 in debt on two separate credit cards. One, a Barclay card, is charging him a 27.24% interest rate, while a Bank of America card is charging 11.99%.

The Republican also has taken out between $100,000 and $250,000 in student loans, at a 7.21% interest rate. Mr. Walker and his wife, Tonette, have two sons in college.

Mr. Walker makes $222,899 a year as governor, and his wife works for the American Lung Association.

No matter how busy Mr. Walker is — running a large state and campaigning for president — he should take a moment to review his credit card agreements, according to a constituent who also is a financial planner. Mr. Walker may find he can work out a deal to lower his payments.

"A lot of busy people don't pay a lot of attention to reading the actual bill and noticing what is happening with the interest rates," said June Ann Schroeder, founder of Liberty Financial Group in Elm Grove, Wis.

"Many times, a simple phone call to the credit card company will suffice."

The first priority for Mr. Walker should be to pay off the Barclay card with the 27.24% interest rate, said Rose Swanger, a principal at Advise Finance in Knoxville, Tenn.

CREDIT SCORE

"There is no good reason to get into credit card debt, because it could damage your credit score," Ms. Swanger said.

27.2%
Interest Walker is paying on one of his credit cards

If Mr. Walker's credit rating is strong, he can "leverage that to refinance with a private lending company to get a possible rate as low as 4.74%" on the student loan, Ms. Swanger added.

The planners advised Mr. Walker to start paying off the credit cards as quickly as he can.

"I would recommend a management strategy to reduce the debt and not increase it," Ms. Schroeder said.

Among his assets, Mr. Walker has between $1,000 and $15,000 in a mutual funds with T. Rowe Price and American Funds. He has two Vanguard retirement funds and a 457 fund sponsored by the state of Wisconsin. He also has between $15,000 and $50,000 in Northwestern Mutual life insurance and in a Milwaukee County 457 fund.

mschoeff@investmentnews.com
Twitter: @markschoeff

MetLife hits LPL Financial with broker-raiding charges

By Mason Braswell

Two large financial services companies, MetLife Inc. and LPL Financial, are locked in a heated dispute as MetLife looks to stem a tide of recent broker defections.

ISTOCK

In a still-unresolved arbitration claim filed in May with the Financial Industry Regulatory Authority Inc., MetLife, an insurance company with about 5,000 brokers, accused LPL, which has about 14,000, of poaching more than 60 brokers since last October. LPL has undertaken an "illicit, premeditated conspiracy" that has done irreparable harm to MetLife, according to MetLife's arbitration claim.

"LPL has been engaged in an ongoing, nationwide campaign to raid MetLife's workforce," MetLife said in the claim, also stating that it "shows no signs of stopping."

The claim did not specify damages, but asked that LPL be enjoined from soliciting any MetLife brokers or customers.

A spokesman for LPL Financial, Brett Weinberg, declined to comment.

MORE
LPL warns rivals regulators are coming for them.
Page 4

The claim is the culmination of a number of defections. The Finra suit names LPL in addition to six top-producing former MetLife brokers who collectively managed about $490 million in assets and left MetLife's Downers Grove, Ill., office in April and May. At least one other case involving a MetLife subsidiary office in Las Vegas resulted in legal action before a federal court in Nevada.

HARMFUL INTENT

Typically, the threshold for bringing a raiding claim is that a firm takes at least a third of the revenue from an office, and the firm must prove that the recruiting firm had a harmful intent, according to attorney Thomas B. Lewis of Stevens & Lee.

Mr. Lewis, who is not involved in the case, said he expected LPL to argue the "lifeboat defense" and say

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SEC queries Pimco ETF valuations

The regulator's staff is recommending civil action against the company

Bloomberg News

Pacific Investment Management Co. said regulators are considering taking action against the firm over marking of securities in the exchange-traded-fund version of its flagship Total Return Fund.

Pimco received a Wells notice from the Securities and Exchange Commission indicating the regulator's staff is recommending civil action against the firm related to an investigation into the Pimco Total Return Active Exchange-Traded Fund, the firm said in a statement last Monday.

The notice relates to the fund's valuation of smaller positions in mortgage-backed securities not guaranteed by the government between its inception on Feb. 29, 2012, and June 30 of that year, as well as performance disclosures and related compliance policies and procedures, according to the statement.

"The Wells process provides us with our opportunity to demonstrate

> "AN SEC INQUIRY is unlikely to encourage investors to put fresh money back in."
>
> **Todd Rosenbluth**
> Director
> S&P Capital IQ

to the SEC staff why we believe our conduct was appropriate, in keeping with industry standards, and that no action should be taken," Pimco said. "We will continue to engage with the SEC and we are confident that this matter will not affect our ability to serve our clients."

The SEC sends a Wells notice to a company or an individual after its staff has determined that sufficient wrongdoing has occurred to warrant civil claims being filed.

REDEMPTIONS

While the ETF has seen deposits in recent months, the Total Return mutual fund has suffered redemptions that intensified with the sudden departure of longtime manager Bill Gross last September. The regulatory notice won't help improve flows, according to Todd Rosenbluth, director of ETF and mutual fund research at S&P Capital IQ.

"The news of an SEC inquiry is unlikely to encourage investors to

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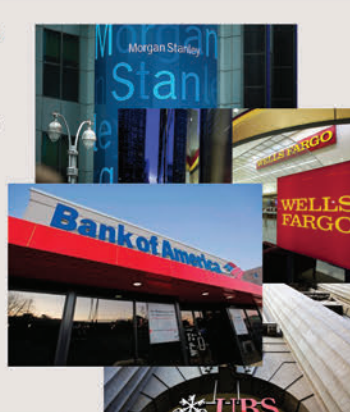
What the presidential candidates' investments tell us

Some major presidential candidates have revealed interesting dimensions of themselves through their personal financial disclosure filings with the Federal Election Commission. Find out what their investments or sources of income really say about them.

InvestmentNews.com/president

Wirehouse metrics reflect different strategies

New research shows how the nation's biggest brokerages rank across four key metrics, including adviser head count, assets per adviser, annualized productivity per adviser and assets under management.



InvestmentNews.com/wire

IN TV VIDEO

Wealth Track

How to drill for profits in energy now

Opportunities in the high-yield market and infrastructure companies have changed in light of falling gas and oil prices, according to portfolio managers J. Gibson Cooper of Western Asset and Chris Eades of ClearBridge Investments.

InvestmentNews.com/drill

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2016 an un-COLA year for Social Security recipients

With Medicare premiums rising, some see net loss

Mary Beth Franklin
On Retirement

It looks as though Social Security recipients will not see a cost-of-living adjustment in their benefits next year. And some high-income retirees may actually see a net reduction in benefits in 2016 as their Medicare premiums, which are deducted from monthly Social Security payments, continue to rise.

The Social Security Administration will make an official announcement about the 2016 COLA — or lack thereof — in October. That should give you plenty of time to get ready for some unhappy clients come January when they ask you — their financial adviser — why their Social Security benefits went down.

Beginning in 1975, Social Security benefits began receiving automatic cost-of-living adjustments each year so beneficiaries' buying power could keep pace with inflation. Before that, it took congressional action to increase benefits.

SLOWING INFLATION

Over the years, the method of calculating that increase has changed. Since 1983, COLAs have been based on increases in the Consumer Price Index for urban wage earners from the third quarter of the prior year to the corresponding quarter of the current year.

Due to slowing inflation over the past year, the CPI-W during the first two quarters of 2015 has actually declined from a year ago. So unless inflation surges during the remainder of the summer, it is unlikely that the third quarter of 2015 will surpass the third quarter of 2014. Translation: It doesn't look like there will be an increase in Social Security benefits for 2016.

The projection of a 0% COLA for 2016 was echoed in the recently released Social Security and Medicare Trustees report for 2015.

For clients who have been retired for several years, it will be like déjà vu. Similar no COLA years occurred in 2010 and 2011 — the only two times since automatic COLAs were instituted in 1975 that Social Security recipients received no bump-up in benefits. Those two years of no COLAs were followed by a 3.6% hike for 2012, and more modest increases of 1.7% in 2013, 1.5% in 2014 and 1.7% in 2015.

It may give your clients some solace to note that Social Security trustees project a 3.1% COLA for 2017 — but that's a long way off.

HOW MEDICARE FITS IN

Normally, Medicare Part B premiums are deducted from monthly Social Security benefits. In 2015, most Medicare beneficiaries pay

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Compliance issues will hit rivals, LPL says

By Bruce Kelly

Top executives at LPL Financial expect rival broker-dealers to face the same host of regulatory and compliance issues that LPL has confronted over the past few years.

The firm recently has taken its lumps from regulators, amassing a number of multimillion-dollar fines and settlements. Now other firms may be on the hot seat.

While LPL may still face a small number of significant actions by regulators this year, the company expects those costs to decrease in 2016, according to LPL's chairman and CEO, Mark Casady. Meanwhile, across the industry, LPL sees elevated regulatory cost and inquiries, according to Mr. Casady, who made his comments last Wednesday during LPL's second quarter earnings call.

> "I EXPECT competitors' regulatory cost goes up from here."
>
> **Mark Casady**
> Chairman and CEO
> LPL Financial

"I expect competitors' regulatory cost goes up from here," as regulators complete investigations into LPL and dive deeper into the firm's rivals, he said.

REVENUE DECLINES

LPL Financial Holdings Inc., parent of the broker-dealer, reported a slight decline in net revenue for the quarter ended June 30 compared with the same three months in 2014. Commission revenue was down for the period, and the company reported net revenue of $1.09 billion, a decrease of 0.2% compared with the same period last year.

But a decline in expenses and restructuring charges helped boost earnings. Net income for the quarter increased 16.6% to $50.2 million from $43.1 million in the year-earlier period, while earnings per share increased to 52 cents from 42 cents.

Mr. Casady did not name specific

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VIEWPOINT

EDITORIALS

China in the bull shop

SOMETIMES YOU KNOW exactly what you're getting yourself — or your clients — into. Sometimes it's not so evident.

Even when advisers perform sound due diligence on investments to ensure they are appropriate for clients' goals and risk tolerance, a critical piece of information may not bubble up to the surface.

Take, for instance, the Delaware Healthcare I fund (DLHIX) with a Morningstar Inc. category of U.S. OE (open-end) Health. What may not surprise you: The fund is majority invested in the health care sector, with top holdings such as Eli Lilly and Co. and Bristol-Myers Squibb Co. What may surprise you: It has a 10% equity exposure to China.

InvestmentNews' Trevor Hunnicutt reported recently on mutual funds and ETFs with an unexpectedly large percentage of assets dedicated to the Asian giant. When all goes well, bets on elevated exposure to a single country's companies can pay off. But at a time when China is sorting through a serious market plunge and potential contraction in its fast-growth economy, such exposure can slice into gains. On either end, good or bad, higher concentrations come with higher volatility.

Financial advisers look at individual stock concentrations in funds, just as they evaluate sector concentrations or regional ones. And in funds labeled "emerging markets," which countries factor high in the portfolio is an obvious consideration. But for funds not necessarily tagged as such, exposure to particular countries doesn't get the notice it deserves.

The Delaware Healthcare I fund's summary prospectus from July does not mention China once, and its 30-plus-page full prospectus mentions it only once, in reference to the portfolio manager's having received a medical education in China.

SECTOR FOCUS

The fund's annual report from March 31 shows allocations by sector, such as biotech and medical products, as well as the top 10 holdings. Nowhere, in an admittedly quick study with multiple searches, does it explicate exposure by country or region.

All of this is not to pick on the Delaware Healthcare fund. In fact, Mr. Hunnicutt's analysis of Morningstar data turned up many such examples. The Guggenheim Solar ETF (TAN) had … wait for it … 36% equity exposure to China. Morningstar slotted this fund in its U.S. ETF miscellaneous sector.

HIGH EXPOSURE to foreign holdings in unexpected funds is analogous to "style drift."

The fund's summary prospectus doesn't mention China, either. Its full prospectus from December combines four ETFs and, at 57 pages, is a little unwieldy. It does, however, clearly show its heavy China weighting on its overview webpage for the fund, under geographic rankings. The lesson for advisers when considering funds: Look, look and look some more.

PUERTO RICO

Another telling example: Franklin Double Tax-Free Income (FPRTX), with 41% exposure to Puerto Rico. To be fair, the firm does mention Puerto Rico 18 times in its 10-page summary prospectus from July, but not until Page 4.

Some muni bond funds — indeed many fixed-income funds overall — have sought to outperform the competition during years of low interest rates by taking on riskier debt, and high concentrations in countries paying the most have sometimes resulted. This is analogous — with all its attendant complications — to the once hot topic of "style drift," when, for instance, a large-cap fund might increase its small-cap holdings because they're performing better at the moment.

So while it may be evident that investments called All Russia All the Time Fund or Big Bets on Brazil ETF are inclined toward heavy wagers on a single country, advisers must continually look for such leanings in any category.

It's not a one-time thing at the point of purchase, either. Funds aren't static; they shouldn't be. But the popularity of "go anywhere" and "unconstrained" strategies demand even greater confidence in the managers at the helm and continual review by advisers.

Stock buybacks: Who benefits?

Stock buybacks are once again in the news, with Democratic presidential candidate Hillary Clinton criticizing companies for spending their cash on buybacks rather than investing it.

Buybacks have been controversial for many years. Defenders argue that if corporate management cannot see profitable investments on which to spend cash, then it ought to give it back to the shareholders who might find good uses for it, including buying other stocks.

