November 16-20, 2015

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Morgan Stanley

INVESTMENT MANAGEMENT

Size Matters: Assessing the Impact of a Changing Fixed Income Climate

JIM CARON

Portfolio Manager

Morgan Stanley Investment Management

Increasing regulation seems to be having the effect of reducing liquidity, and in this new environment bigger funds may no longer be better. We believe that a new breed of "right-size" managers with global expertise who can take advantage of the opportunities available is more likely to succeed in the new financial world than the giants we became familiar with in recent years.

The factors underlying what I call this climate change in the investment world represent a more complex set of knock-on effects, from regulation to liquidity, from liquidity to the available assets and, finally, to the optimum size and approach of those managers that will likely thrive in this new world.

To read more, access our white paper at morganstanley.com/bondstrategy

ARE YOUR ASSUMPTIONS ABOUT FIXED INCOME INVESTING STILL VALID?

Is the increase in regulation leading to reduced liquidity?

What is the true economic value of an asset, given the influence of regulatory action or central bank manipulation?

Are more assets under management better?

How should we properly evaluate risks?

Where can we find hidden opportunities?

Why is active management critical in this new age?

Past performance is no guarantee of future results. Although the Fund is highly rated, it has experienced low or negative performance during the rating periods. Source: **Morningstar, ratings as of 9/30/2015.** World Bond Category – Morgan Stanley Global Fixed Income Opportunities Fund Class I shares 3 Year 4 stars (316 funds), 5 Year 5 stars (236 funds), 10 Year 4 stars (137 funds). The Overall Rating is derived from a weighted average of the performance figures associated with its 3-, 5-, and 10-year (if applicable) Morningstar Rating metrics. Morningstar, Inc. is an independent publisher of mutual fund research and ratings. **Ratings reflect a fund's risk-adjusted 3-, 5-, and 10-year total returns, including any sales charge.** A Fund is rated against all other funds in its category. 5 stars are assigned to the top 10%; 4 stars to the next 22.5%; 3 stars to the next 35%; 2 stars to the next 22.5%; and 1 star to the bottom 10%. Morningstar only rates funds with at least a 3-year history. Morningstar ratings may vary for other share classes. ©2015 Morningstar, Inc. All Rights Reserved. The Morningstar information contained herein: (1) is proprietary to Morningstar; (2) may not be copied or distributed; and (3) is not warranted to be accurate, complete or timely. Morningstar is not responsible for any damages or losses arising from any use of this information.

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Schorsch's RCAP scorched on multiple fronts

Two deals called off, Mass. charges fraud, NYSE may delist firm

By Bruce Kelly and Mark Schoeff Jr.

Less than two years ago, Nicholas Schorsch compared RCS Capital Corp., the brokerage holding company he founded, to Merrill Lynch and Raymond James Financial Inc., two storied names in the securities industry.

"We are a newly minted investment bank with reach from Wall Street to Main Street," Mr. Schorsch told *InvestmentNews* in January 2014 when he announced that RCS Capital, or RCAP, was buying Cetera Financial Group, a network of 9,500 financial advisers, for $1.15 billion.

If it hadn't been before, Mr. Schorsch's vision of a brokerage powerhouse was surely shattered last week after a flood of negative events washed over RCAP and its advisers as well as AR Capital, the privately held real estate management company owned by Mr. Schorsch and his partner, William Kahane.

Multimillion-dollar deals were called off. Highly touted assets were sold for a pittance. RCAP was threatened with delisting by the New York Stock Exchange. And an influential state securities regulator charged a company that once was the bedrock of Mr. Schorsch's domain with fraud.

'NOT WHAT YOU WANT'

"The string of events in the Schorsch world in recent months is not what you want when you are building a franchise," said Alois Pirker, research director for the Aite Group's wealth management practice. "It's been a roller coaster. I cannot imagine the morale in the firm is any good."

"They had in their hands the opportunity to create the next LPL Financial and make [RCAP] one of the next big franchises in the market," said Mr. Pirker. "It sounds like they have moved away from that because of everything that's been happening recently."

In perhaps the most serious development for Mr. Schorsch, Massachusetts last Thursday charged Realty Capital Securities, a division of RCAP, with fraudulently rounding up proxy votes to support real estate deals sponsored by AR Capital.

Realty Capital Securities has been a linchpin of Mr. Schorsch's empire; it is a wholesaling broker that markets nontraded real estate investment trusts and other alternative investments to financial advisers. Those advisers, in turn, sell the investments to their clients.

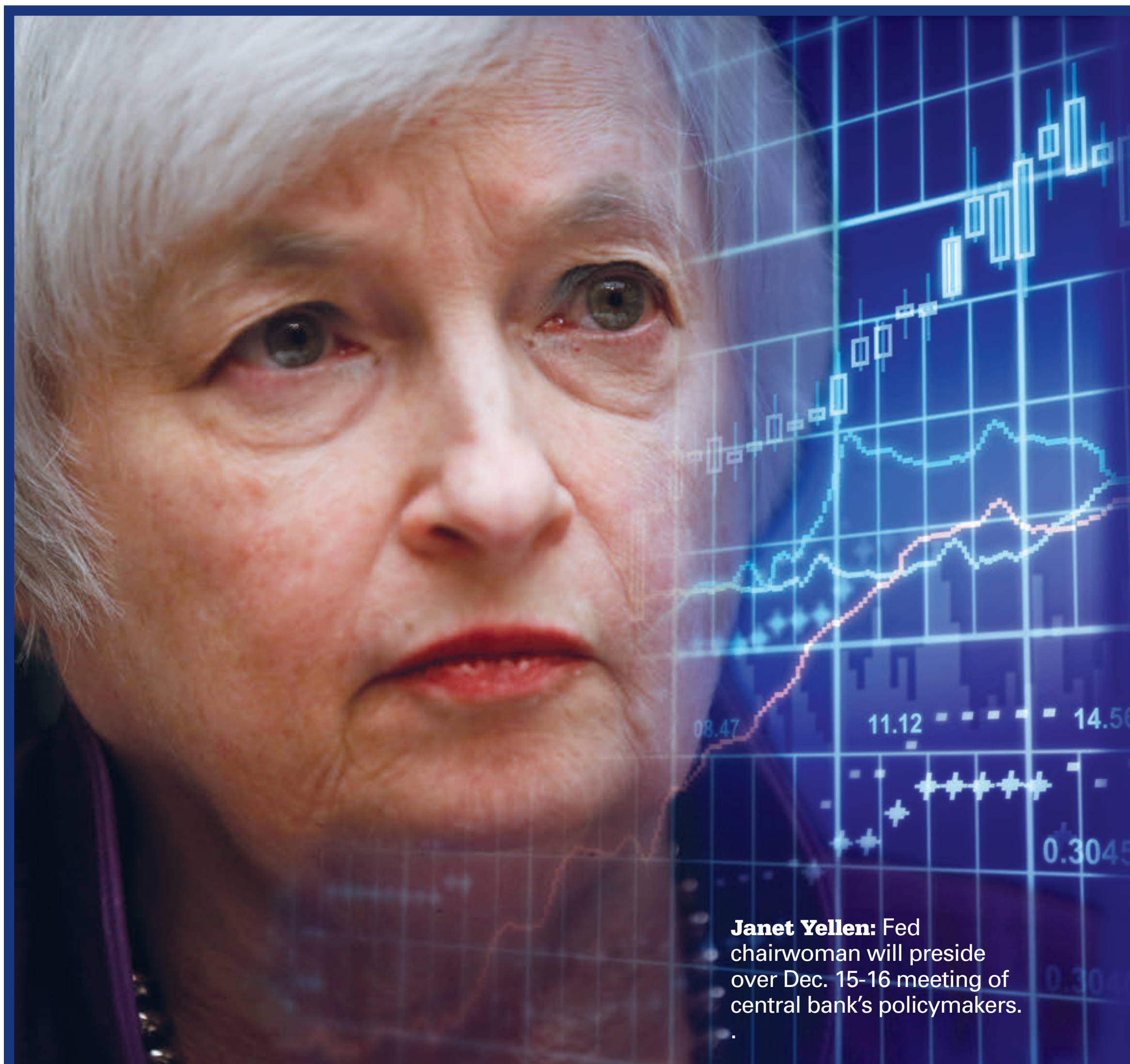
In an administrative complaint,

Continued on Page 43

Bad news

RCS Capital Corp. and founder Nicholas Schorsch faced a number of negative developments last week:

- Massachusetts charged agents of Realty Capital Securities, a division of RCS Capital, with impersonating shareholders and casting fake proxy votes.
- Apollo Global Management called off its $378 million purchase of 60% of Mr. Schorsch's AR Capital and reduced the purchase price of Realty Capital Securities to $6 million from $25 million.
- The NYSE warned RCS Capital that its stock had declined so much that it was in danger of being delisted.
- RCS Capital said it would report a third-quarter loss of more than $300 million due to a $331.7 million write-down of goodwill and intangible assets.