While management could give it back in higher dividends, dividend increases are long-term commitments by the company because they are hard to reverse. If a company has to cut its dividend, that can cause significant declines in its stock price. As a result, many corporate managers prefer share buyback programs, which do not imply a long-term commitment and can be shut off after reaching a target amount, to be repeated in the future if desired.

FINANCIAL ENGINEERING

Critics argue that companies use stock buybacks for financial engineering. Reducing the number of shares outstanding increases the earnings per share, which can push up the share price and help executives achieve performance compensation targets. They should instead be investing it in new productivity-enhancing plants and equipment.

Defenders say companies hold back from investing in new plants and equipment not because they want to use the money for financial engineering or because they don't have good investment ideas, but because consumer demand is weak around the world and the investment might not pay off.

According to one estimate, the number of U.S. shares outstanding has declined 6% since 2009, though the pace of share repurchases has slowed this year. In the first quarter of 2014, companies bought back stock worth $159 billion, but in the first quarter of 2015 that declined to $144 billion.

The decline in share repurchases possibly indicates that companies are expecting, or have experienced, weaknesses in earnings and are husbanding cash. It might also be an indicator of stock market weakness in the coming months. It's also possible that the decline means companies now are beginning to invest some of their cash, which would be good for the economy and investors in the long run. But the evidence won't be clear for some time.

These are issues for advisers and their clients to be aware of. In addition, advisers should thoroughly vet every share repurchase offer in light of each client's unique situation and advise the client on whether to accept or ignore the offer.

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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VP-Publisher: Suzanne Siracuse ssiracuse@crain.com

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Editors:
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Deputy Editors: Greg Crawford, Robert Hordt
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Associate Publisher: Digital, Custom and Research Mark Bruno mbruno@crain.com
General Manager, Digital: Mike Palazuk mpalazuk@crain.com
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ADVERTISING
National Sales Director: Mary Meagher mmeagher@crain.com 212-210-0115
Regional Sales Managers:
New York:
Nicole Casement ncasement@crain.com 212-210-0167
Kevin Reardon kreardon@crain.com 212-210-0476
Chicago:
Karen Wahl kwahl@crain.com 312-649-5226
San Francisco:
Rich Kiesel rkiesel@crain.com 415-538-0206
Boston:
John Bubello Jbubello@crain.com 978-534-5635
Reprint Manager: Laura Picariello 732-723-0569 lpicariello@crain.com
Inside Sales Associate: Ayana Reid areid@crain.com 212-210-0774
Inside Account Manager: Letitia Y. Buchan lbuchan@crain.com 212-210-0451

MARKETING AND AUDIENCE DEVELOPMENT
Audience Development Director: George Ortiz gortiz@crain.com
Senior Marketing Manager: Diana Cheruvil dcheruvil@crain.com
Creative Marketing Specialist: Lorenzo John ljohn@crain.com
Marketing Associate: Shannon Rosic srosic@crain.com

Executive Assistant to the Publisher: Irma Rodriguez irodriguez@investmentnews.com 212-210-0430

PRODUCTION
Prepress/Production Director: Simone Pryce

INVESTMENTNEWS OFFICES
Headquarters:
685 Third Avenue, New York, NY 10017-4024
Editorial fax: 212-210-0444
Bureau office:
Washington: 814 National Press Bldg., Washington, DC 20045, Fax: 202-638-3155
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Founder: G.D. Crain Jr. (1885-1973)
Chairman: Mrs. G.D. Crain Jr. (1911-1996)
Secretary: Merrilee P. Crain (1942-2012)

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Audit Bureau of Circulations

VIEWPOINT

NORM BENDELL

I'm a salesperson. You should be, too.

OTHER VOICES
Ron Carson

Most financial advisers are deluding themselves. They think they can singlehandedly follow the markets, build customized portfolios for clients, handle compliance, prospect for new customers and develop talent on their teams.

It's way too much for one adviser to master, and that shows in the service they deliver. In reality, many clients are paying them a fee to guess about what is going on.

Advisers may not want to hear that, but many know I'm right about this. When I give talks around the country, I ask them, "If your clients knew how you spend your time — versus how they perceive you spend your time — how many of you would be embarrassed?" Typically 80% or 90% of the hands shoot up in the air.

But they continue doing what they're doing.

It doesn't surprise me to see advisers fall into this trap. I started my career thinking I had to know everything and do everything for my clients — and I worked around the clock to do that. It took me years to realize I could better serve my clients by being a librarian and not a library.

My company now coaches more than 1,100 financial advisory firms in the U.S. The very best advisers among them have figured out the secret to building their businesses and delivering true value to their customers. These advisers realize the highest and best use of their time is in being a salesperson. They cultivate that talent.

A NOBLE PROFESSION

Selling has negative connotations in our society, but I believe selling is a noble profession. Being able to persuade people to do what you really believe is in their best interests is very important. It is different than manipulating them into taking an action where you will be the beneficiary, such as buying an overpriced service or one that they don't need.

Years ago, I tried to persuade someone from my community to let us manage his portfolio. He had most of his assets in Enron stock, and I knew he should diversify. He resisted my advice. Years later, when Enron had imploded and his holdings were worthless, he told me, "Ron, every time I see you, I wish I had taken your advice." What I thought was, 'I wish I had been a better salesperson.'

I've made sure that I am now.

When you've got a strong value proposition behind you, you need to know how to tell your story in a way that persuades people to let you protect and take care of their wealth. You can't create value for clients if you are not able to do that.

But you also need to deliver the value. It is hard to find both talents in one person.

THE BEST financial advisory firms deliver both sizzle and substance to serve clients well.

I recently had a prospect come to our office. The prospect was evaluating our firm versus another that promised a customized portfolio.

"When you say customized, what do you mean?" I asked.

"They will buy securities for us based on our needs," the prospect told me.

"Do they do this for everybody?" I asked.

"Yes, they do this for all of their clients," the prospect told me.

"Well, how big is their research department?" I asked.

It turned out they didn't have a research department. It was a single-person advisory firm.

I have a research department of 30 people. They spend day in and day out following the positions we have. I don't have the bandwidth to build customized portfolios. So how can a single adviser do that successfully?

The best financial advisory firms deliver both sizzle and substance to serve clients well. The salespeople who bring in clients usually are not the best researchers in a firm. Brilliant research directors generally are not great salespeople. Together, they make an unbeatable team.

CREATE A TEAM

If you're the rainmaker in your firm, own that gift and use it to attract clients you are in a position to help. Find a way to team up with others who have talents in areas where you are not as strong — either by hiring them or by joining a professional alliance. That way, you can truly deliver service that is worth the fees you're charging.

Ron Carson is the founder of Carson Wealth Management Group and Carson Institutional Alliance.

Stop practicing, start doing business

It isn't easy, but an industry expert offers advice for making the transition intelligently

ADVISER'S CONSULTANT
OPERATIONS

By Liz Skinner

There comes a time in every growing advisory firm's life when the owner has to stop managing a practice and start running a business.

For Gerard Klingman, owner of Klingman & Associates, that moment came about 10 years ago when the firm reached $300 million in assets under management. Today the New York-based firm oversees about $1.5 billion.

"We were growing, but we weren't running as effectively or intelligently as we could as a business," he said.

At that point, Mr. Klingman began to spend some time each day thinking about business operations, and he later hired a consultant to help him craft a strategy for adding professional management.

HIRING A COO

The efforts culminated in the June 2014 hiring of Michael Paley as Klingman & Associate's chief operating officer. Mr. Paley had been a managing director at Focus Financial Partners, where he provided ongoing consulting to the independent wealth management firms that joined Focus.

At Klingman & Associates, Mr. Paley focuses on how the firm can improve work flow and other operational tasks to better serve clients.

The transition to operating as a business can be difficult for the owner, who has to give up control of some of the functions he or she previously commanded, which typically include human resources, technology, strategy, compliance and investments.

It's essential to hand off the tasks the owner "is worst at" to make it possible for them to focus on their best skills, Mr. Klingman said.

In his case, those are client acquisition and providing advice. At other firms, some owners might retain the money management role.

"Giving up control is a challenge," Mr. Klingman said. "Owners should force themselves to not be involved in every decision."

Of course, the challenges of moving from practice to business are great problems to have, he said. "We are talking here about how to manage growth and the opportunity in the private wealth management space right now."

lskinner@investmentnews.com
Twitter: @skinnerliz

KATHY TARANTOLA

Gerard Klingman: Crafted a business strategy and hired a COO.

Top to-dos

- **Owners must change** their mindset to focus on the tasks they do best — it can't be everything. Reassign the duties the owner performs less well to others at the firm, or eventually hire a professional manager.
- **Recognize that a shift** to professional management will be tough on the staff, so make sure they understand the need for it.
- **Make it clear** to staff that the owner is truly delegating certain responsibilities to whomever is designated. Sending all staff inquiries to that person when questions arise is a great way to make the point stick.
- **Develop a detailed** job description for the new manager and specify what roles and goals they will take on and what roles the owner will retain.
- **The owner** and management professional or team should communicate a lot and spend time working together on strategy, especially when the professional is first brought into the firm. Don't operate in silos.
- **Make decisions** based on what's best for clients.

— Liz Skinner

Spotlight
Clearing and Custodians

INSIDE

JONATHAN REINFURT

ENTICEMENTS ABOUND

Custodians offer substantial perks to differentiate themselves and draw large breakaways

By Mason Braswell

AS LARGER TEAMS move into the registered investment adviser channel, the major custodians are getting more creative and adding some sweeteners to entice big breakaway outfits.

Looking to differentiate themselves by more than just their ability to hold money, firms like Charles Schwab & Co. Inc., Fidelity Investments, TD Ameritrade Institutional and Pershing Advisor Services are pulling out all the stops. Their service offerings range from practice management consulting to more unexpected benefits, including client leads, hundreds of thousands of dollars to help defray startup costs, sponsoring client events or paying for Bloomberg terminals.

"That probably is the biggest evolution in this business from 25 years ago, when what advisers would do is put their assets at a bank and the bank would charge a custody fee, and that's what you get," said Mark Tibergien, chief executive at Pershing Advisor Solutions.

"Now the way you think about it is, we're a business solution provider with custody at our core," he said. "It's kind of like how Starbucks changed coffee. It's the rest of the experience that's going to make me decide to do business with you."

> *"It's kind of like how Starbucks changed coffee. It's the rest of the experience."*
>
> **Mark Tibergien**, chief executive, Pershing Advisor Solutions

Securities laws prohibit clear conflicts of interest such as firms' making direct payments to RIAs, but exemptions under Section 28(e) of the Securities and Exchange Act allow them to offer benefits or pay for services such as research that could be considered to have a direct or indirect client benefit.

Each firm provides a different set of resources and draws a careful line about what they're willing to offer that won't appear to create a serious conflict of interest. The perks are disclosed by firms in a Form ADV filing with the SEC and in client brochures.

BEAUTY CONTEST

"Brokers at the big wirehouses are used to that sort of beauty contest, whether it's from another wirehouse saying we'll give you three times trailing 12 [months' revenue], to pitting Fidelity and Schwab against Pershing to convince an adviser to join with them," said Tim Welsh, president and founder of Nexus Strategy. "The stakes are a lot higher now; the teams are bigger and the timing is right."

Fidelity, for example, offered one firm, IFAM Capital Management, a group of former UBS Wealth Management advisers with $1.1 billion in assets under management, a credit of up to $350,000 "to be used toward qualifying startup and transition costs incurred during the first two years after the firm's launch," according to their ADV.

Bob Oros, head of Fidelity's RIA segment, said the firm provides a broad range of support, most of which is not financial. The custodian, for example, has built a team of practice management consultants to work with advisers on its platform, and also helps with things like client events when the adviser wants to celebrate the opening of a new office.