Janet Yellen: Fed chairwoman will preside over Dec. 15-16 meeting of central bank's policymakers.

BLOOMBERG COMPOSITE

Beyond Fed's (all but certain) rate hike

Pace of future increases expected to be slow

By Jeff Benjamin

THE MOST anticipated interest-rate hike since the Great Depression also might be the most irrelevant. But that doesn't mean advisers don't need to pay attention.

If, as is widely expected, the Federal Reserve's monetary policymakers decide at their Dec. 15-16 meeting to raise interest rates for the first time since 2006, financial markets are fully expected to experience some immediate, but short-term, volatility.

Stocks, which have benefited greatly from a Fed monetary policy that all but forced investors into riskier assets to boost returns, will likely suffer from a knee-jerk, risk-off reaction.

And bonds, in general, are expected to suffer from a similar panic that assumes a ripple-effect of higher rates driving down bond prices.

The key for financial advisers will be the ability to look past the initial reaction toward a reality that, for the most part, won't be much different than it is the day before the Fed decides to raise rates.

"We are talking about going from an ultra-accommodative monetary policy to an extremely accommodative monetary policy," said Tom Nelson, senior vice president and director of investment solutions at Franklin Templeton.

STRONG EMPLOYMENT REPORT

In the wake of the surprisingly strong October employment report, released Nov. 6, projections based on futures-trading activity pegged the chances of a Fed hike in December to 70%. But that much-

Continued on Page 44

Inside

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Getting it right
SEC chief says it is going to take time for the agency to develop a uniform fiduciary standard that avoids unintended consequences.
Page 2

Check-up
A guide to how advisers can help their clients blunt Medicare cost increases.
Page 4

Thanks, but no thanks
The DOL blasted proposed legislation that would replace its pending fiduciary rule to raise investment advice standards.
Page 4

EDITOR'S NOTE

Ready or not, rates are about to rise

Rising interest rates are on everyone's mind.

At Charles Schwab & Co.'s annual IMPACT conference in Boston last week, it seemed like just about everybody was expecting a rate hike before the end of the year. Given that the Federal Reserve's benchmark short-term interest rate has been near zero since the 2008 financial crisis, it's not surprising that the prospect of a rate increase is causing so much agita among money managers, as well as some financial advisers.


Frederick P. Gabriel Jr.

Speaking before a standing-room-only crowd at the conference, Jeffrey Gundlach, chief executive of DoubleLine Capital, railed against raising rates, calling it a "big deal," especially to the vast majority of asset managers who have never experienced a hike.

At another session, entitled "Inflation, Growth and the Fed: Who's in the Driver's Seat," John Bellows, a portfolio manager at Western Asset Management, told advisers to stop debating the pros and cons of a rate increase and start preparing client portfolios for the reality of a hike.

OUR COVERAGE

So, with interest rates on my mind, I was happy to return to *InvestmentNews*' offices and see that senior columnist Jeff Benjamin had already worked up a comprehensive story that looks more closely at the effects of rising interest rates.

ISTOCK

In his story, which begins on page 1, Jeff looks at whether the Fed's first rate hike is likely to be a harbinger of more aggressive action down the road.

He also gets a number of experts, including Paul Schatz, president of Heritage Capital, to weigh in on how rising rates will affect the markets.

"The markets will take some time to digest the certainty of higher rates," Mr. Schatz told Jeff. "Artificially low rates tend to dampen volatility, so we'll see more volatile markets, which doesn't mean corrections, but daily and weekly ups and downs will be more severe."

The prospect of rising rates isn't anything new. Indeed, the Fed has been doing a pretty good job of broadcasting its intentions for a while. Still, it is up to financial advisers to bring it home for clients. Talk to them. Review their portfolios and make sure they are positioned to take advantage of the changing rate environment.

Hopefully, our cover story will give you plenty to talk about.

fgabriel@investmentnews.com, Twitter: @fredpgabriel

White: Our focus is on fiduciary

Agency taking its time to 'get it right' and avoid any unintended consequences

By Mark Schoeff Jr.

GETTY IMAGES

Securities and Exchange Commission Chairwoman Mary Jo White said last Tuesday that the agency's staff is "full-out" working on a proposal to raise standards for retail investment advice, but that it would take time to "get it right."

A primary reason for the slow pace is that the SEC wants to avoid unintended consequences, Ms. White told the audience at the Securities Industry and Financial Markets Association's annual conference in Washington.

"If at the end of the day, you are depriving retail investors of reliable, reasonably priced advice, you will not have succeeded, obviously, in your purpose," she said.

Ms. White's comments echo those the industry makes when it criticizes the Labor Department's best-interests rule for advice on retirement accounts, which is on its way toward being finalized.

COMPLEX ISSUE

"It is a reminder that hopefully the DOL will reconsider [its proposal] due to the complexity of the issue," Ira Hammerman, SIFMA executive vice president and general counsel, said in an interview. "The DOL should repropose what they're contemplating so that all interested parties can get one more look at what the DOL thinks the solution is."

In the five years since the Dodd-Frank financial reform law gave the SEC authority to promulgate a rule that would require all retail investment advice to be given in the best interests of the client, the agency has not made discernible progress.

"We will move on it as expeditiously as we can," Ms. White said. "We must get it right and really take into account the complexities and impact. But we're very full-out focused on it."

In March, Ms. White told a SIFMA conference she wanted the SEC to move ahead on a fiduciary rule. At last week's SIFMA meeting, she declined to give a timeline, but said crafting a proposal could be a protracted process.

"It's not a short, quick, uncomplicated rulemaking," she said.

In addition to a fiduciary duty rule, the SEC is working on a rule that would

Continued on Page 40

Credit Suisse brokers eye Wells' offer

By Mark Schoeff Jr.

Wells Fargo & Co. is drawing interest from the Credit Suisse brokers it is trying persuade to come on board, according to a Wells Fargo executive.

In late October, Wells Fargo and Credit Suisse agreed that Wells would pursue nearly 250 financial advisers who currently work for Credit Suisse's U.S. private bank. The move came after Credit Suisse, a Switzerland-based financial firm, determined that it couldn't grow big enough in the United States without an acquisition.

Wells Fargo first started meeting with Credit Suisse brokers three weeks ago at Wells Fargo's St. Louis headquarters and at Credit Suisse offices in New York, Boston, Atlanta and Chicago.

BLOOMBERG

'RECRUITING OPPORTUNITY'

"We have been really pleased with the reception to that," Mary T. Mack, president of Wells Fargo Advisors, said last Tuesday in an appearance at the Securities Industry and Financial Markets Association's annual conference in Washington. "It's a recruiting opportunity for us."

Wells Fargo has not released the details of its recruiting package.

Bringing Credit Suisse brokers into its fold would give Wells Fargo a foothold among high-net-worth investors on the East Coast, a market where it is not as well-known as elsewhere in the country, according to Ms. Mack.

Some of the Credit Suisse personnel will be a good fit for Wells Fargo and others won't, based on the characteristics of their practices.

"It is person-by-person [recruiting]," Ms. Mack said. "Those who want to take advantage of a real planning focus are good candidates because there's a lot that we can offer in terms of our planning and suite of products. That has been incredibly well-received."

Wells Fargo, one of the biggest brokerage firms in the United States, has roughly 15,000 advisers and consists of a broker-dealer, whose brokers are employees, and Wells Fargo Advisors, whose brokers are independent contractors in the Wells Fargo Advisors Financial Network.

Wells Fargo Wealth and Investment Management, which includes both divisions, manages $1.6 trillion in assets.

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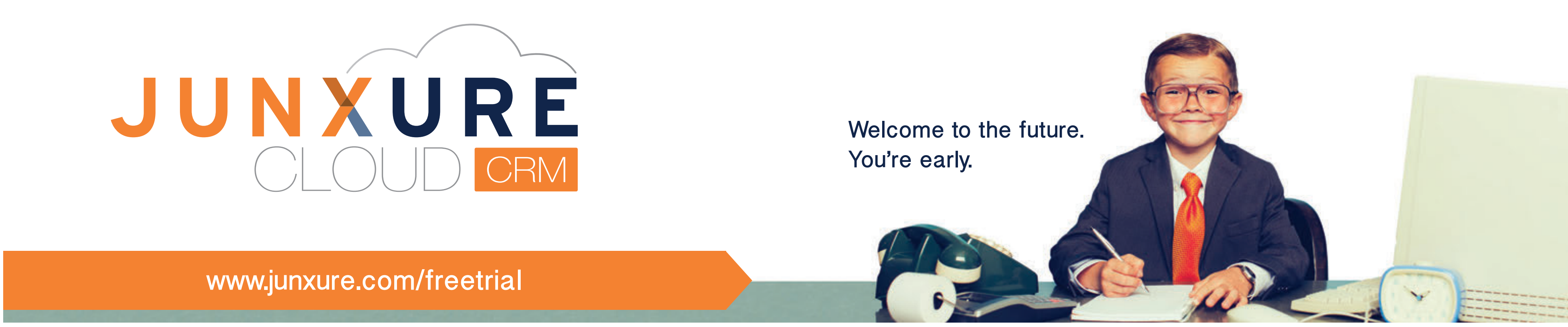

MASTER COMMUNICATOR

CARL RICHARDS

Standing between clients and their costly mistakes

Many financial advisers struggle to define their value to clients. But it doesn't have to be that way.