"We're very sensitive to not creating

Continued on Page 16

Clearing and Custodians

Clearing firms

Reported number of broker-dealer clients

Firm	Phone/website	# of clients	% change vs. 2014	Contact(s)	Phone/e-mail
Pershing One Pershing Plaza, Jersey City, NJ 07399	(800) 445-4467 pershing.com/who-we-serve/broker-dealers	**772**	-4.8%	Michael Row Managing director	www.pershing.com/contact
RBC Correspondent Services 60 S. Sixth St., Minneapolis, MN 55402	(888) 462-1816 rbc-cs.com	**180**	0.0%	Greg Plifka Director of business development	(888) 524-9800 greg.plifka@rbc.com
Merrill Lynch Professional Clearing Corp. & Broadcort 1 Bryant Park, New York, NY 10036	(646) 743-0110 broadcort.com	**143**	-17.3%	Gary Yetman Managing director at MLPro Anthony Vella Director of sales	(646) 743-1222 gary.yetman@baml.com (646) 743-0955 anthony.j.vella@baml.com
Southwest Securities Inc. 1201 Elm St., Dallas, TX 75270	(877) 797-6613 swst.com	**135**	-6.9%	Lana Calton Head of clearing services	(214) 859-9228 lcalton@swst.com
Wedbush Securities Inc. 1000 Wilshire Blvd., Los Angeles, CA 90017	(213) 688-8000 wedbush.com	**120**	0.0%	Sean Thompson Senior vice president Advanced clearing services	(213) 688-4567 sean.thompson@wedbush.com
Apex Clearing Corp. 350 N. St. Paul St., Dallas, TX 75201	(214) 765-1100 apexclearing.com	**100**	25.0%	Todd Shroeder Head of sales	(214) 765-1010 sales@apexclearing.com
COR Clearing 1299 Farnam St., Omaha, NE 68102	(800) 811-3487 corclearing.com	**100**	-4.8%	Roy DiMaria Director of business development	(732) 635-2496 roy.dimaria@corclearing.com
Sterne Agee Clearing Inc. 800 Shades Creek Parkway, Birmingham, AL 35209	(205) 949-3500 sterneagee.com	**80**	-8.0%	Damon B. Joyner President, CEO Patricia A. Jamison Chief operating officer	(205) 271-6208 djoyner@sterneagee.com (205) 776-2917 pjamison@sterneagee.com
First Clearing One North Jefferson Ave., St. Louis, MO 63103	(888) 322-2532 firstclearing.com	**77**	-3.8%	David L. Williams Managing director	(888) 322-2532 david.l.williams@firstclearing.com
Goldman Sachs Execution & Clearing 200 West St., New York, NY 10282	(212) 357-2266 goldmansachs.com	**75**	-17.6%	Kyle Czepiel Managing director	(212) 357-2802 kyle.czepiel@gs.com
Raymond James & Associates Inc. 880 Carillon Parkway, St. Petersburg, FL 33716	(727) 567-3990 raymondjamesclearing.com	**40**	8.1%	Robb Combs Director of correspondent services	(727) 567-3990 robb.combs@raymondjames.com
LPL Financial 75 State St., Boston, MA 02109	(800) 877-7210 lpl.com	**6**	0.0%	Arthur Osman Executive vice president Clearing services	(704) 733-3300 ext. 3852 arthur.osman@lpl.com
Fidelity Clearing and Custody* 200 Seaport Blvd., Boston, MA 02210	(877) 262-5950 nationalfinancial.com	**N/D**	N/A	Dave Brown Senior vice president National sales manager Sanjiv Mirchandani President	(212) 335-5064 david.brown.nf@fmr.com

As of June 30. N/A = not available. N/D = not disclosed. *As of June 30, Fidelity Clearing and Custody had 3,200 total clients. Firm did not break out RIA custody clients from clearing clients. **Source:** *InvestmentNews* Data

Where the largest indie B-Ds clear

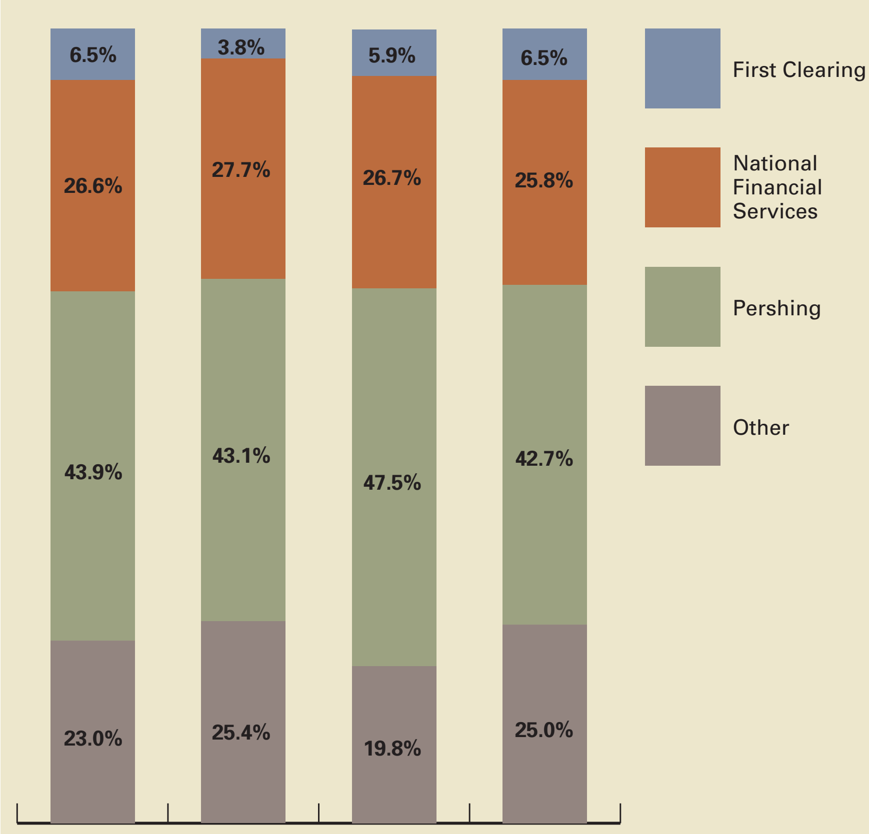
Clearing firms used by the independent broker-dealers with the most revenue

	Firm	Clearing firm(s) used	2014 total revenue ($M)
1	LPL Financial	**Self-clearing**	$4,293.9
2	Ameriprise Financial Services Inc.	**Self-clearing**	$3,738.3
3	Raymond James Financial Services Inc.	**Self-clearing**	$1,565.0
4	Commonwealth Financial Network	**National Financial Services, Pershing**	$950.3
5	Lincoln Financial Network	**National Financial Services, Pershing**	$816.8
6	Wells Fargo Advisors Financial Network	**First Clearing**	$810.2
7	Northwestern Mutual	**Pershing**	$748.8
8	Axa Advisors	**Self-clearing, LPL Financial Custom Clearing Services**	$722.9
9	Cambridge Investment Research Inc.	**National Financial Services, Pershing**	$651.4
10	Cetera Advisor Networks	**Pershing**	$564.8
11	Securities America Inc.	**National Financial Services, Pershing**	$525.5
12	Waddell & Reed Financial Advisors	**Pershing**	$500.1
13	Royal Alliance Associates Inc.	**National Financial Services, Pershing**	$463.9
14	NFP Advisor Services	**National Financial Services**	$420.2
15	National Planning Corp.	**Pershing**	$408.7
16	Voya Financial Advisors Inc.	**Pershing**	$408.5
17	MML Investors Services	**National Financial Services**	$384.7
18	Securian Financial Services Inc.	**Pershing**	$310.1
19	Princor Financial Services Corp.	**Pershing**	$309.1
20	SagePoint Financial Inc.	**National Financial Services, Pershing**	$305.6

Revenue figures as of firms' year-end **Source:** *InvestmentNews* Data

Most popular

Market share, by number of clients, among the top three clearing firms used by the largest independent broker dealers in 2014 and previous years



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

Clearing and Custodians

Custodians

Reported by number of RIA custody clients

Firm	Phone/website	Head of RIA custody business	# of clients	% change vs. 2014	Assets under custody ($M)	% change vs. 2014	Minimum assets of advisers
Schwab Advisor Services 211 Main St., San Francisco, CA 94105	(877) 687-4085 advisorservices.schwab.com	Bernie Clark Executive vice president and head	**7,100**	1.4%	$1,136,500.0	5.1%	N/D
TD Ameritrade Institutional One Plaza Four A, Jersey City, NJ 07311	(800) 934-6124 tdainstitutional.com	Thomas Nally President	**5,000**	11.1%	N/D	N/A	None
Interactive Brokers 8 Greenwich Office Park, Greenwich, CT 06831	(877) 442-2757 interactivebrokers.com	Andrea Nagy Sales engineer	**2,909**	20.0%	$10,800.0	20.0%	None
Shareholders Service Group 9845 Erma Road, San Diego, CA 92131	(800) 380-7370 ssginstitutional.com	Peter Mangan CEO	**1,411**	12.4%	N/D	N/A	None
Trade-PMR Inc. 2511 N.W. 41st St., Gainesville, FL 32606	(888) 579-8640 tradepmr.com	Robb W. Baldwin President, CEO	**1,132**	-25.8%	N/D	N/A	None
Scottrade Advisor Services 12800 Corporate Hill Drive, St. Louis, MO 63131	(866) 306-7135 advisor.scottrade.com	Brian Stimpfl Senior vice president	**1,000**	-9.1%	N/D	N/A	N/A
Pershing Advisors Solutions One Pershing Plaza, Jersey City, NJ 07399	(800) 445-4467 pershing.com/who-we-serve/ registered-investment-advisors	Mark Tibergien CEO	**591**	5.2%	$168,500.0	17.3%	$100M
Folio Institutional 8180 Greensboro Drive, McLean, VA 22102	(703) 245-4000 folioinstitutional.com	Greg Vigrass President	**407**	25.2%	N/D	N/A	None
LPL Financial 75 State St., Boston, MA 02109	(800) 877-7210 joinlpl.com	Matthew Enyedi SVP RIA Services	**342**	21.3%	$105,000.0	34.6%	None
U.S. Bank 425 Walnut St., Cincinnati, OH 45202	(513) 562-3621 usbank.com/itc	Alan M. Markarian Senior vice president	**230**	15.0%	$73,000.0	7.4%	$100,000
Trust Company of America 7103 S. Revere Parkway, Centennial, CO 80112	(800) 955-7808 trustamerica.com	Joshua Pace President, CEO	**210**	6.1%	$13,600.0	1.5%	None
National Advisors Trust Co. 800 E. 101st Terrace, Kansas City, MO 64131	(913) 234-8200 nationaladvisorstrust.com	James A. Combs CEO	**179**	9.8%	$9,970.9	4.6%	None
RBC Advisor Services 60 S. Sixth St., Minneapolis, MN 55402	(888) 665-7630 rbc-as.com	Catie Tobin Head of RBC correspondent & adviser services	**96**	-2.0%	$13,550.0	4.2%	$50M
Fidelity Clearing and Custody* 200 Seaport Blvd., Boston, MA 02210	(800) 735-3756 fiws.fidelity.com	Bob Oros Executive vice president, head of RIA segment	**N/D**	N/A	N/D	N/A	N/A

As of June 30. N/A = not available. N/D = not disclosed. *As of June 30, Fidelity Clearing and Custody had 3,200 total clients. Firm did not break out RIA custody clients from clearing clients.

Source: *InvestmentNews* Data

Death translates into action

When an adviser dies with no transition plan, custodians must react quickly to protect clients

By Mark Schoeff Jr.

When investment advisers who are sole proprietors die unexpectedly without a continuity plan in place, the firms where they house client assets react rapidly.

"Custodians are increasingly adept and swift at taking action," said Brian Hamburger, president of Market Counsel, a compliance consultant. "[They] are in a position to immediately suspend many of the trappings of their business relationship" with the advisory firm.

Among the steps a custodian could take are shutting down the master account, freezing the debit-

"We don't want clients to be vulnerable to any kind of market action."

David Canter
EVP of practice management
Fidelity Clearing and Custody

ing of fees and suspending trading.

"It impacts the ability to serve clients," Mr. Hamburger said. "The staff will find it difficult to interact with the custodian on the client's behalf."

The changes typically stay in place until employees or the adviser's heirs demonstrate they have the authorization to conduct the adviser's operations.

As soon as Fidelity finds out an adviser on its platform has died, it sends a letter to clients informing them of their options, which include managing their own account with Fidelity, finding another adviser on the Fidelity platform or selecting a Fidelity registered representative.

'A MATTER OF DAYS'

"It's quite honestly a matter of days," said David Canter, executive vice president of practice management and consulting at Fidelity Clearing and Custody. "We don't want clients to be vulnerable to any kind of market action or issue they have relating to their assets."

Time is of the essence at TD Ameritrade Institutional, as well.

"If [advisers] haven't preplanned, there are so many variables that need to be worked out on a quick timeline," said Bryan Baas, TDAI managing director of institutional risk oversight and controls. "At the end of the day, we're trying to do what's best for the customer."

The first thing that happens for clients of a deceased adviser on TD Ameritrade's platform is that the client takes control of his or her own portfolio.

"If there's not an adequate succession plan in advance, then customers could be left with a self-managed account for weeks," Mr. Baas said.

FREE AGENTS

When they start directing their own investments, clients become free agents, and TD Ameritrade will help them find a new adviser.

"It's almost like starting from scratch," Mr. Baas said.

The Charles Schwab Corp. takes the same approach.

"In a case where a succession plan has not been developed by a solo practitioner before their passing, the adviser accounts would become nonmanaged on the Schwab platform until those investors make a decision on who will manage the accounts and where they will be managed," Schwab spokeswoman Anita Fox wrote in a statement.

Meanwhile, the stricken firm is dealing with the sudden death of its leader — and a potentially declining customer base.

"A [registered investment adviser] without its principal is perhaps the most rapidly depreciating asset that I've ever seen," Mr. Ham-

Continued on Page 16

Enticements draw advisers

Continued from Page 10
conflicts of interest," he said. "We're helping them prepare for this new independent mode, and a lot of that is nonfinancial support. So it's helping them transition clients, select the proper technology — and some of it is financial."

Generally, the services differ based on the size of the team, according to Ryan Marcus, director of business development at Spartan Capital Securities and a former senior vice president of business development at RBC Advisor Services.

"Each custodian does it differently," he said. "Each of them uses a different metric to determine what they can do. Asset growth, the size of the team, average account size are all part of an algorithm custodians use to determine if they're going to offer something to the adviser beyond institutional-level pricing."

TRANSFER COSTS

The most important benefit that almost all custodians provide is paying for account closing and transfer costs when brokers are breaking away, Mr. Marcus said. Otherwise, those costs, which can be in the hundreds of thousands of dollars for advisers who have a large number of accounts, would have to be covered by the adviser.

Peter Dorsey, managing director of institutional sales at TD Ameritrade's custody unit, said they do not get into paying advisers' transition costs, but the firm provides other perks.

For example, TD Ameritrade agreed to pay approximately $41,000 for the licensing fees for two Bloomberg terminals for The Colony Group, an RIA with more than $5 billion in assets, according to its ADV. TD also provided The

"Any economics have to have a benefit for the end client."