I came up with this sketch not long after my wife and I decided to hire an adviser for our personal finances. Many people were confused. "But isn't that what you do?" they said.

True, but think of it this way. Surgeons don't operate on themselves. Why expect something different of financial advisers? This process of being the client and not the adviser helped me better define an adviser's value.

I came up with three reasons:

1. Help me get really clear about my goals.

2. Remind me what I said my goals were.

3. Be the thing between me and stupid.

Now these won't be the original reason a client seeks you out. Most people will show up at your door because they need help with something right now. But long term, these three reasons matter a lot.

And of course, these three things sound simple, but in practice they define our biggest value as advisers.

That's why it's important to have this conversation and explain your value to current and prospective clients. At some point, everybody will be tempted to make a big money decision that's a mistake. Even super-smart people face this issue, because we're talking about decisions involving emotions.

Advisers exist to help people avoid costly mistakes. Knowing in advance that you're there to help is a huge value to clients. But most won't know this value exists unless you take the time to tell them. Yes, other things like designing a well-built portfolio matter too. But please don't forget your primary role.

Podcast
To listen to Carl Richards' podcast about this column, go to InvestmentNews.com/richards

We're here to stand between clients and costly mistakes. We're all human, and without some help, we'll make a mistake we're sure to regret.

Carl Richards is a certified financial planner and director of investor education for the BAM Alliance. He's also author of the weekly "Sketch Guy" column in the New York Times. He published his second book, "The One-Page Financial Plan" (Portfolio) this year. ***Email Carl at mastercomm@behaviorgap.com.***

Outsourcing compliance can lead to problems, SEC warns

By Mark Schoeff Jr.

The Securities and Exchange Commission warned financial advisers last Monday not to "set it and forget it" when outsourcing compliance functions.

In about 20 examinations of advisers that use third-party compliance firms, the SEC found that outside compliance officers sometimes were left in the dark about a firm's business practices, did not have access to its documents and did not communicate regularly with its principals.


GETTY IMAGES

'COMPLIANCE RISKS'

"A [chief compliance officer], either as a direct employee of a registrant or as a contractor or consultant, must be empowered with sufficient knowledge and authority to be effective," an SEC risk alert stated. "Each registrant is ultimately responsible for adopting and implementing an effective compliance program and is accountable for its own deficiencies."

The SEC cautioned that firms that outsourced their CCO function to a third party sometimes didn't have an understanding of their own potential compliance shortcomings. The agency also said certain outsourced CCOs "could not articulate the business or compliance risks of the registrant or, to the extent the risks were identified, whether the registrant had adopted written poli-

Continued on Page 40

Social Security software gets an update

Companies revamp products to reflect axed claiming strategies

There's nothing like a bit of stealth legislation that upends the Social Security advice industry to figure out who is on top of their game — and who is not.

Buried in the budget legislation designed to avoid a government shutdown was the elimination of two key Social Security claiming strategies that can help individuals, married couples and divorced spouses maximize their retirement benefits. Rules affecting surviving spouses have not changed.

"Our software is already updated for advisers and consumers," William Meyer, president and founder of Social Security Solutions, said via email just days after President Barack Obama signed the Bipartisan Budget Act of 2015 into law on Nov. 2.

"In addition, we have a collateral kit of 10 pieces, including a new seminar for advisers, frequently-asked-questions documents and additional pieces for both advisers and clients," said Mr. Meyer, whose company offers the Social Security Analyzer program for financial advisers.


Mary Beth Franklin
On Retirement

NEW RULES

People born on or before May 1, 1950 (turning 66 for Social Security purposes in April 2016), still can request to file and suspend their Social Security benefits under existing rules that allow them to trigger auxiliary benefits for a spouse or dependent minor child while their own retirement benefits continue to grow by 8% per year up to age 70. Those who file and suspend before the April 30, 2016, deadline also reserve the right to request a lump-sum payout of suspended benefits in lieu of delayed retirement credits.

But anyone who requests to file and suspend on or after May 1, 2016, will be subject to new rules in which family members will not be able to collect benefits during the suspension period. The lump sum payout option also will disappear.

Continued on Page 40

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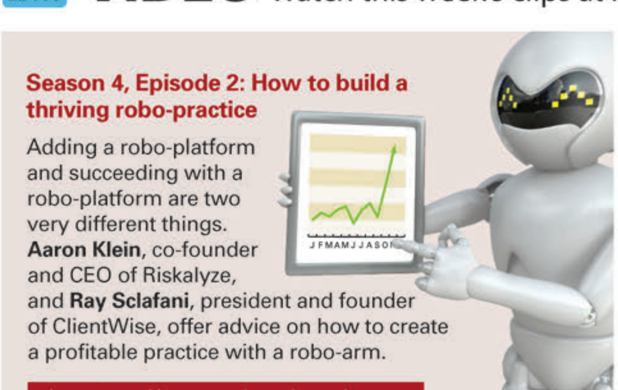

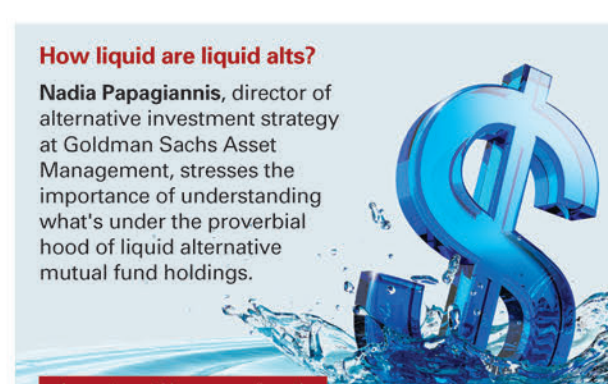

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New Medicare B premium rates announced for 2016

Most won't pay more, but many others will face monthly surcharge

Katy Votava
On Medicare

The Centers for Medicare & Medicaid Services announced a whole host of new Medicare costs for 2016. Among them were the highly anticipated Medicare Part B 2016 premiums, Income Related Monthly Adjustment Amounts (IRMAA), deductible and $3 monthly across the board surcharge.

The Social Security Administration had already released its decision that there will be no Social Security Cost of Living Adjustment (COLA) increase for 2016. As a result, by law, most people who are currently receiving Medicare Part B benefits will be "held harmless" from any increase in premiums and the $3 monthly surcharge in 2016. Those folks will pay the same monthly premium as last year, which is $104.90. Regardless, many others will pay more.

In the face of the Medicare hold harmless provision, all other Medicare recipients were going to have to absorb the entire Medicare Part B cost increase for 2016. It was estimated that it would result in a 52% Medicare B cost increase to all of those who were not held harmless. The recent federal budget agreement brought down the magnitude of that increase substantially by instituting much lower premium growth and funding the difference with a $7.5 billion Treasury loan. It is antici-

Continued on Page 43

ISTOCK

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DOL spurns bipartisan 'fix' to rule

House working bill would 'undermine' administration effort

By Mark Schoeff Jr.

The Department of Labor last Thursday dismissed a legislative effort that would replace a pending agency rule to raise investment-advice standards for retirement accounts.

Last week, a bipartisan group of lawmakers — Reps. Richard Neal, D-Mass., Peter Roskam, R-Ill., Phil Roe, R-Tenn., and Michelle Lujan Grisham, D-N.M. — announced that they were working on the legislation out of concern that the DOL rule, which is designed to reduce financial advisers' conflicts by requiring them to act in their clients' best interests, would have "unintended negative consequences" for people with modest assets.

> "THIS EFFORT would establish a best-interest standard in name only."
>
> **Spokesman**
> Department of Labor

The DOL made clear that it has no intention of letting the bill, which has not yet been introduced, influence its rulemaking process.

"Make no mistake, this effort would establish a best-interest standard in name only and undermine the Obama administration's efforts to protect the retirement savings of America's working families," a DOL spokesman said in a statement emailed to *InvestmentNews*.

'DISAPPOINTING'

The DOL spokesman added: "It is puzzling and disappointing that after the department's five-year extensive and inclusive outreach process, Congressman Neal would

Continued on Page 42

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VIEWPOINT

EDITORIALS

Time for Congress to act on elder abuse

THE PROBLEM of elder financial abuse is being tackled at the federal level. It's about time.

After proposals by the North American Securities Administrators Association and Finra to provide immunity for financial services providers that reported suspected elder financial abuse, or delayed disbursement of funds to prevent it, two senators have introduced legislation to encourage financial advisers and financial institutions to report suspected financial abuse of elders.

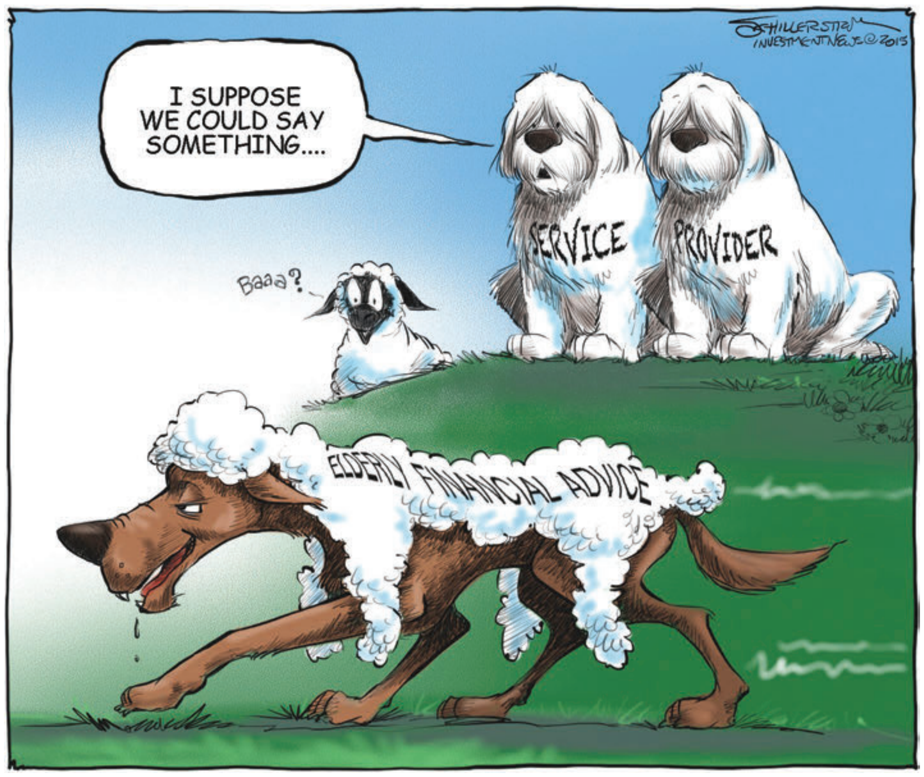
The legislation should be quickly passed in Congress and acted upon by those providing financial services to the nation's 40 million seniors, many of whom are ripped off to the tune of an estimated $2.9 billion a year.

Called the Senior$afe Act of 2015, the proposal — initiated by Susan Collins, R-Maine, and Claire McCaskill, D-Mo. — consists of several features. First, to promote and encourage reporting of suspected elderly financial exploitation, the bill would incentivize certain financial services employees to report any suspected exploitation by making them immune from any civil or administrative liability arising from such a report, provided that they exercised due care, and that they make these reports in good faith.

Second, to get that immunity, the proposal would require that financial institutions provide training to key employees on how to report senior financial exploitation as soon as practicable, or within one year, so that the employees have the knowledge and training they need to spot "red flags" associated with financial exploitation.

Those employees would include supervisory personnel; employees who come into contact with a senior citizen as a regular part of their duties; and employees who review or approve the financial documents, records, or transactions of senior citizens as a part of those duties.

The institutions that would be covered by the bill include banks, broker-dealers, investment advisers and credit unions.



NOT REPORTED

Even though 12 states mandate that financial institutions report suspected elder abuse to the Adult Protective Services Association, and another 14 require "all persons" report such suspicions, only one in 44 elder financial exploitation cases is ever reported, according to APS.

APS notes that victims and families lose lifetime savings, and almost one in 10 financial abuse victims have to turn to Medicaid as a result of those savings being stolen.

ONLY ONE IN 44 ELDER financial exploitation cases is ever reported.

In September, NASAA released a model act on the reporting of elder financial abuse that states might follow. It would mandate that suspected elder abuse be reported to state securities regulators and state adult protective-services agencies when a qualified employee of a financial institution has "a reasonable belief" that financial exploitation of an eligible adult has been attempted or has occurred. It provides immunity for such reporting if done in good faith and with "reasonable care."

The model act goes further than the Senior$afe Act in that it provides broker-dealers and investment advisers with the authority to delay disbursing funds if they suspect disbursement would result in the exploitation of an eligible adult.

The Financial Industry Regulatory Authority Inc. also has proposed a rule that would permit qualified persons of financial firms to place temporary holds on disbursements of funds or securities from the accounts of elders where there is reasonable suspicion of financial exploitation.

However, such holds might create legal problems for the firms delaying disbursement of such funds, unless it is specifically authorized by federal law.

The Senior$afe Act seems like a win-win for financial advisers and their elder clients.

The Act would provide a needed layer of protection for senior investors, most of whom can ill afford to lose any of their savings to fraud, and it would be another valuable service for financial advisers to provide those clients.

Together, the actions of NASAA, Finra and, hopefully, Congress and President Barack Obama, will finally help stem the tide of elder financial abuse by freeing advisers to play a major role when they spot or suspect something suspicious.

Don't tune out crowdfunding

The moment many advisers hear the term "crowdfunding," they tune out. Crowdfunding is for the unwashed masses, for Kickstarter fans, for small-time investing neophytes. It's not a place for real investing.

Well, advisers can continue to believe that, but that doesn't mean their clients will. Especially given changes on tap for 2016 that will shower more investors with opportunities to "get in on the ground floor of the next big thing."

The odds of your clients being drawn to new ventures rose markedly on Oct. 30, when the Securities and Exchange Commission passed Title III, part of the 2012 JOBS Act, which allows non-accredited investors to get into private equity through crowdfunding platforms.

Jeff Benjamin's column in the Nov. 9 issue quoted a securities lawyer, Doug Ellenoff, calling this move "the publicification of the private investment market." And Mr. Benjamin cautioned *InvestmentNews* readers about the coming "aggressive push into the retail space" early next year, when these sites can begin taking non-accredited money.

BUY-IN LIMITED

Luckily for advisers, who hold tight to client assets and manage portfolios holistically, the buy-in for these offers will be limited. The deals themselves will not be able to raise more than $1 million in a 12-month period, and individuals will be able to contribute only between 5% and 10% of their yearly income.

But any chunk broken out of a financial plan to wager on these offers deserves attention. That's not to say none of these ventures will be worth considering. And likely, if a client wants to support a community project, for example, there may be factors to weigh in addition to possible returns.

But in this new environment, advisers need to tell clients: "Bring anything that comes your way to us first." Deals will sound too good to be true because that's how marketing works. That's fine when it comes to toothpaste or hamburgers, but decisions to spend even a few grand in retirement savings on crowdfunding offers would benefit from professional scrutiny.

And advisers will need to stay current during the evolution of this new retail-level private equity market and its investment structures, because bumps along the way are a certainty.

Just because something is new, though, doesn't mean it automatically should be labeled suspect or dismissed outright.