Peter Dorsey
Managing director
TD Ameritrade Institutional

LILA PHOTO

Acting quickly

Continued from Page 15
burger said. "It's highly perishable."

Even with a succession plan, complications could arise.

For instance, an adviser on Fidelity's platform might turn over a business to another adviser who does not work with Fidelity.

"If they're not on the Fidelity platform, there are issues that could arise with respect to access," Mr. Canter said.

If an adviser transfers a business to another adviser, that person must have authorization from clients to handle their accounts through the custodian.

POWER OF ATTORNEY

"Clients must give the new adviser limited power of attorney as well to use the TD platform," Mr. Baas said. "It's a commonly overlooked item from the adviser perspective."

If an adviser bequeaths his or her firm to a spouse, the heir might not be able to run the business.

"We're limited as to what authority they have over the accounts because they're not licensed," Mr. Baas said.

Custodians are stepping up their game at the same time regulators are putting a greater emphasis on business continuity and succession.

Earlier this year, state regulators approved a model rule requiring advisers to have a succession plan. The Securities and Exchange Commission is working on a succession rule for advisers that it oversees.

ATTENTION TO DETAIL

With the regulatory focus on succession, advisers are paying closer attention to the details of transition, said Peter McGratty, vice president of strategic partnerships at Pinnacle Advisor Solutions. Among the concerns are privacy surrounding client information and access.

"Now, everybody is starting to ask more practical questions about succession and continuity planning," Mr. McGratty said. "It's going from a nice-to-have best practice to something they have to have. It's crystallizing interest in getting things done."

mschoeff@investmentnews.com
Twitter: @markschoeff

Colony Group with a credit of $12,000 to provide daily research reports on high-yield bonds, debt markets and credit analysis, according to the ADV.

"Any economics have to have a benefit for the end client," Mr. Dorsey said.

CLIENT LEADS

TD, along with Schwab and Fidelity, also give client leads to some RIAs on their platform. Schwab, for example, provides referrals through its Schwab Advisor Network, which is designed to help investors who walk into a Schwab branch find an independent investment adviser.

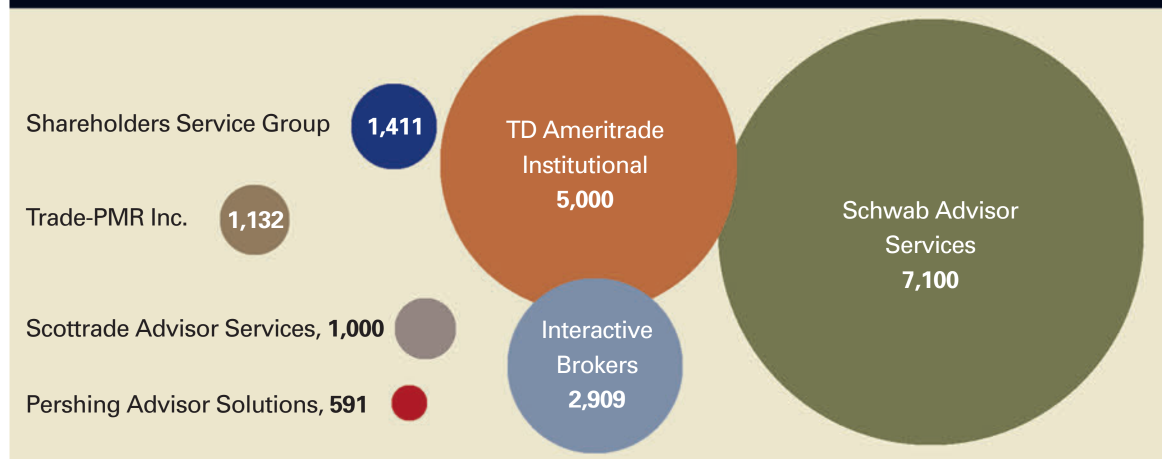
Participating RIAs pay Schwab a quarterly fee for any referred accounts and would have to pay a higher "non-custody" fee if they moved the referred accounts to another custodian.

Executives at Schwab, the largest custodian, were not available to comment for this story, according to a spokeswoman, Mayrav Weiss.

Pershing, a subsidiary of The Bank of New York Mellon Corp., does not do client referrals, but it does provide other benefits, such as practice management consulting or providing three-year loans to help advisers get on their feet, according to Ben Harrison, head of business development and relationship management at Pershing's RIA unit.

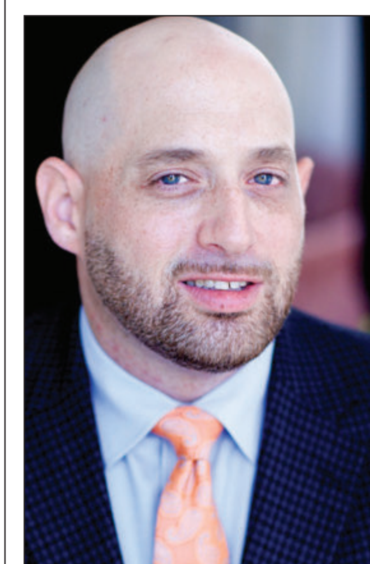
"We do believe it's important for these newly independent advisers to remain independent," Mr. Harrison said. "Providing a working-capital loan helps them to manage their transition and allows them to preserve their independence with the obligation to repay."

Largest number of RIA custody clients



Note: Fidelity did not provide separate figures for custody and clearing clients.

Source: *InvestmentNews* Data



"Asset growth, the size of the team, average account size are all part of an algorithm custodians use."

Ryan Marcus
Director of business development
Spartan Capital Securities

Mr. Tibergien warned that custodians have to tread cautiously as they try to fill the void for brokers who previously relied on support from their firm. They don't want to provide so much support that they interfere with advisers' ability to have independent choice in recommending a custodian.

"We recognize the difference in the economic model of an RIA versus a broker, and part of our responsibility to those people who are starting as an RIA is to help them understand the rules of engagement and how to run the business in the new environment," he said. "That's where we would rather add value than try to induce them with financial incentives."

mbraswell@investmentnews.com
Twitter: @masonbraswell

China's dilemma: Is it 1987, 1929?

Having spent the summer ruminating over the macro events in Europe, my focus has now turned to the U.S. stock market crashes of 1929 and 1987. Why, you might ask? The answer lies in China, where policy interventions in the face of a steep sell-off are quickly becoming the first blemish on Xi Jinping's leadership record.

Whether the current period becomes known as China's version of 1929's Black Thursday in the United States or a much healthier scenario analogous to 1987's Black Monday, depends very much on the strategy its policymakers adopt over the next few months. For China's sake, I hope it is the latter, but at this point investors should take note that the world's second-largest economy could just as likely find itself at the epicenter of this century's greatest equity market correction.

Fueled by demand from Chinese retail investors, the Shanghai Composite Index soared by more than 150% from mid-2014 to early June. In the same period, the Shenzhen Composite Index rose by more than 200%. Such exuberance has come to a violent end with indexes down almost a third from their June 12 peak of more than $10 trillion in market capitalization.

GROSSLY OVERVALUED

Despite the recent sell-off, the Chinese stock market is still grossly overvalued, with the median price-to-earning ratio for the Shanghai Composite Index hovering around 40, more than double the median P/E of the S&P 500. By another valuation measurement, the market-capitalization-to-GDP ratio for China is currently above 60%, well above its average of 40% over the past 10 years.

From here, the best case for Chinese equity markets may be a scenario similar to what happened in

Guest Blog

Scott Minerd

1987 in the United States, when, after a huge sell-off in October, the market retraced, then reversed, but ultimately established a base that began a rally that lasted until 1989.

The alternative scenario to 1987 is 1929, the course upon which China currently seems set. Chinese policymakers' unorthodox attempts to bridle the runaway market resemble the policy response of the United States in 1929, which basically relied on investor groups to purchase large blocks of stock in the hope of propping up equity markets. As in 1929, this type of market intervention will do nothing to solve the fundamental problem in China's equity markets today. The unresolved issue is that prices have detached from fundamental value due to a wave of debt-fueled retail investor mania.

This too is analogous with 1929. China's sky-high margin-debt-to-total-market-capitalization ratio is estimated to be near 10%. In reality, it is likely even higher when you factor in margin lending by China's shadow banking system. By comparison, U.S. margin debt is currently less than 3% of total market cap, but in 1929, margin debt in the United States reached a high of 12% of total market capitalization prior to the stock market's collapse.

The clear answer at this point is not for China to endeavor to apply splints to its broken market, but instead for the People's Bank of China to flush the system with cash and allow the renminbi to depreciate significantly. Unfortunately, this may not be palatable. Chinese policymakers will do anything they can to avoid devaluation ahead of the International Monetary Fund's November decision on the RMB's special drawing rights status. China may not have that long to act if it is to avoid a full-blown disaster. In the meantime, my best estimate is that the PBOC will be forced to increase sales of Treasury securities to prop up the RMB as more capital flows out of China. I would expect up to $300 million to $500 million of Treasury liquidation may be necessary to hold the line on RMB depreciation in the coming months.

EXUBERANCE HAS come to a violent end with indexes down almost a third.

If China's crisis does turn into a 1929 scenario — which would be devastating for China and would have broad implications for the rest of the world — one takeaway for investors is that the United States is likely to remain at least somewhat insulated. A Chinese slowdown will put energy and commodity prices under pressure, which will benefit U.S. consumers and U.S. manufacturers as input prices fall, and should help support earnings in the near term.

The transitory period that lies ahead, however, promises to be rocky for all global markets. Consider how much Greece's $300 billion debt crisis roiled investors (a figure dwarfed by the $3 trillion lost by Chinese equities markets since June). Under any circumstances, investors should expect to see increased market volatility with a growing safe haven bid for Treasury securities, which I expect will push the U.S. 10-year note to 2% or lower in the near term.

INCREASED VOLATILITY

Renewed downward pressure on interest rates will increase market volatility and is likely to adversely affect credit spreads. On a positive note, lower interest rates, along with declining energy prices, should spur U.S. housing activity, and assuage any lingering concern caused by disappointing new home sales data, which fell 6.8% to 482,000 homes sold in June.

For China, the outcome to this crisis is still far from a foregone conclusion. There is still time for its policymakers to refocus. The best path would be to further loosen monetary policy and inject as much liquidity as possible into markets — even if this forces the party to relax its control of the RMB and puts some strategic political objectives on the back burner. If it doesn't adopt this strategy, China may learn the painful and lasting lessons taught to by the calamitous market collapse in the United States in 1929.

Scott Minerd is chairman of Guggenheim Investments and global chief investment officer at Guggenheim Partners.

Allianz revamps life lineup

By Trevor Hunnicutt

A subsidiary of the insurance giant Allianz SE last Tuesday announced changes to its fixed-index universal life insurance lineup, offering a new underlying index and benefits to the product's fast-growing market.

Two of the company's products now will be available with a new benchmark, the Barclays U.S. Dynamic Balance Index II, that's used to calculate the interest the insurer will pay on cash balances. The index allocates to a bond proxy and the S&P 500.

The changes apply to the Allianz Life Pro+ Fixed Index Universal Life Insurance and Allianz Life Pro+ Survivor Fixed Index Universal Life Insurance policies.

Indexed universal life insurance policies, as they're also known, credit interest to the cash value of a client's policy based on the performance of an index, up to a stated cap. The increasingly popular policies also buffer clients' cash value from downward movement in the event the product fails to perform.

GUARANTEED BONUS

Allianz also will add what it described as a guaranteed bonus to the policy's accumulation of cash value, starting in the 11th year after the policy takes effect. That bonus, worth 0.6 percentage points annually, is added on top of the percentage change in the index, which is calculated annually and used to determine what interest will be credited to the policy's value.

An executive for the firm said the changes put the firm on par with competitors, while contractually guaranteeing policyholders the additional bonus.

The product is part of a fast-growing trend. In the first quarter this year, the latest period for which data are available, indexed universal life sales "drove overall" growth in the universal life segment, according to Catherine Theroux, a spokeswoman for LIMRA, an industry group.

The products now represent half of the premiums in the universal life universe, and nearly a fifth of the premiums across all individual life insurance products. New indexed universal life premiums were $2 billion, on an annualized basis, last year.

thunnicutt@investmentnews.com Twitter: @trhunnicutt

Surge in large-cap stocks tests smart-beta fans

Bloomberg News

In the war between conventional share indexes and the smart-beta style that became popular in the last decade, score one for the old school.

With gains in equities in 2015 confined to the biggest stocks, equity gauges that emphasize their largest members, such as the S&P 500, are trouncing newer rivals that don't make the distinction. One example is consumer shares, where size-ranked indexes are returning more than twice as much as those that strip out the market-value bias.

It's a rare soft patch for exchange-traded funds employing smart beta tactics such as equal weighting, which have seen assets surge tenfold since 2004 to $406 billion, or about 20% of the U.S. ETF industry. Buyers have been attracted to passive investments that fine-tune indexes by ranking companies by factors other than how big they are.

"People are realizing the smart-beta strategy isn't a magic wand," said Rick Ferri, a financial adviser and founder of Portfolio Solutions, which manages $1.4 billion in client assets. "We have a large-cap-growth market right now, and anything weighted towards smaller stocks is getting beaten up."

Stretches such as this have been unusual in a six-year bull market where virtually everything has risen, a perfect setup for equal-weighted gauges. While the recent performance is ammunition for smart beta's critics, it's hardly a repudiation of the style, according to Eric Balchunas, an analyst with Bloomberg Intelligence.