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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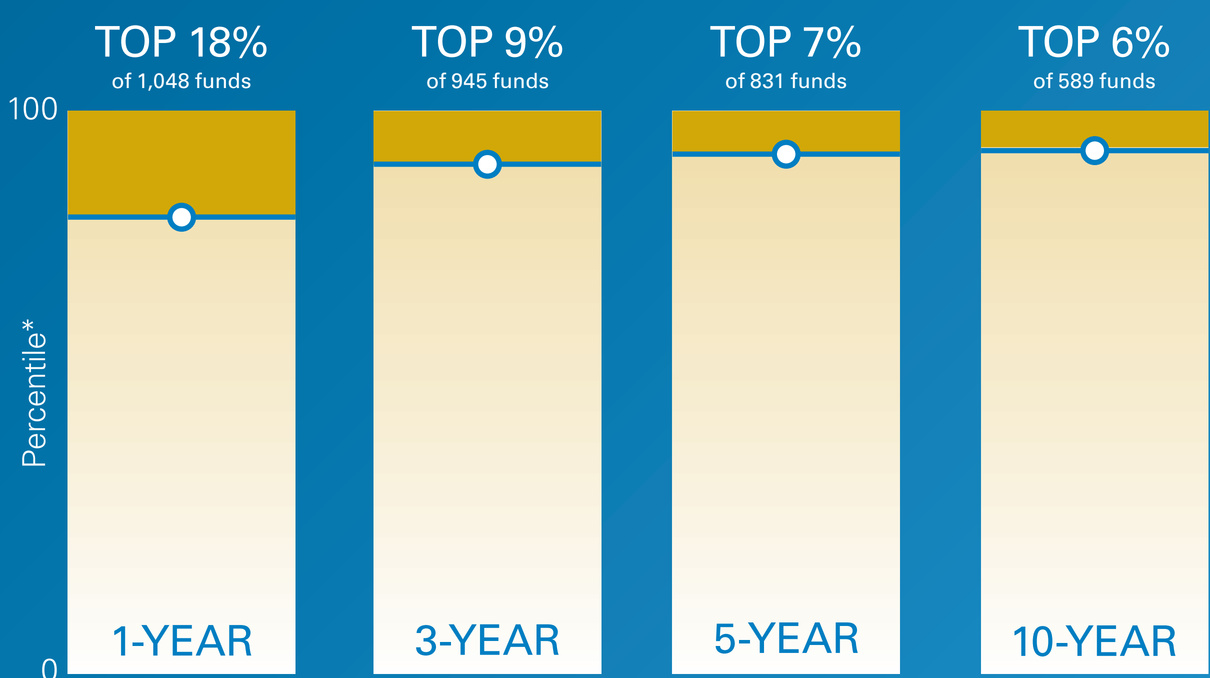
★★★★★ (WACPX)

Western Asset Core Plus Bond Fund

(Among 945 Intermediate-Term Bond Funds)
Overall Morningstar Ratings, as of September 30, 2015. The ratings are based on risk-adjusted returns and are derived from a weighted average of the performance figures associated with a fund's 3-, 5- and 10-year (as applicable) rating metrics.[1]



Achieved outstanding peer group ranks for 1-, 3-, 5- and 10-year annualized returns.

Morningstar Intermediate-Term Bond Fund Category as of September 30, 2015 — based on total returns.[2]

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Fixed income securities involve interest rate, credit, inflation and reinvestment risks; and possible loss of principal. As interest rates rise, the value of fixed income securities falls. High-yield securities include greater price volatility, illiquidity and possibility of default. International investments are subject to special risks, including currency fluctuations and social, economic and political uncertainties, which could increase volatility. These risks are magnified in emerging markets. Derivatives, such as options and futures, can be illiquid, may disproportionately increase losses, and have a potentially large impact on fund performance. The use of leverage may increase volatility and possibility of loss. Asset-backed, mortgage-backed or mortgage-related securities are subject to prepayment and extension risks.

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* Source: Morningstar, Inc. As of September 30, 2015.

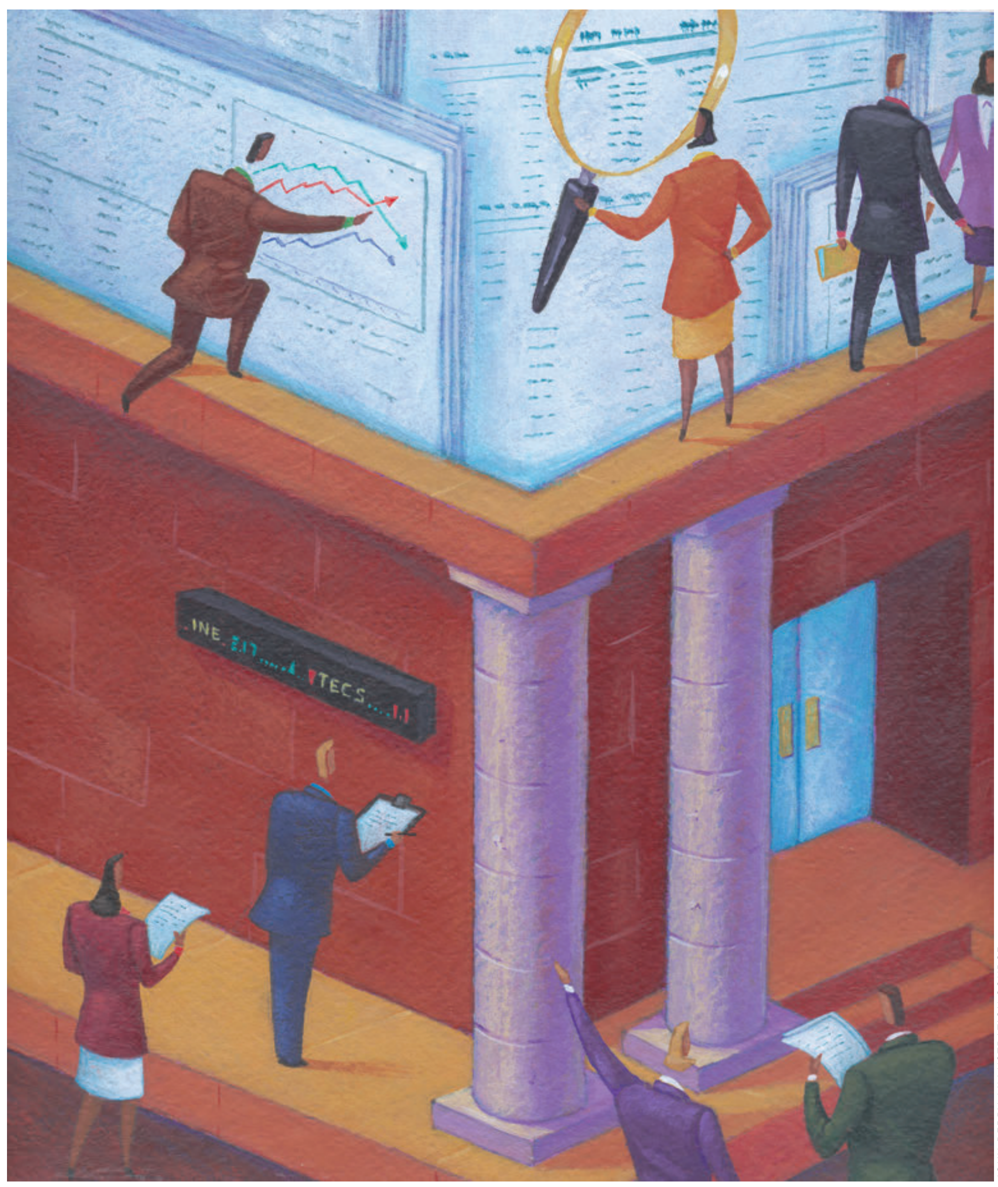
1 Morningstar ratings are as of September 30, 2015 and are subject to change every month. A 4- or 5-star rating does not necessarily imply that a fund achieved positive results for the period. For funds with at least a 3-year history, Morningstar calculates a Morningstar Rating based on a Morningstar Risk-Adjusted Return measure that accounts for variation in a fund's monthly performance (including the effects of sales charges, loads and redemption fees), placing more emphasis on downward variations and rewarding consistent performance. The top 10% of funds in each category receive 5 stars, the next 22.5% receive 4 stars, the next 35% receive 3 stars, the next 22.5% receive 2 stars, and the bottom 10% receive 1 star. (Each share class is counted as a fraction of one fund within this scale and rated separately, which may cause slight variations in the distribution percentages.) Class I and A shares of the Western Asset Core Plus Bond Fund were rated against 945, 831 and 589 Intermediate-Term Bond Funds over the 3-, 5- and 10-year periods, respectively. With respect to these Intermediate-Term Bond Funds, Class I and A shares of the Fund received Morningstar Ratings of 5, 5 and 5 and 2, N/A and N/A stars for the 3-, 5- and 10-year periods, respectively. Other classes may have different performance characteristics. Classes have a common portfolio.

2 Morningstar percentile ranks are based on a fund's total returns (including the effects of sales charges, loads and redemption fees) for the specified time period relative to all funds in the same category. The highest (or most favorable) percentile rank is 1 and the lowest (or least favorable) percentile rank is 100. The top-performing fund in a category will always receive a rank of 1. Ranks shown are for Class I and A shares. Class I percentile ranks were 18% (183/1,048 funds) for the 1-year period, 9% (83/945 funds) for the 3-year period, 7% (52/831 funds) for the 5-year period and 6% (36/589 funds) for the 10-year period. Class A percentile ranks were 33% (341/1,048 funds) for the 1-year period, 14% (130/945 funds) for the 3-year periods and N/A for the 5- and 10-year periods.