SMART BETA

"Smart beta is here to stay," Mr. Balchunas said. "It's really an artificial intelligence version of active management, and it costs about half the price."

Megacap companies like Google Inc., Facebook Inc. and Amazon .com Inc. are up 20% or more in 2015, meaning investors have been better off owning old-style indexes where their influence is greatest. The S&P 500 is size-weighted, so stocks such as Apple Inc. and Exxon Mobil Corp. can be hundreds of times more influential than the smallest companies.

On July 20, the S&P 500 traded at its highest level since June 2013 relative to its equal-weighted counterpart, according to data compiled by Bloomberg. The Value Line Arithmetic Index, a gauge containing 1,700 stocks with equal weights, is down 5.6% since reaching an all-time high on April 15.

BLOOMBERG

NOT A QUICK FIX

The most recent quarterly reports for Apple, Google and Facebook saw double-digit profit expansion. Meanwhile, the full S&P 500 is forecast to see earnings fall 2.8% this quarter.

The divergence is prompting investors to be more selective when picking stocks, according to John Carey of Pioneer Investment Management Inc.

There's nothing inherently wrong with smart beta, also known as fundamental indexing, Mr. Ferri said. It's just not a quick fix, with higher fees that make it expensive to shuttle in and out.

"These smart-beta strategies, if you're going to use them, are a lifelong commitment," Mr. Ferri said. "You're going to have periods of underperformance like this. If you're not going to stick it out, don't do it in the first place."

Advisory business grows as boomers seek guidance

By Alessandra Malito

Who says financial advisers are going the way of the dodo bird? It turns out the need for advice is stronger than ever, thanks to the flood of baby boomers at or near retirement.

The 15th annual Evolution Revolution study by the Investment Adviser Association and National Regulatory Services, which analyzes Securities and Exchange Commission-registered investment advisers, found the financial advisory industry is growing across the board in terms of the number of RIA firms, clients and assets under management.

The number of nonclerical jobs increased by 31,000 in a year's time — an upswing of 4.3% year-over-year, with the industry employing more than 750,000 people, according to the study, which was based on data from Part 1 of the ADV forms filed by all SEC-registered investment advisers as of April 8.

"One of the things that [the numbers] tell me is that there is an increasing need for this particular business," said John Gebauer, the president of NRS. "There is a great demand for financial advice and financial planning."

Over the last year, the number of advisory firms has risen 5.4% — the most in four years — to a total of 11,473 firms.

Advisers are serving 2 million more clients now than in 2014. That's a growth of 6.8% year-over-year to approach 30 million clients in total.

Regulatory assets under management, or RAUM, are now at $66.7 trillion in aggregate, an increase of 8.1% since last year.

The growth showcases the importance of financial adviser jobs for the economy, Mr. Gebauer said. "As it continues to grow, it will generate more jobs and create more economic success for many people."

'MONEY IN MOTION'

David Mullins, a financial adviser and founder of David Mullins Wealth Management, attributes the growth to baby boomers' need for financial advice as they approach or enter retirement.

"That has put a lot of money in motion," Mr. Mullins said about the giant wealth transfer, which is expected to see $30 trillion change hands over the next 30 years.

The study shows an increase in small adviser businesses, though a small number of advisers manage a high percentage of overall RAUM.

While 128 firms manage $100 billion or more in assets, or about 54% of total RAUM, the remaining 46% is managed by 11,300 firms.

There's still a lot of work to be done in the industry, Mr. Gebauer said, especially when it comes to regulation. He doesn't expect to see much change in the next few years, especially as the SEC tries to keep up with adviser growth through examinations. The SEC currently examines 10% of advisers annually and has said it hopes to bring that number up to 14%. Adviser growth may hinder that expectation.

"As the number of advisers continues [to grow], then that exam rate will struggle to keep up and reach those goals," Mr. Gebauer said.

amalito@investmentnews.com
Twitter: @malito_ali

FIDUCIARY CORNER

Blaine F. Aikin

Prepare for a new era of low returns

Follow a process that heightens investors' readiness for a future that looks nothing like the past

There are times when expectations don't square well with reality. Today, the expectations many investors have baked into their financial plans are based upon recent or historic returns. But the reality is that we are likely to be entering a protracted period of low portfolio returns, and investors aren't prepared for it.

Interest rates are low, inflation is low, equity valuations are high, debt levels are high and the monetary and fiscal tools governments use to stimulate growth are fully deployed. We are operating in a global investment environment that many money managers and market analysts are calling the most challenging they have observed in their careers.

Jack Welch famously called upon business leaders to "face reality as it is, not as it was or as you wish it to be."

Advisers who are ready to face reality should address the ramifications of a protracted period of low returns in terms of:

1. Client characteristics and goals.
2. Investment policy.
3. Due diligence processes.
4. Monitoring protocols.

CLIENT AWARENESS

This process serves to fulfill fiduciary obligations to serve clients' best interests under prevailing circumstances, raise client awareness of factors contributing to their financial well-being and demonstrate the depth and breadth of support the adviser contributes to the relationship.

Both institutional and individual investors use the same means of creating financial preparedness for future goals: deposits, withdrawals, portfolio risk and return trade-offs, and prioritization of objectives.

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Increasing deposits often means fund raising for institutions versus finding new sources of income for individuals. Reducing withdrawals involves separating mandatory from discretionary spending and cutting costs, including investment expenses. Consideration should involve exploring the capacity and willingness to take on more risk in pursuit of higher returns.

The prioritization of objectives is crucial to making sound decisions about how scarce resources will be allocated and to seize opportunities to lock in future funding for nondiscretionary goals (e.g. using insurance for estate-planning needs or college tuition plans).

Generally, a reexamination of client characteristics and goals in the context of a changing investment climate leads to investment policy adjustments. In particular, a low-return environment may warrant broader portfolio diversification, such as through the introduction of alternative or "absolute-return" investments. Many analysts expect correlations between asset classes to decline and market volatility to increase, which would benefit more broadly diversified portfolios. Such conditions also may prompt greater flexibility in investment policy relating to tactical asset allocation or active management.

DUE DILIGENCE

Due diligence is always important, but it is never more critical than in a low-return environment. While a rising tide may lift all boats, Warren Buffett observed that "only when the tide goes out do you discover who's been swimming naked." Earning a few basis points more through superior investment performance makes a proportionately greater impact when overall market returns are low. Similarly, costs claim a larger portion of the returns achieved; therefore, careful due diligence on all service providers is critical to make sure that the portfolio is being managed as efficiently as possible.

Finally, as the recent Supreme Court decision in the Tibble v. Edison International case reinforced, monitoring is a fundamental, ongoing fiduciary duty. Circumstances can and will change. Reasonable people can also disagree regarding the outlook for the economy and markets and the appropriate course of action to take.

The important thing is to have a sound process in place to regularly and thoroughly evaluate current and expected conditions that would materially influence the decision making of a prudent fiduciary. This "prudent man standard" requires fiduciaries to consider the facts and circumstances they know or should know that are relevant to investment decision making and to act — and document — accordingly.

Habitual monitoring is the hallmark of comprehensive fiduciary oversight. It provides the opportunity to anticipate, assess and address inevitable changes in client circumstances and the investment environment. It is a programmed reality check that promotes the benefits of foresight and helps avoid the potential regrets of hindsight.

Blaine F. Aikin is president and chief executive of fi360 Inc.

RETIREMENT WATCH
Frank McAleer

A quality-of-life discussion is critical

Questions that meaningfully address tough issues make all the difference in longevity planning

To live well in retirement, clients and their advisers have to embrace change — and longevity planning.

As clients get older, their circumstances will continue to change, sometimes rapidly. What doesn't change is their desire to be independent, to have social connections that enrich their lives and to participate in activities that bring them joy. Financial planning that can meaningfully address these quality-of-life issues can make all the difference.

By embracing the realities — and rewards — of longevity in your clients' financial plans, you can offer advice designed to guide them up to and through the retirement they've envisioned. Here are some topics to help you start the longevity planning conversation.

HOUSING

Even in retirement, housing remains the largest spending category. Most retirees want to age in place. In a recent AARP survey, 89% of those 50 and older said they want to continue living in their homes indefinitely. However, there are a number of other options in retirement, and it's best to encourage clients to think about the issue before it becomes an immediate need.

Questions to ask:

• Do you want to stay in your home? Will it need to be modified for aging?

• What other housing options are available to you, and what will they cost?

• Would you want to downsize, or relocate to a pedestrian-friendly neighborhood?

• What is your family situation: Are there children you could live with harmoniously?

HEALTH CARE

As clients age, health care costs tend to add up. Consider that the average couple at age 65 can expect health care costs of $266,000 over a 20-year retirement — and that number doesn't include any chronic conditions or health emergencies, according to the Employee Benefit Research Institute. An important part of financial planning is to help ensure that health care costs don't become a drain on clients' quality of life.

Questions to ask:

• What will the treatment of existing medical conditions cost over the long term?

• Do you know what costs Medicare will cover?

• Should you consider long-term-care insurance?

• Are there existing conditions that prevent the purchase of LTCI?

• What health care facilities and providers are there locally?

TRANSPORTATION

It may come as a surprise, but transportation is the second-largest expense for individuals older than 65 and accounts for about 15% of their annual expenditures, according to the Bureau of Labor Statistics. That's why advisers should make sure to account for it as part of their clients' long-term financial plans.

Questions to ask:

• How will you get to your favorite places in retirement?

• Who will assist you if you can't drive yourself somewhere?

• What transportation options are available in your area?

CAREGIVING

It's a sobering statistic: 70% of Americans age 65 (in 2014) will need some kind of long-term care during their lives. At some point, your clients may be providing or receiving care, so this must be taken into account in long-term financial planning. Of the 10 million adults age 50 and above caring for aging parents today, those leaving their job to do so will be affected by lost wages and future Social Security benefits.

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Questions to ask:

• Do you understand the full impact of being a caregiver?

• How will you get the care you need as you age?

• Is long-term-care insurance a good idea for you?

Maintaining quality of life throughout increasingly long retirements is becoming a growing challenge for millions of Americans. With expanded longevity comes a whole new set of challenges, and your clients may find sorting through all of the choices themselves overwhelming.

Your role as a financial adviser is integral. Managing your clients' assets, in tandem with helping them manage their lives, is of ultimate importance. Initiating these quality-of-life conversations with your clients and guiding them toward individualized solutions is a way to differentiate yourself as an adviser.

Frank McAleer is director of retirement solutions at Raymond James.

Despite Bill Miller's rebound, critics question his legacy

Bloomberg News

By now, the arc of Bill Miller's three-decade investing career is well-documented: from genius to failure and back to genius.

But as the Legg Mason stock picker builds on a three-year rebound following his disastrous recession-era record, the pain of that historic crash can still be heard in his voice, and the questions from his biggest critics remain. Is Bill Miller, 65, truly a great investor or does his aggressive stock-buying strategy of scooping up out-of-favor companies merely magnify the broader market trends — up a lot when times are good, down a lot when times are bad?

It's a question that Bill Gross, the "bond king" who had a similar career path to Mr. Miller's, has asked about that whole generation of bull-market investing savants, from Warren Buffett to George Soros. Back in 2013, Mr. Gross said Mr. Miller, while an "esteemed public icon," would need to put up a few more years of beating his rivals to cement his reputation as a great investor.

Some say it will take even more than that.

"Bill Miller would need to have more than a few good years to get back into people's good graces," said Lawrence Glazer, managing partner at Mayflower Advisors, where he helps oversee $2 billion. "It would take that to get them to overlook the downturn."

Mr. Miller doesn't accept that view. Two Legg Mason funds he has run for decades have performed better on average than the S&P 500. On that long-term basis, through bull and bear markets, he has "crushed" the general market and proved his worth as a money manager, he said.

While he is willing to take the blame for "a really big mistake" prior to the recession, Mr. Miller is clearly still sensitive about the damage the crisis did to his reputation.

"I find it interesting," he said, "that the press was very quick to anoint people — I won't name them — who got something right once in a row. At the same time, they decided that people with 20-year track records apparently just lost it."

CHEAP FINANCIAL STOCKS

Mr. Miller made his mark by beating the S&P 500 15 years in a row, from 1991 through 2005. He zeroed in on cheap financial stocks and undervalued technology names such as Dell Computer Corp.

When the financial crisis hit in 2008, Mr. Miller was caught holding too many financial stocks. As the S&P 500 plunged 38%, his Legg Mason Capital Value Trust fund fell 55% while the Opportunity Trust lost 65%. Investors fled, and in 2012 he stepped down from running Capital Value, the bigger of the two funds.

Bill Miller: Legg Mason's stock guru maintains he has "crushed" the general market on a long-term basis.

GETTY IMAGES

The past few years have brought him a measure of vindication. His $2.5 billion Opportunity Trust returned 37% annually for the past three years, making it the top performer among diversified U.S. equity funds.

Yet it hasn't all been smooth. Last year, he gained 10% while the S&P rose 14%. And his Opportunity Trust still trails 96% of its peers over 10 years and 93% over 15, according to Russel Kinnel, director of mutual fund research at Morningstar Inc.

"Bill Miller is a smart, aggressive investor," Mr. Kinnel said. "I'm just not sure he always gets sufficient reward for the risks he takes."

In interviews, Mr. Miller has said the financial crisis caused him to lose sleep and gain 40 pounds as he wrestled with the consequences of losing so much of his investors' cash.