VIEWPOINT

OTHER VOICES

Wake-up call for RIAs: It's time to fix exams before it's too late



JOHN BERRY / ILLUSTRATION SOURCE

Imagine a town where things are quiet and so the cop doesn't walk the beat as often as he used to, yet this absence of police presence can fuel a sense of insecurity. Registered investment advisers find themselves in a similar pickle: infrequent regulatory examinations can create uncertainty and give rise to perceptions by some that the RIA business may be a safe haven for bad guys.

Skip Schweiss

We've all seen the stats: A Securities and Exchange Commission study mandated by Dodd-Frank determined that it examined RIAs on average once every 11 years, while 40% of firms have never been examined. Even in the absence of other regulatory deficiencies, this lack of oversight leaves the industry vulnerable to reputational risk, such as we saw in the story, "Breaking away for the wrong reason" (*InvestmentNews*, Sept. 28).

CRISIS AHEAD?

A Financial Industry Regulatory Authority Inc. official, speaking at a public event this year, warned her audience of an emerging "regulatory arbitrage" trend, suggesting more than a few breakaway brokers were bad guys fleeing to what she depicted as the less-regulated realm of RIAs. We at TD Ameritrade Institutional think these generalizations should serve as a wake-up call for RIAs to move forward with a greater sense of urgency on the issue of exam frequency.

We also think investors are better off when they work with an adviser committed to the fiduciary standard of due care and loyalty under the Investment Advisers Act of 1940, someone obligated to always put the interests of their clients first. For more than a decade, investors have voted with their wallets, leaving the higher conflicts of commissioned brokers and making RIAs the fastest-growing channel in the financial advice industry.

Still, the RIA examination frequency issue remains a troubling weak point. It's time for the RIA business to find a solution, work together and resolve this issue.

While RIAs and their trade associations value their independence of thought, most RIAs agree on one thing: they don't want Finra as their regulator. Yet in almost every other regard, RIAs are a house divided, where competing views and agendas undermine efforts to get behind one solution.

At TD Ameritrade Institutional's third annual Advocacy Leadership Summit last month in Washington, several attendees warned that the RIA industry is "one crisis away" from falling under the authority of Finra. The suggestion is that a major scandal involving an RIA could force rule-makers to move exam frequency to the front burner and, when they do, choose to impose a regulatory regime RIAs won't like.

The problem has been that RIAs have a hard time agreeing on what they do want.

RIA OVERSIGHT LACKING

While many advisers would like to see the SEC perform more exams, facilitated with more funds allocated by Congress, that is unlikely in the current political environment. The commission has acknowledged that its RIA oversight is lacking, and it has requested increased funding for exams. Indeed, the SEC's budget has increased roughly 9% a year for the past 20 years, but the agency has not directed those incremental dollars toward increasing the frequency of RIA exams.

In other words, our quiet town's tax revenues are rising, but those dollars aren't going to more police patrols.

MORE SEC EXAMS are unlikely in the current political environment. The latest thinking on the topic has turned to third-party exams.

The challenge has been finding a viable alternative. The SEC in 2011 recommended further study of different means for increasing frequency, including user fees to fund more examinations by the SEC. Another consideration was requiring RIAs to become part of a self-regulatory organization, whether an expanded Finra or a new body created from scratch.

Eager to see what impact these ideas would have on advisers, the RIA industry's leading trade organizations along with TD Ameritrade Institutional commissioned a study by The Boston Consulting Group. The 2011 report found that creating an SRO to oversee RIAs would cost at least twice as much as adequately funding an enhanced SEC examination program. More than four years later, we're still no closer to a solution, and the industry's reputation is still at risk.

Legislation has been proposed to authorize user fees, paid by RIAs to fund more frequent examinations by the SEC. That proposal stalled in Congress. One draft bill mandated that the user fee revenue be earmarked for increased RIA exams.

THIRD-PARTY EXAMS

There are some who would shift more oversight responsibility from Washington to the 50 states by raising the threshold for SEC registration from \$100 million, or perhaps a hybrid approach, where firms between \$250 million and \$1 billion get third-party exams and firms with more than \$1 billion are examined by the SEC. This plan has its own potential weaknesses, namely the ability of every state to take on more regulated entities.

The latest thinking on the topic has turned to third-party exams, in which the SEC would require RIAs to engage independent auditors to examine RIAs' compliance on a more frequent basis. For many decades, the SEC has relied upon private-sector auditing firms for its oversight of publicly traded companies, rather than the agency auditing every issuer's financial statements.

In the third-party RIA exam scenario, private firms would stand in for the SEC and conduct exams on a standard, SEC-approved basis. Enforcing the law when wrongdoing is detected would remain the purview of the SEC. For years now, don't forget, the SEC has required RIAs that hold custody of customer assets to have annual surprise audits by an authorized third party.

A 2011 independent academic study found third-party exams to be the most cost effective solution and the easiest to implement. Given the political and fiscal environment, this may be the most viable option and something the industry should explore in greater detail. Clearly there's no shortage of ideas, and each has its pros and cons; we just need to take action.

More investors are choosing fiduciary advisers precisely because they inspire trust and confidence. Let's reinforce that reputation by fixing the exam frequency issue before investors are harmed, before the reputation of the RIA industry is tarnished and before Washington imposes a solution not of our choosing.

Skip Schweiss is managing director for RIA advocacy and industry affairs at TD Ameritrade Institutional.

Big firms expected to rev up robo frenzy in 2016

Merrill, Wells, LPL are among those planning platforms

By Alessandra Malito

If the word robo hasn't been thrown around enough already, just wait until 2016.

This year has been a whirlwind for automated investment technology, a growing trend for any firm aiming to expand its business. Custodians, independent broker-dealers and traditional advisory firms alike are arming themselves with robo-adviser technology not only to remain competitive with their peers, but to attract smaller accounts and younger clients.

MAJORITY BUYING IN

Firms lining up their own robo-platforms in the next 12 months include LPL Financial, Wells Fargo, Commonwealth, Cambridge and most recently, Merrill Lynch. Others that have expressed interest include Morgan Stanley and RBC Wealth Management.

"We do think that this is going to be a very common trend," said Sean McDermott, an analyst at Corporate Insight. "We will see a majority of financial services institutions buy into it."

> "OUR GOAL is to provide financial advisers with a broader set of products to better serve clients."
>
> **Kristen Georgian**
> Spokeswoman
> Bank of America Merrill Lynch

That's because firms are starting to catch on to the opportunities these automated investment platforms provide. Startups, including Betterment and Wealthfront, have showcased the potential for reaching smaller and younger clients, and institutional incumbents like Charles Schwab & Co. and The Vanguard Group proved its promise with the launches of their own versions.

Their platforms have grown tremendously since they came out in March and May, respectively. Schwab Intelligent Portfolios hit $4.1 billion and Vanguard Personal Advisor Services had $26 billion in assets under management, as of Sept. 30. Both incorporate financial advisers.

A CYBER MENTALITY

Bank of America Merrill Lynch plans to follow suit.

"Our goal is to provide financial advisers with a broader set of products to better serve clients," said Kristen Georgian, a spokeswoman for Bank of America.

The company has not announced any specific details on its upcoming platform.

Wells Fargo & Co. chief financial officer John Shrewsberry said during the company's second-quarter earnings call in July that it was considering a robo-adviser to compete with those already in the industry.

Consumers are adopting a cyber mentality, said Mary Mack, president and head of Wells Fargo Advisors. "Robo has a place, if you think about the on-ramp to investing," Ms. Mack said last Tuesday at a Securities Industry and Financial Markets Association conference.

Darren Tedesco, managing principal of innovation and strategy at Commonwealth Financial Network, said Commonwealth's robo offering will come in the second half of next year.

The company is not in a rush because it already has most of the components a robo-adviser offers. Instead, it is looking to package its existing services and add tax-loss harvesting and financial planning.

ADVISERS ARE CURIOUS

Commonwealth wants to "allow it to be goals-driven, instead of investment-driven," Mr. Tedesco said. He said most of the robo craze comes from marketing pressure.

"We spent a lot of time talking to our advisers and we only have a couple who are pushing for it," he said. "Most people are curious about it and want to have that arrow in their quiver."

Robo-adviser assets are expected to grow to $489 billion AUM by 2020, according to a Cerulli Associates Inc. study. That's a growth of 2,500%, which the study attributes to major retail firms jumping into the robo-adviser pool.

Mr. McDermott said with all these firms coming out with robos, there will have to be diversification. Betterment did it by finding new channels of business, such as its institutional side and a new 401(k) offering coming out next year. For other companies, it may be moving beyond passive investing and having more complex investment strategies.

DRIVING INNOVATION

"Increased competition will drive innovation," Mr. McDermott said. "It will force some of these smaller, more nimble firms to innovate and to find that next great tech offering."

Mark Schoeff Jr. contributed to this report.