"It had to affect him," said Ken Leech, chief investment officer at Legg Mason's bond unit, Western Asset Management, and a longtime investor in Mr. Miller's funds. "He went from being a rock star to last place. But he stuck it out and hung in there."

Mr. Miller has always stuck to his investment decisions regardless of popular sentiment, said Raymond "Chip" Mason, the Legg Mason Inc. founder who hired Mr. Miller in 1982.

"When he first bought Amazon, everyone said he was nuts," Mr. Mason said. "But he was convinced he was right and it turns out he was."

Mr. Miller's shares of the ecommerce giant in the Opportunity Trust were purchased for an average of just above $20 a share. Today they trade for more than $525.

Mr. Miller has made changes since the 2007-09 recession. He is more sensitive to broad macroeconomic developments. The fund also no longer buys hard-to-sell assets such as private-equity stakes, said Samantha McLemore, Mr. Miller's co-manager.

Michael Mauboussin, a Credit Suisse executive who has known Mr. Miller for more than 20 years, said Mr. Miller was and still is a smart, contrarian investor. The wild swings in his reputation, Mr. Mauboussin said, need to be put in perspective.

"When things are going well, you are a genius," he said. "When they are going badly, you are dope. The truth is never as extreme."

RBC discounts four funds to lure retail

By Jeff Benjamin

RBC Global Asset Management, in an effort to gain a better foothold in the U.S. mutual fund market, kicked off discounted teaser rates on four of its 23 mutual funds starting last Monday.

In a move described as an "institutional seed pricing and service model," RBC is cutting the expense ratios on the four funds by between 39% and 44% for new and existing shareholders through October 2017.

Matthew Appelstein, head of U.S. sales and distribution for RBC Global Asset Management, said it can be just as important to build assets in a fund as to develop a strong investing track record, though he hopes his funds can do both. But without a significant number of assets, many broker-dealers and financial advisers simply won't make an allocation.

"It's part of a long-term strategy to grow our business," Mr. Appelstein said. "We have limited brand in the U.S., we have limited distribution in the U.S., but we have a successful institutional business. We've got to think differently about the retail market."

Starting Nov. 1, 2017, RBC plans to start increasing the expense ratios of the four funds incrementally over an 18-month period, back to or just below current levels.

> "RBC IS SEEKING to stand out in a crowded asset management field."
>
> **Todd Rosenbluth**
> Director, mutual fund and ETF research, S&P Capital IQ

The marketing program, which is targeting financial advisers, also is offering services like those available to separate-account holders to intermediaries whose clients invest $10 million or more in one of the funds.

"RBC is seeking to stand out in a crowded asset management field where investors and advisers are increasingly seeking low-cost passive mutual funds and ETFs," said Todd Rosenbluth, director of mutual fund and ETF research at S&P Capital IQ. "This move helps to bring the retail share classes to have more competitive expense ratios."

The funds being temporarily discounted include:

- The RBC Emerging Markets Equity Fund (REEIX) will have its expense ratio cut to 72.5 basis points from 120.
- The RBC Mid Cap Value Fund (RBMVX) will have its expense ratio cut to 55 basis points from 90.
- The RBC BlueBay Emerging Market Corporate Bond Fund (RBECX) will have its expense ratio cut to 57.5 basis points from 100.
- The RBC BlueBay Global High Yield Bond Fund (RGHYX) will have its expense ratio cut to 45 basis points from 80.

jbenjamin@investmentnews.com
Twitter: @jeff_benjamin

American Funds feeling the love

Continued from Page 1

June 30, the company is likely to beat last year's take.

"It makes sense that American Funds are becoming more popular once again right now because we're in a mature bull market and they concentrate their portfolios on large, well-known growth stocks," said Dieter T. Scherer Jr., an adviser at Adaptive Wealth Solutions. "It's a strategy that allows managers to better accumulate assets during a bull market, but it backfires for investors when the bear finally comes, hence many investors were discontented with American Funds when the financial crisis hit."

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CHANGES

The death last month of its parent company's chairman, James F. Rothenberg, at 69, from a heart attack, marks a change of guard for a firm whose hallmark is horn-rimmed conservatism. Yet Mr. Rothenberg, a former portfolio manager, was already helping the firm find a new voice and a fresh strategy for an era in which investors clamor for lower-cost investments.

Even for a business that lives and dies by market cycles yet always seems to come back stronger, the fund industry's titans have been shaken by the latest wave of interest in passive investing. Marketers in many cases have turned from saying there's no reason to use index funds to saying there's still a reason to sell actively managed funds.

American Funds has come out swinging. For several years, the firm has been building a case, through white papers and wholesalers, that the way its managers run money can and does beat the market.

The company measured its funds' one-, three-, five-, 10-, 20- and 30-year performance over each month between 1934 and 2013. In most cases, those funds beat their benchmark indexes, the firm said, including 97% over 30 years. Those numbers couldn't be verified, but today, the company's average fund is ahead of most of its Morningstar-selected peers over three, five, 10 and 15 years.

Despite their clear stake in winning this argument, they make for an unlikely messenger. Capital Group Cos. Inc., the American Funds parent, is notoriously camera shy, even haughty. The firm doesn't typically sell directly to consumers, and doesn't plaster metro stations or football playoff games with advertisements. Its team-first approach to money management doesn't lend itself to elevating household-name managers, and company officials don't seem to care. The product lineup rarely changes.

Nonetheless, it's built an impressive franchise as an early pioneer in emerging-markets investing, the architect of a wealth management business it increasingly emphasizes, and a money manager for institutional investors such as pension funds and endowments.

Perhaps most importantly, it's got a best friend in financial advisers. Even with outflows, American Funds has maintained top-five brand favorability ratings since the financial crisis, according to Phoenix Marketing International, a market research firm.

"In today's environment, it is absolutely critical for us to have an effective engagement with advisers," said Mr. O'Connor, whose sales staff has ballooned in size. "We need to understand their business and their business model, their platform; we need to understand how they think."

Capital Group was founded in 1931 by Jonathan Bell Lovelace in the depths of the Great Depression, but it was another market downturn that cemented much of the adviser loyalty that remains today.

During the go-go days of the 1990s' technology boom, the firm's top funds trailed many of its star competitors, such as Fidelity Investments' William Danoff. The firm spent most of that decade lagging the sales leaders, a group that included Fidelity, the Vanguard Group Inc., Putnam Investments and Janus Capital Group Inc.

But as the boom turned to bust, it was American Funds that looked smart. Starting in 1998, the American Funds Growth Fund of America (AGTHX) would trounce more than four-fifths of its competitors for the next nine years. Victories like that helped the firm hit its stride. From 2002 to 2007, American Funds had an unchallenged six-year reign as the top U.S. seller of mutual funds. Those sales boosted the firm to become the largest mutual fund company, with over $1 trillion at its peak.

Then, 2008 happened.

DOUBLE-DIGIT LOSSES

"2008 was across-the-board difficult," Mr. O'Connor said. "While, frankly, we did well from a relative perspective against appropriate benchmarks, nobody focuses on a benchmark when absolute returns are down double digits."

And some of the firms' top funds posted middling results even as the markets rebounded. Investor fled in droves. This crisis was different: Instead of building the firm's reputation, it shook it.

The company hasn't come close to regaining its position as a top seller. By sales, it ranked 139th last year among U.S. mutual fund and ETF brands, according to Morningstar. Index fund behemoth Vanguard, on the other hand, has posted net inflows each year since the financial crisis. And it claims its $214.5 billion haul last year set an industry record.

In a 2011 interview, the top executive for the American Funds' sales unit, Kevin Clifford, said advisers had been "foolish" to sell the funds as "able to defy gravity."

Despite its fall, American Funds remains the largest mutual fund brand without ETFs. Securities regulators in March approved American Funds' ability to offer ETFs, but Mr. O'Connor said the topic "isn't something that we've spent much time on." He said the funds aren't at all necessary to make the firm competitive with advisers.

Whatever it attempts, Capital Group's vision will have to be carried out by a reconstituted inner circle made up of Tim Armour, who has taken over as chairman, and others, such as Rob Lovelace, president of Capital Research and Management Co., the unit that manages American Funds and $1.4 trillion in assets.

"Active management has been pushed out to the edge of portfolios and passive has become the core, but active management has to come back to the core," Mr. Lovelace, a grandson of Capital's founder, said on a panel at a Morningstar conference in June. "If you use passive funds, you get 100% of the downside."

For Mr. Congemi, the appeal of American Funds is based on its consistent performance, low cost and focus on selling mainly through advisers and professional investors who may restrain investors' worst impulses.

"They don't surprise you in a bad way; they surprise you in a good way," he said.

While advisers may be receptive, they're not an uncritical voting bloc.

"I would see [American Funds] as a behemoth whose funds are pretty vanilla — they're going to follow their style box," said Jason Van Duyn, founder of AQuest Wealth Strategies. "When the market is right up, people look at indexes and say, why do I need active management?"

Wesley D. Bigler, chief executive of Longview Wealth Management, said his firm uses a 13-criterion test for funds. That means a fund needs to compete on merit, not just on brand. But the brand doesn't hurt.

"They're kind of like Coca Cola," said Mr. Bigler, whose firm manages $422 million. "You know exactly what you're going to get. When you buy a Coke, it fizzes. It tastes right."

thunnicutt@investmentnews.com
Twitter: @trhunnicutt

No Social Security boost likely in 2016

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$104.90 per month for Medicare B, which covers outpatient services and doctor visits. Medicare A, which covers hospitalization, is free.

High-income retirees — individuals with modified adjusted gross income over $85,000 or married couples with a combined MAGI of $170,000 or more — pay higher monthly premiums for both Medicare B and the Medicare D prescription drug program, and in some cases, a lot more. MAGI includes annual adjusted gross income plus tax-free interest.

ISTOCK

There are five Medicare premium brackets. In 2015, the Medicare B premium surcharges range from $42 to $230.80 per month on top of the standard $104.90-per-month premium. These premiums apply per person, so married couples in which both spouses are Medicare age would pay twice as much. The income is based on your latest tax return, so a 2014 tax return filed in 2015 will be the basis for the Medicare premiums paid in 2016.

The 2015 trustees report projected a 52% increase in Medicare Part B premiums for 2016. The actual increase will be announced by the Department of Health and Human Services in the fall.

If there is an increase in the Medicare Part B premium, only some people will pay it. That's because the Social Security Act contains a "hold harmless" provision that protects the vast majority of Social Security beneficiaries from paying a larger increase in Medicare Part B premiums than they receive in a Social Security COLA increase in order to avoid a reduction in their net Social Security benefit.

No increase in Social Security benefits means no Medicare premium hike for most beneficiaries.

NOT PROTECTED

But there is an exception to the hold-harmless provision, and it is likely to affect many high-income clients. Anyone who is subject to Medicare premium surcharges is not protected from Medicare increases. Neither are individuals who are newly entitled to Social Security in 2016 or those who are enrolled in Medicare but have not yet started to collect Social Security benefits.

Bottom line: Many of your older clients may find that their Medicare premiums go up next year while their Social Security benefits hold steady, resulting a net decline in their monthly retirement income.

No COLA increase for 2016 would mean that the taxable wage base would remain at $118,500 for most workers next year. However, the 1.45% Medicare portion of the payroll tax would continue to apply to all wages, even those above the wage base amount, and the 0.9% Medicare surtax would be added for workers with earnings over $200,000 for single filers and $250,000 for joint returns.

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

mbfranklin@investmentnews.com
Twitter: @mbfretirepro

MetLife charges LPL with broker raid

Continued from Page 3

that it was not targeting MetLife.

"The lifeboat defense is that these people were going to jump ship anyway, and we were going to give them a place to land," he said. "These people were unhappy with their employment and they were going to make a change, but we didn't target anyone with the intent of harming that company."

MetLife underwent several significant changes in the past year, according to sources familiar with the moves and attorneys on the case.

After tweaking its compensation policy several times, last year it altered its fee-based advisory business so that brokers were paid as independent contractors rather than employees, according to two sources who requested anonymity because of ongoing legal matters. That resulted in a lower payout and reduced benefits, the sources said.

In addition, MetLife is changing clearing firms, moving to Fidelity's National Financial Services from Pershing. Such changes can be a good time for brokers to switch firms because they already would be transitioning clients to a new platform and updating account statements, according to one source.

Finally, MetLife's move last year to absorb a subsidiary, the New England Life Insurance Co., resulted in a loss of independence for some advisers who had been operating under a more independent structure at Nelico, according to Guy O. Kornblum, an attorney for Charles Hall, one of the brokers who left to join LPL in Las Vegas.

"MetLife wanted to provide a much greater level of supervision, almost like you were an employee, and it was a complete change," he said. "MetLife lost a lot of agents and a lot of opportunities, and a lot of people left in this process and went to other places."

> "COMPANIES WILL file a raiding claim not only to recover damages but also to send a message."
>
> **Thomas B. Lewis**
> Attorney
> Stevens & Lee

Meghan Lantier, a spokeswoman for MetLife, declined to comment on these issues, instead stating in an email that the company's claims are detailed in court and Finra filings.

MetLife and LPL are both signees to the Protocol for Broker Recruiting, a pact between firms designed to make it easier for brokers to leave. But MetLife claims the protections of the protocol would not apply to these advisers.

CLAIM AND COUNTERCLAIM

In the Las Vegas case, Nelico sued a former manager, Jimmy Lee, and several advisers who left about the same time. The suit argues that Mr. Lee violated nonsolicit and noncompete agreements by recruiting advisers and reaching out to clients before and after his move to LPL.

In a countersuit, Mr. Lee and others accused MetLife of a number of allegedly improper practices, including "plundering" Mr. Lee's offices, locking him out and taking client files.

Nelico or MetLife agents also took Mr. Lee's personal financial documents and threw them in public dumpsters, the counterclaim said.

MetLife also terminated Mr. Lee's appointment on MetLife insurance policies he sold so he would no longer receive income on them, the counterclaim said.

An attorney representing Mr. Lee declined to comment.

MetLife has shed thousands of brokers in recent years as it slimmed down and as variable annuity sales fell.

Both cases — the court case in Nevada and the Finra claim — are ongoing or in the process of mediation. The outcomes may not be as important as the message, Mr. Lewis said.

"Companies will file a raiding claim not only to recover damages but also to send a message to the defendant that we're coming after you for everyone you take," he said.

mbraswell@investmentnews.com
Twitter: @masonbraswell

Curian's exit sparks frenzy

Continued from Page 2

stated that it is at least partially due to Curian's use of fractional shares, which enables smaller accounts to hold percentages of single stocks as opposed to whole shares.

That flexibility, he said, which is also offered by EQIS, is less compatible with broker-dealer platforms that want to custody assets managed by advisers working on the various platforms.

KEY ISSUE

"The key issue is that the broker-dealers now want to have the custody of assets that were once custodied at the TAMPs," Mr. Coyne said. "We recognized this trend five years ago and started adjusting our product array. That's difficult for Curian because they use the fractional shares and the technology is not aligning with the broker-dealers."

He added that Curian likely would have lost its competitive edge if it had abandoned its fractional share option.

Meanwhile, Brinker is showing some early flexibility of its own.

"Brinker will not be the answer to every adviser, but we feel there will be many, many advisers that will be attracted to us," Mr. Coyne said. "Our goal is to be as flexible as possible, and in this particular instance our minimum investment will be $25,000."

Charles Goldman, chief executive of the $26 billion TAMP AssetMark, also cited the fractional share issue as a unique challenge for Curian. But, like most TAMP operators right now, Mr. Goldman is zeroing in on how to benefit from Curian's sudden demise.

"We're 100% focused on helping the advisers and their clients find a new home," he said. "This is the kind of thing you just scratch your head about, but we're very much interested in growing our business."

jbenjamin@investmentnews.com
Twitter: @jeff_benjamin

Regulators query Pimco ETF valuations

Continued from Page 3

put fresh money back in," he said in an e-mail. "Investors will likely want to see what, if anything, comes from the review."

The Total Return ETF produced more than twice the gain of Mr. Gross's parallel mutual fund in the first three months after it was started, helping it attract assets faster than any other actively managed ETF.

From March 1, 2012, through July 31 of this year, the ETF returned 20%, compared with 12% for the mutual fund, according to data compiled by Bloomberg. This year, the ETF advanced 1.7%, versus 1.6% for the mutual fund.

20%
EFT's return since March 2012, vs. 12% for mutual fund

EX-MANAGER'S COMPLAINT

The SEC's probe, which started around the middle of 2014, centered on claims similar to those in a 2013 lawsuit from a former Pimco money manager. Jason Williams filed a wrongful termination claim based on his March 2012 firing, three weeks after telling the firm he had spoken with agents overseeing a U.S. bailout program and was cooperating with their inquiry, according to his lawsuit.

The SEC was examining whether the Total Return ETF purchased small lots of bonds at discounts, then marked them up when valuing holdings to artificially boost returns, a person familiar with the probe said last September, requesting anonymity because it's confidential.

Mr. Williams, whose complaint included a list of alleged wrongdoing at Pimco, withdrew the case three days after filing it, and court records don't indicate why. His complaint cited "artificial manipulation of the price" of the Total Return ETF in or around March 2012, the same month he was terminated. The complaint didn't elaborate.

Compliance issues will hit rivals, LPL says

Continued from Page 4

areas that regulators are examining at broker-dealers. However, LPL's acting chief financial officer, Tom Lux, said in an interview after the earnings call that he expected broker-dealers to face regulatory scrutiny over discounts investors are supposed to receive for buying mutual funds.

SIGNIFICANT FINES

The Financial Industry Regulatory Authority Inc. last month ordered LPL to pay $6.3 million in restitution to clients after it failed to waive sales loads for certain mutual fund shares sold between July 2009 and the end of 2014. At the same time, Finra ordered two other firms to pay significant fines for the same issue.

"We and others are working with mutual fund complexes" to improve the processes for awarding appropriate mutual fund discounts, Mr. Lux said. "There's been a history of broker-dealers with challenges to stay on top of" such discounts, he said.

If the rest of the independent broker-dealer industry is about to undergo LPL's recent experience with regulators, it could prove to be an enormous challenge. LPL has been in the spotlight over the past few years due to its host of problems with Finra as well as state regulators. Two products that have caused LPL to pay fines or restitution to clients have been nontraded real estate investment trusts, a popular alternative investment, and variable annuities.

$6.3B
Restitution LPL was ordered to pay for failing to waive sales loads for mutual fund shares

For example, in May Finra ordered LPL to pay $11.7 million in fines and restitution for what it deemed "widespread supervisory failures" related to sales of complex products, according to a settlement. From 2007 to as recently as April, LPL failed to properly supervise sales of some investments, including certain exchange-traded funds, variable annuities and nontraded REITs, and also failed to properly deliver more than 14 million trade confirmations to customers, according to Finra.

Mr. Casady recently has said that the firm is near the finish line in dealing with fines and settlements stemming from regulatory actions.

bkelly@investmentnews.com
Twitter: @bdnewsguy

DOL to hear fiduciary foes, pros

Continued from Page 1
Monday until two weeks after the transcript is posted.

The proposal was introduced in April, with White House backing, nearly five years after a similar proposal was first floated. That measure was withdrawn amid intense financial industry backlash. Now the DOL is trying again to push the rule through before the Obama administration leaves office.

The Labor Department asserts that the rule would curb incentives for brokers to put clients into high-fee products that erode their retirement savings. The industry says it is too expansive and would significantly increase liability risk and regulatory costs, potentially discouraging brokers from serving investors with modest accounts.

The hearings promise to rehash these arguments, while giving the agency a chance to say it is listening.

"It's more of a political exercise than anything else," Mr. Thompson said. "You're not going to see any revelations that you haven't seen in the comment letters."

In appearances on Capitol Hill and elsewhere, Labor Secretary Thomas Perez has emphasized that the agency is open to modifying and streamlining the rule in response to criticism.

But with a final rule likely to be released next spring, there is little time for the DOL to make changes to the lengthy measure.

Bradford Campbell, a partner at Drinker Biddle & Reath and a former head of the DOL's Employee Benefits Security Administration, which wrote the rule, said it has "dozens of major technical flaws."

"How much the DOL will correct the problems with the proposal is partly a technical issue and partly a political one," Mr. Campbell said. "It will be very difficult to do these technical issues justice in the few months available to the department if it intends to issue a final rule next spring."


US DEPARTMENT OF LABOR

Thomas Perez: Rule would curb broker incentives to sell high-fee funds.

Some participants in the debate over the rule are holding out hope that the hearings will produce a breakthrough in which the two sides come closer together.

'CONSTRUCTIVE' CRITICISM

Knut Rostad, president of the Institute for the Fiduciary Standard, said the sessions will give industry opponents a chance to outline "constructive suggestions" to reduce the rule's regulatory burdens while maintaining its investor protections.

"We'll see whether they hang together in opposition or whether we'll see concrete evidence of good-faith efforts to work with DOL," he said.

In its appearance, the American Council of Life Insurers will highlight a new report showing that the average surrender fee for withdrawal of funds from a variable annuity is less than 1% of the surrender amount. Mr. Perez often points to the risks associated with the vehicles — and the sales incentives tied to them — to support the DOL rule.

"For the vast majority of surrenders, there is no fee," said Andrew Melnyk, ACLI vice president of research. "Variable annuities are held for the long term and they're doing what they're supposed to do — generate income streams throughout retirement."

While the industry keeps pressure on the DOL, the agency also is getting push-back from Capitol Hill.

In a July 29 letter to Mr. Perez, two House Democrats joined their Republican colleagues in calling for the proposal to be withdrawn. In Aug. 5 and Aug. 6 letters, five Senate Democrats asked Mr. Perez to modify the rule in half a dozen different ways.

In a highly charged political atmosphere, the DOL is trying to show that it is going the extra mile to gather input.

"The Department of Labor doesn't want to give the impression that it is rushing [the rule] through the process," Mr. Thompson said.

mschoeff@investmentnews.com
Twitter: @markschoeff

RCAP to consider cost cuts at Cetera

Continued from Page 1
RCAP is searching for replacements for its chief executive, Michael Weil, and chief financial officer, Brian Jones, according to a company statement.

Second in head count among independent broker-dealers to LPL Financial, Cetera has $239 billion of assets under administration and $47 billion in assets under management.

On a conference call with RCAP investors and analysts after the deal was announced, RCAP's top executives made clear that a new, streamlined RCAP would benefit advisers.

"By separating wholesale distribution from our retail advisory platform, RCS Capital will be a more simplified and refocused company dedicated to providing outstanding service to our 9,500 financial advisoes and their more than 2 million retail clients throughout the country," Mr. Weil said.

He and Larry Roth, CEO of the Cetera unit, said further cost-cutting at the firms that make up Cetera Financial Group will occur but they did not give specific details.

'TRADITIONAL THINGS'

"We have significant additional opportunities for expense reduction," said Mr. Roth. "There are traditional things that you would expect."

Mr. Roth cited the recent consolidation of RCAP's legal, finance and due diligence groups and the potential $7 million in savings from closing J.P. Turner & Co., one of the firm's retail broker-dealers. Some J.P. Turner advisers were given jobs at Summit Brokerage Services, another Cetera broker-dealer.

"We've acquired 11 broker-dealers in 18 months," Mr. Weil said. "We know and we're prepared to identify the opportunities around redundancies, call centers, etc. It's a reality; we're at that point in the evolution" of the company.

> "WE'VE ACQUIRED 11 broker-dealers in 18 months. We know and we're prepared to identify ... redundancies."
>
> **Michael Weil**
> Chief financial officer
> RCAP

Meanwhile, Nicholas Schorsch, the former executive chairman of RCAP and its biggest shareholder, was ebullient.

On a conference call with brokers Friday morning, he said the transaction with Apollo was "a one plus one equals infinity" deal, according to Rita Robbins, president of Affiliated Advisors Inc. "Nick meant that 'everything is possible'" for RCAP now that Apollo is taking a role in the company, including the two board seats, she said.

Separately, Mr. Schorsch and his partners agreed to sell a 60% stake in AR Capital, a private company that develops nontraded real estate investment trusts, to Apollo for $378 million in cash and Apollo stock.

The new company, AR Global Investments, will have six Apollo executives — and four from the old company, including Mr. Schorsch.

HALF-BILLION-DOLLAR PAYDAY

Mr. Schorsch and his partners could increase their payday another $500 million for "performance-related considerations," according to Apollo. Mr. Schorsch and his partners would earn that half-billion dollars for raising $40 billion of fresh capital for Apollo within five years.

From an earnings perspective, RCAP has been posting losses of late. The company reported a loss in the second quarter of $66.1 million compared with income of $48.5 million for the second quarter last year.

Wholesaling investment products, particularly high-commission nontraded REITs, were the backbone of RCAP. But sales of nontraded REITs at RCAP have fallen since it was revealed last October that accounting errors at another company Mr. Schorsch controlled, American Realty Capital Properties Inc., had been intentionally not corrected by company executives.

bkelly@investmentnews.com
Twitter: @bdnewsguy

TECH CONNECT

When adopting new tech, appoint an ambassador

Firms should have one or more people assigned to be troubleshooters

By Alessandra Malito

Gone are the days when advisers questioned the need for sophisticated information technology to run their business effectively. Now the question is, who at the firm is going to take charge and actually run the technology?

Registered investment advisory firm executives should consider appointing a "technology ambassador," Victor Fetter, chief information officer at LPL, suggested recently at the LPL Focus conference in Boston.

Having someone within the firm who understands the practice's software inside and out is key to ensure that business operations run as smoothly as possible. With so many functions and capabilities in the various software systems and IT offerings available to advisers, having every adviser master it all can be nearly impossible.

Technology manager Rick Field is a technology ambassador for his firm, RetirementGeeks, in Raleigh, N.C., which uses LPL and its technology platform. He said part of the job is educating both co-workers and clients.

That keeps both sides working together efficiently.

"It frees up the adviser to focus on what is important for the client," Mr. Field said. "That frees them up from having to think of tech issues."

Having a point person, or point people, for employees to turn to helps boost tech adoption, put out fires and increase advisers' efficiency.

Greg Friedman, president of Private Ocean Wealth Management, said it's about instilling ownership in an individual who is eager to master technology or a group of tech-savvy personnel.

"All the major systems that we use, each one of those systems needs an owner, someone who lives it and nurtures it and wants people to use it — someone who knows it best," Mr. Friedman said.

INTERACT WITH VENDORS

Mr. Friedman, who is also chief executive of the customer relationship management system provider Junxure, said that advisers need to work with their vendors to make that happen. Each firm's tech ambassador should learn about updates to the system, figure out how to navigate parts of an IT platform that may be underutilized and get well-versed in all the firm's software programs.

"IF AN ADVISER is slowing the progress of the organization, then they are only shooting themselves in the foot."