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IN VOICES

InvestmentNews readers weigh in on top stories

Finra fine raises issue of how well investors understand VAs

A story about a "significant fine" that the Financial Industry Regulatory Authority Inc. is seeking from MetLife Inc. as part of a probe into possible violations tied to variable annuities, drew sharp comments from readers. Most blasted the brokers who sell the annuities, claiming clients — and sometimes even the brokers themselves — don't fully understand the products. Others applauded the regulator for cracking down.

"I have been in this business for 32 yrs. I haven't suggested a client buy a variable annuity in many years. I do believe the product does work for a few folks, very few. That being said, the only time I ever walked out of a wholesaler meeting was during a presentation by a MetLife rep. I personally am glad to see the regulators catch up with them."
— WC

"As a broker and adviser who has utilized VAs as a small part of some client portfolios, I can say with confidence that 95% of VA investors don't fully comprehend the idiosyncrasies of said products. Clients truly depend on us for unbiased advice. Further, I can state with even more confidence that 90%-plus of the reps who sell VAs have a complete lack of understanding for how these complicated insurance/investment products operate. Unfortunately, they sell their soul for the 'magic bullet' investment that also, coincidentally I'm sure, pays a large commission."
— FOXMILK

"Until the regulators do their job, any industry can take advantage of consumers. Good for the regulators for doing their job."
— moosemeat

"I have a client who was never told about all the fees, and the accounts going into places with little opportunity for growth. They feel totally misled and feel the adviser did not understand the product."
— Daniel_Abbott

"Having worked with MetLife in the past, I know there are/were those who use the compensation schedule as their customer-service guide. That said, I have moved no clients from a MetLife product since joining another firm. The products are outstanding for their purpose and details, and have performed very well during the roller-coaster ride of the last seven years. As always, it is proper diligence and education of the client that is necessary."
— lewis-trumpet

"Annuities, like any other financial product, have to be utilized appropriately, given the facts, circumstances, goals and objectives of the clients. But, hey, am I the only one who has wondered that if annuities are so bad — or certain features, fees and expenses are so bad — why don't insurance commissioners just not approve them for sale in their given state?"
— DJ

"It's Met's B-D unit, not the investments themselves. And the day will come when the Fed is unable to keep pumping this market with cash. When that happens, VAs will hold up, but will still not get the credit they deserve."
— concernedcitizen01

GERARDO TABONES/ISTOCK

To read our coverage of this topic and leave your own comments, go to InvestmentNews.com/MetLifeVA.

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TD names Tomczyk's successor

T-D Bank's Hockey will take over reins of custodian's parent

Bloomberg News

TD Ameritrade Holding Corp. named Toronto-Dominion Bank's Tim Hockey as its next chief executive officer, prompting an executive shuffle at Canada's largest lender by assets.

Mr. Hockey, 52, who is group head of Canadian banking and wealth management at the Toronto-based lender, becomes TD Ameritrade president on Jan. 2 and will take over as CEO when Fred Tomczyk, 60, retires on Sept. 30, the Omaha, Neb.-based brokerage said last Tuesday in a statement. Toronto-Dominion owns 41% of TD Ameritrade, which is the parent company of custodian TD Ameritrade Institutional.

"It's a strategic and great position for us, and we're going to have one of our top folks move over to continue the legacy at TD Ameritrade," Toronto-Dominion CEO Bharat Masrani said in a phone interview. "Tim is the best leader to take TD Ameritrade to new heights and sustain its winning ways."

Mr. Hockey started his banking

BLOOMBERG

Fred Tomczyk: Retiring on Sept. 30 amid executive shuffle.

career in 1983 at Canada Trust, the lender acquired by Toronto-Dominion in 2000. He stayed through the transition and rose through management ranks to his current role overseeing Canadian banking and wealth management, a position he's held since July 2013.

'STRONG CULTURE'

"I know Fred very well — we've worked well together — and I know the leadership team already," Mr. Hockey said in a phone interview from Toronto. "It's a fantastic company, really strong culture, very technologically oriented, a big innovator in its space."

Mr. Hockey has a master's degree in business administration from the University of Western Ontario, according to a company biography. He's an avid cyclist and active in the community, including serving on the board of SickKids Foundation, a children's hospital in Toronto. Mr. Hockey said he plans to relocate to New York for his new job.

"I'M MORE interested in technology than marketing. I don't want to just talk about it. I'm going to build it."

Alexey Sokolin
Chief operating officer
Vanare

Deploying technology for financial firms

Alexey Sokolin sees possible applications for cryptocurrencies, image recognition in adviser space

By Alessandra Malito

Alexey Sokolin, chief operating officer at wealth management technology provider Vanare, recalls weathering the 2008 financial crash that transformed Wall Street.

Mr. Sokolin, 31, watched as colleagues and clients lost the bulk of their life savings, which he saw as a defining moment in his early career. The crisis taught him the importance of financial transparency and the need for better tools for smart wealth management.

Today he sees a future in image recognition software and wearable technology as some of those tools, and is convinced that technology will be the next disruptive force to reshape the financial services industry.

"At the end of the day, I'm more interested in technology than marketing," he said. "I don't want to just talk about it. I'm going to build it."

'A DRIER CLIMATE'

The industry must innovate more, instead of responding to trends that startups create, he said, pointing out that robo-advisers only became popular when they became a legitimate threat. The advice industry is not known for evolving quickly, he said.

"It is a drier climate for innovation," Mr. Sokolin said. "If you want to foster innovation, there needs to be a greater emphasis on those who go that route."

There is a whole world of creative technology outside of wealth management that can be applied to the industry, he said. At a Technology Tools for Today conference in Weston, Fla., earlier this month, he cited a few that easily could be applied to financial services, such as the use of bitcoin and other cryptocurrencies for financial transactions.

Better use of image recognition may help advisers get a deeper sense of their clients' interests via their pictures and Google searches. Advisers also may become more efficient by using technology that lets them talk to their computers instead of typing, something that IBM's supercomputer Watson already does.

'LIKE AN ICEBERG'

His message is clear — these technologies are already in the market. And while he says he hopes to have more speaking engagements to educate advisers in the industry, he wants to go a step farther.

Mr. Sokolin saw from an early point in his career how imperative technology was to the financial services industry. From 2006 to September 2008, he was an investment management analyst at Lehman Brothers. That experience sparked his interest in his future endeavors, such as building one of the first business-to-business robo-advisers, NestEgg, while he was still studying for his law degree and MBA.

But on Sept. 15, 2008, he watched as his peers lost much of their life savings.

"It was like an iceberg because nobody knew the company had done anything wrong," he said. "In two years, I got a lesson of a lifetime."

But there was another lesson no one was focusing on yet, and it had to do with servicing smaller clients. Mr. Sokolin said clients had to have a lot of money to be seen, and as a 21-year-old analyst at the time, that didn't feel right.

That became the philosophy behind NestEgg, which he built with two colleagues in an apartment on Columbia University's campus in New York City.

With a business-to-consumer robo, there would be a stronger emphasis on marketing to get the word out and attract clients away from advisers. But an adviser-facing robo would enhance the relationship and experience for clients. "I knew I could get way more reach by going where people are, instead of tearing apart existing relationships," he said.

Last December, his instinct proved spot on. Wealth management technology provider Vanare acquired NestEgg and took him on as chief operating officer.

"I was just really impressed the minute I met him," said Rich Cancro, chief executive of Vanare.

The two work well in mentoring each other, he said, adding that Mr. Sokolin goes well beyond what his position calls for. He is involved in technology innovation, strategic partnerships and the company's business model.

"[He is] irreplaceable," Mr. Cancro said. "We can talk about problems we want to solve, he will go away and come back with a solution way beyond the expectation I had of what the solution could be."

"HE WILL go away and come back with a solution way beyond the expectation I had."

Rich Cancro
Chief executive
Vanare

ISTOCK

BORN IN MOSCOW

Vanare recently released Roboadviser DNA, an open architecture platform for advisers to customize an automated investment platform. The firm also announced Synapse to help advisers with digital client onboarding.

In Mr. Sokolin's personal life, his move from Russia to the United States proved to be a first lesson in change and adapting.

Mr. Sokolin was born in Moscow in 1984 and lived there until he was 10 years old, when he moved to Bensonhurst, Brooklyn in New York. He said while the experience wasn't traumatic, it probably laid the groundwork for his mindset on growth.

Although his parents were highly educated, the family lived on food stamps and welfare before his parents found work. Meanwhile, he focused on learning a new language and adjusting to a better life.

HELPING THOSE IN NEED

His childhood fostered a mentality to appreciate different backgrounds and help those in need, something he still keeps in mind.

Emerging technology will forge a better relationship between advisers and future clients, Mr. Sokolin said.

For example, millennials will trust advisers more with their raw data, said Patrick Hannon, vice president of enterprise accounts at Advicent.