Mike Byrnes
President, Byrnes Consulting

ISTOCK

An adviser needs to make sure he or she picks the right employees for the role, or if no one currently working at the firm is appropriate, to hire someone with plenty of tech experience who is a good fit.

"A big challenge is if you have nobody who is interested," Mr. Friedman said. "That's a staffing issue."

It doesn't have to be one person. In fact, Mr. Friedman and Sheryl Rowling, an adviser with Rowling and Associates, agree that it should be more than one — in some cases, many more.

For example, someone who knows all of the technology but none of the background to make it run will not benefit the business.

"It doesn't make sense to go to someone who just knows how to change settings," Ms. Rowling said. "You need to go to someone who understands the ramifications.

"The integration of subject matter expertise is really critical," she added.

This gets significantly harder when the adviser is a sole practitioner. But no matter the size of the firm, mastering information technology continues to grow in importance.

SPREAD TOO THIN

"It's one reason why an adviser should eventually grow beyond themselves," said Mike Byrnes, president of Byrnes Consulting. "There are certain advisers that are just spread too thin and their time isn't very productive.

"The more successful advisers focus on client interactions and bringing in new business," he added. "To get stuck in the weeds of technological changes can really bring them down."

His advice is to hire younger advisers and support staff to help manage the technology and get the firm's advisers up to speed. That would help boost adoption of the software that the firm has paid for and potentially open up options for additional software purchases that could help advisers to thrive.

Regardless, getting firmwide buy-in is an integral step.

"The reality is sometimes you can't teach an old dog new tricks," Mr. Byrnes said. "If an adviser is slowing the progress of the organization [by refusing to adopt the latest technology], then they are only shooting themselves in the foot."

amalito@investmentnews.com
Twitter: @malito_ali

Advisers sanguine about Puerto Rico

Continued from Page 2

but I also think there are probably some investment opportunities."

He described general obligation bonds and bonds tied to sales and use tax revenue as "probably good."

The Supreme Court declared a Puerto Rico law that enabled it to enter Chapter 9 bankruptcy protection unconstitutional. The commonwealth made it clear in late June that it cannot pay its $72 billion in debt, and it did not pay a $58 million payment to holders of Public Finance Corp. bonds Aug. 1.

Even with the uncertainty about whether or not Congress will ultimately allow Puerto Rico to enter bankruptcy protection, more sophisticated investors are recognizing pockets of opportunity among the more than 15 agencies issuing Puerto Rican sovereign debt.

That likely explains why so many mutual funds are still comfortable holding Puerto Rican bonds.

Morningstar Inc. counts more than 300 mutual funds, or 52% of all muni bond funds, with some exposure to Puerto Rican debt.

OppenheimerFunds holds 18 of the top 25 spots, in terms of funds holding Puerto Rican debt.

A company spokesman said OppenheimerFunds is not commenting until after the latest debt payment issue is resolved, but the company has issued several statements over the past few weeks.

The most recent of which, on July 19, read: "We have been managing investments in Puerto Rico for more than 20 years, and remain steadfast in serving the long-term interests of our shareholders."

Adam Buchanan, senior vice president at Ziegler and Co., points out that in the context of Puerto Rico's openness about not intending to pay its debt, any investments in that market are likely betting that existing laws override political will.

"Muni bond funds have been pretty vocal about the difference between Puerto Rico's resources to pay and its willingness to pay," he said.

As Puerto Rico digs in, the strategy is to follow the model employed by Detroit, Mr. Buchanan said.

BUDGETS TO PUBLIC SAFETY

"We're starting to see a lot of talk out of Puerto Rico about shared pain, beyond just the citizens to include the bond holders, which is similar to what people heard in Detroit," he said. "When the conversation changes from budgets to public safety issues, that's negative for bond holders, because the politicians will always take public safety over bond holders."

So far, Puerto Rico can't legally enter bankruptcy protection, but the risk is that Congress will step in to make that possible, said Ronald Bernardi, a muni bond trader and president of Bernardi Securities.

"Puerto Rico has clearly already been carved out from the overall muni market, because it is not lost on the market how the courts treated bond holders in places like Detroit, Stockton, Calif., and San Bernardino," he said. "There may be a ripple effect in the muni fund universe, but it will take some time to play out. The fact that they've defaulted doesn't mean your entire position will be wiped out. You might get 90 cents on the dollar, or you might get 30 cents on the dollar."

jbenjamin@investmentnews.com
Twitter: @jeff_benjamin

U.S. funds invested in Puerto Rico debt

Top 10 U.S. open-end municipal funds by exposure to Puerto Rico

1	FPRTX	Franklin Double Tax-Free Income A	41.15%
2	ORMDX	Oppenheimer Rochester MD Municipal A	36.76%
3	ORVAX	Oppenheimer Rochester VA Municipal A	34.89%
4	RMUNX	Oppenheimer Rochester Fund Municipals A	23.22%
5	LTNYX	Oppenheimer Rochester Ltd. Term NY Munis A	21.14%
6	OPITX	Oppenheimer Rochester Ltd. Term Muni A	20.16%
7	ORAZX	Oppenheimer Rochester AZ Municipal A	20.03%
8	ORMIX	Oppenheimer Rochester Michigan Muni A	19.98%
9	OPNCX	Oppenheimer Rochester NC Municipal A	18.91%
10	ONJAX	Oppenheimer Rochester NJ Municipal A	18.51%

Source: Morningstar

Portfolio Manager Viewpoints

T. Rowe Price®
INVEST WITH CONFIDENCE

Positioning Your Portfolio for Global Opportunities

Darrell Riley
Global Allocation Specialist
T. Rowe Price

Chris Dillon
Fixed Income Portfolio Specialist
T. Rowe Price

Jason A. White
Equity Portfolio Specialist
T. Rowe Price

In a recent Portfolio Manager Viewpoints webcast, Darrell Riley, Chris Dillon and Jason A. White of T. Rowe Price presented the audience with an overview of developed and emerging markets so far in 2015.

Darrell Riley | When I meet with advisers, the consistent theme is that it's a tough market to put new money to work. Equity valuations are on the expensive side of normal, and bond yields are so low there's little margin of safety to absorb higher rates.

Though the environment may be frustrating, it's not bad overall: U.S. corporate performance and earnings, excluding energy, are good; Treasuries have a higher yield than other G10 countries and with lower risk.

But advisers looking to boost returns and dampen volatility may want to include non-U.S. markets and look deeper into the equity and credit market—beyond the bond substitutes and secular growth plays that have performed well and are now relatively expensive and beyond traditional investment-grade bonds.

The U.S. monopoly on improving fundamentals and liquidity has been broken. Japan and Europe, which have implemented quantitative easing (QE), are experiencing better growth. The U.S., which is tapering, is slowing, so the gap in economic and earning cycles is likely to close.

Japan has been the winner this year, with a 13% return in dollar terms. But most investors are still skeptical about improved corporate governance and returns.

In Europe, the market has been pricing out some of the downside risk and pricing in QE. The next leg will require stronger evidence of recovery and earnings growth, and getting Greece behind us.

U.S. equities have been rising with improving earnings and getting a boost from multiple expansion for the past five years. Now we can't count on higher margins and multiples to lift stock prices. We need a pickup in economic growth to drive higher revenue and earnings.

Other economies are in earlier stages of recovery. QE is holding down rates and boosting economic growth and inflation. That's why, in our asset allocation portfolios, we're underweight U.S. equities and overweight non-U.S. equities.

Meanwhile, the Japanese equity market has been fueled by stronger earnings rather than by PM multiple expansion. We believe there's probably more upside potential there.

From our perspective as active managers, having a unitary view on the emerging market asset class is not that helpful. We can own companies that are benefiting from global growth and are more resilient to a strengthening dollar. Emerging markets look cheap and attractive, and we're overweight EM equities.

Chris Dillon | Seemingly contradictory forces are at work within today's global fixed income markets, which are driving not only heightened volatility but also opportunity.

During the global financial crisis of 2008, the world staved off global depression with accommodative, synchronous monetary and fiscal policy. Today that regime is being replaced with an environment where global monetary policy cycles are now diverging and an investor's duration source becomes a key prospective consideration within today's balanced portfolio construct.

Consider today's global fixed income landscape. In the United States, investors await higher interest rates as the Federal Reserve looks likely to raise its policy rate before year-end. In Europe, meanwhile, markets that traded ahead of a massive Quantitative Easing (QE) program helped drive a rally of historic scale within eurozone duration markets. As moves of magnitude often overshoot, this rally was no exception as overstretched 10-year German bund yields that had reached the 7 bps range recently corrected back to a range in excess of 80 bps where, still supported by QE, they now offer better value.

Away from the U.S. and Europe, China is navigating its own unique period of development as it is striving to transition away from a cheap export and fixed asset investment economy to a more durable consumption-based economic model. Such a transition is not easy to seamlessly achieve and will take time, which means that China is now experiencing a markedly slower growth phase relative to the dynamic growth profile that it has enjoyed for much of the past two decades and beyond. As a result, in contrast to the U.S., China's central bank policy is accommodative. While we do not see a collapse in China, it is the end of its so-called supercycle, which has been a powerful driver of commodities and supportive of emerging markets overall. To this end, as U.S. and eurozone fixed income markets recently sold off, fixed income in Asia has been more resilient.

In turning to currency markets, last year evidenced a move of historic proportion in terms of U.S. dollar appreciation. With U.S. rates looking to move higher with the expectations around future Fed policy, we expect some additional dollar strength moving forward, but not of the magnitude experienced last year.

Since 2008, emerging markets that represented the best hopes for global GDP growth recovery are now experiencing slower growth in conjunction with the slowing Chinese economy referenced above. Meanwhile, despite a slow first quarter, a U.S. economic recovery looks to be continuing to take shape. In Europe, signs of a nascent economic recovery are also forming despite the considerable risk that Greece represents toward the prospective cohesion of the eurozone overall.

In terms of Greece, while a near-term solution appears imminent in terms of avoiding a near-term "Grexit," future questions remain for Greece and the future of the eurozone overall. Beyond Greece, despite what looks to be an inevitable restructure in Puerto Rico, a $72 billion borrower in the U.S. municipal bond market, strong overall fundamentals and attractive valuations in the market continue to exist.

Ultimately, for today's fixed income investor, we believe that global strategies backed by active management and fundamental research warrant strong consideration.

Jason A. White | Foremost on advisers' minds is the U.S. versus international equity trade-off from an asset allocation perspective.

Patterns of outperformance are cyclical. The most recent cycle, going back to late 2006, belongs to the U.S. But the previous cycle, 1997 to 2006, belonged to international equities and was led by emerging markets. So far in 2015, we may be seeing the early stages of the next cycle for international equity.

We expect the key driver of equity markets in the near term to be earnings growth. Companies have gotten more efficient, and profit margins are elevated. Labor markets outside the U.S. have remained slack, whereas the U.S. continues to tighten and pressure margins bringing into question the durability of profits. Topline growth will be needed to drive earnings growth from here.

Currency has a pronounced effect on markets, too. In Japan and Europe, the name of the currency game is a race to the bottom. All want a weaker currency versus the U.S. dollar to bolster their export sector and perhaps promote a bit of inflation and pricing power.

Earnings growth was the most robust coming out of the financial crisis, but recently it has been more tempered. Some of this is due to the energy and commodity sectors weighing down earnings. Slowing growth in emerging markets and the U.S. shale revolution continues to pressure resource prices.

In the U.S., a mature cycle plus a tougher environment for margins means pressure on earnings. Ultimately, this leads to a stronger focus on stock-specific factors to identify stocks that will deliver earnings growth.

We're generally constructive on the health of the U.S. corporate sector. There has been a massive deleveraging since the crisis, with debt-to-equity percentages almost halved. We feel there is still scope for additional M&A activity, too.

Improved growth prospects for Europe are bolstered by the euro's depreciation, liquidity from QE, and lower energy prices. Lending standards are loosening, and loan demand is starting to pick up, which also bolsters economic growth.

Japan's growth dipped last year on the back of the increase in consumption tax, but that has rebounded recently as the effects of currency weakness bolsters the export and tourist sectors.

Though exports are a small part of the Japanese economy, they act as a catalyst. The weaker the currency, the better the sentiment in the corporate and household sectors. The labor market remains tight, which supports wage growth and domestic consumption.

Changing corporate governance under Abenomics is becoming evident. An increased focus on capital return and profitability has been a welcomed change from past practices.

Emerging markets' growth premium is still solidly positive. Prospects remain uneven given the prevailing trends in energy and commodities. Though commodity markets have stabilized, our view is that the secular trend is still lower for longer.

Our expectations for equity markets in resource-rich countries like Brazil, Russia, and the Persian Gulf remain at risk. More consumption-oriented countries such as China, India, and Korea are poised to benefit from lower commodity prices.

A stronger U.S. dollar and a potential rate hike by the Fed would obviously hurt countries that run current account deficits. But emerging markets have more foreign exchange reserves, better macroeconomic policy and lower debt to GDP compared with the past. As such, they're less tied to movements of the U.S. dollar. ❖

The views contained herein are as of July 2015 and may have changed since then.

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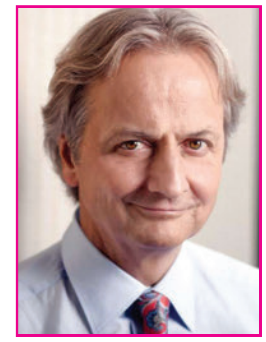
FEATURED EXPERTS

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

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- 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
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