"There is a lot of conversation around millennials and their ability to trust large organizations," Mr. Hannon said. "It will have to be give and take, but you already see this start to happen with customers trusting Mint with all of their passwords."

Mr. Hannon, who attended Mr. Sokolin's presentation at the T3 conference, said Mr. Sokolin provided a great reminder that technology is going to change the business.

"What we think is farther down the road is really much closer than that," Mr. Hannon said. "I think he is blowing minds right now."

Though technology will make it easier for advisers to do a better and more efficient job, Mr. Sokolin said that at the end of the day, clients will still need a human adviser to hold their hands.

"You can only get human advice and counsel, and human warmth, from another person," Mr. Sokolin said.

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BLOOMBERG

Sen. Elizabeth Warren: Proposal would offset lack of COLA in 2016.

Bill plugs COLA gap for retirees

By Laura Sanicola

Sen. Elizabeth Warren, D-Mass., has introduced a bill to give all recipients of Social Security a one-time payment in 2016 to offset the lack of a cost-of-living adjustment next year. The payment would be funded by eliminating the chief executive performance-pay tax break that allows corporations to write off executive bonuses as a business expense for "performance pay."

The Seniors and Veterans Emergency Benefits Act (SAVE Benefits Act) would give about 70 million Social Security recipients an extra payment of $581, equal to the 3.9% raise CEOs of the top 350 firms receive, according to the release.

"If we do nothing, on Jan. 1st more than 70 million seniors, veterans and other Americans won't get an extra dime in much-needed Social Security and other benefits," Ms. Warren said in a statement. "And while Congress sits on its hands and pretends that there's nothing we can do, taxpayers will keep right on subsidizing billions of dollars' worth of bonuses for highly paid CEOs."

'STATEMENT ABOUT FAIRNESS'

The legislation, co-sponsored by one Independent and 15 Democratic senators, comes on the heels of an October announcement from the government that senior citizens should not expect a cost-of-living adjustment next year.

Richard Fiesta, executive director for the Retirement Alliance, announced his support for the proposed legislation.

"Passage of this bill would help bring our economy into balance and make an important statement about fairness," he said in a statement. "Congress should also require the Social Security Administration to base future COLAs on the Consumer Price Index for the Elderly (CPI-E), which much more accurately reflects the cost of things retirees purchase."

Boosting benefits to seniors may sound like a popular move, but Kristine McKinley, owner of Beacon Financial Advisors, heard surprising backlash when sharing the news on social media.

"The typical response was disbelief that it was going to happen or a feeling that it would be subject to tax, so why bother," she said. "It was not the response I expected."

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Working longer isn't always possible

Plans to stay on the job may be derailed by health issues, layoffs

By Greg Iacurci

ISTOCK COMPOSITE

Staying in the workforce to make up for a retirement savings shortfall has significant financial benefits, but advisers shouldn't consider the strategy a panacea.

Unforeseen circumstances could sideline clients earlier than expected, which means continuing to work to amass additional retirement funds may no longer be a possibility for those individuals, advisers say.

According to Wells Fargo & Co.'s most recent annual retirement study, half of retired respondents stopped working earlier than planned. Many left the workforce as a result of reasons beyond their control: 37% for health reasons and 21% because of an employer decision. Only 7% retired earlier than planned due to adequate savings.

The Employee Benefit Research Institute's 2015 Retirement Confidence Survey supports these findings — 60% of those who retired earlier than planned did so because of a health problem or disability, and 31% because they could afford to.

"What I tell people is, if anything, you want to plan to retire earlier than you think," said Erik Carter, senior financial planner at Financial Finesse Inc. "[Working later] is not something you can count on."

PROJECTIONS INCH UP

More and more, workers have been inching up their projections for the length of their working lives. In 1991, 11% expected to retire after age 65; in 2015, that shot up to 36%, and 10% don't plan to ever retire, according to EBRI.

The number of people who expect to retire before 65 has dipped over the same time period, to 25% of workers from 50%.

In many financial plans he develops for clients, Mr. Carter aims for a retirement age at the lower end of the scale because it provides a margin of error, he said.

For example, if clients say they would like to retire when they're between 62 and 65, he generally gears the financial plan to 62, so if finances don't work out as planned because markets perform poorly, for example, the client can delay retirement until 65.

If an adviser aims for a retirement age of 67, for example, and the financial plan doesn't pan out as expected, the option to continue working may no longer be there, Mr. Carter said. The concept of lowballing is similar to assuming a 6% return on investments rather than a rosier 8%, he said.

Christopher Van Slyke, partner at WorthPointe Financial, adopts a similar approach, targeting a low retirement age like 62. If clients enjoy work and feel good about continuing to work, they can do so and have surplus money, he said.

Of course, for clients who start planning for retirement too late, working longer may be one of the few options available to make up for undersized savings.

"Working longer is one of the most powerful ways to solve that problem," said Stuart Ritter, certified financial planner at T. Rowe Price Investment Services. He compares it to a spare tire — it's ideal to not have to use it, but it's useful if it's there.

According to the Wells Fargo survey, 54% of workers who are over 60 said they'd have to work until at least 70 to have enough retirement savings, versus 40% of those ages 55 to 59.

> "IF ANYTHING, you want to plan to retire earlier than you think."
>
> **Erik Carter**
> Senior financial planner
> Financial Finesse

"People figure out how to make it work," Mr. Ritter said. "If they can't work longer, it's cutting expenses, boosting income."

Housing is the top expense for those over age 65, so economizing in this area would provide the largest financial windfall, according to Mr. Ritter.

A reverse mortgage could provide an income stream as well, according to Mr. Carter. Partial annuitization of assets potentially could provide for more income from the same asset base — if a client were targeting a 4% annual drawdown of assets, an annuity may provide a higher annual payout, he said.

'PRACTICE RETIREMENT'

For those who remain in the workforce longer than anticipated due to shaky finances, the idea of a "practice retirement" could come into play, Mr. Ritter said. That entails continuing to work, but using any money that would normally be contributed to a 401(k) account for discretionary spending, such as vacations.

Clients therefore continue earning an income stream and delay tapping retirement funds, but they don't miss out on large market gains on that money due to the short time frame in which the interest could accumulate.

"I think people should consider delaying retirement, although that doesn't mean working full-time until you're 70," said Amy Jo Lauber, president of Lauber Financial Planning.

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Team with $700M AUM exits Merrill Lynch

Denver-based advisers launch Cardan Capital Partners

By Laura Sanicola

An adviser team with $700 million in client assets has left Merrill Lynch to start an independent advisory firm.

Ross Fox, Matthew Papazian, Marti Awad and Sarah Keys have launched Cardan Capital Partners in Denver. Cardan is using Dynasty Financial Partners' integrated wealth management services and technology.

The firm plans to work with corporate executives, professionals, business owners and entrepreneurs, according to Dynasty. The firm's name refers to a ship's "cardan" suspension, a navigational tool used in sailing to ensure stability in both calm and rough waters, according to Dynasty.

A spokesman for Merrill Lynch could not be reached for comment.

ISTOCK

"The continued evolution of technology and strategic partners in the independent space has made the independent model compelling for our clients and for us," Mr. Fox said. "We have a passion for serving clients both in the state and those who may be at a distance but who have a deep connection with Colorado."

A 33-year industry veteran, Mr. Fox had been at Merrill Lynch since 1987, where he held various positions such as senior vice president of wealth management, according to BrokerCheck.

FORMER ATTORNEYS

Mr. Papazian began working at Merrill Lynch in 1989, according to BrokerCheck. He had been a senior vice president of wealth management at the wirehouse.

Ms. Awad and Ms. Keys, former attorneys, both served as vice presidents of wealth management at Merrill, according to Dynasty.

Also joining Cardan Capital as a senior associate is former Merrill vice president Richard Sisung. He began his career almost 50 years ago working in United Bank's trust department in Colorado Springs.

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Robo investments at Schwab may go beyond ETFs, says CEO

By Liz Skinner

Charles Schwab & Co.'s robo platform may move beyond just offering exchange-traded funds to a more complete investment menu, according to the company's top executive.

President and chief executive Walt Bettinger said Schwab may add mutual funds and individual securities to its Intelligent Portfolios platform. He and Bernie Clark, executive vice president for Schwab Advisor Services, were speaking to advisers and other financial professionals at the 25th annual Schwab Impact conference in Boston last Tuesday.

"Right now it's structured around ETFs. I believe that we can take that engine and build it such that you can trade mutual funds in a portfolio," Mr. Bettinger said. "We might even get to a point where you have individual securities utilized within that tool."

In an interview with *InvestmentNews*, Mr. Bettinger declined to offer more details on when the additional investment capabilities might be available. But he did say, "Some of this is already in the works."

"WE CAN take that engine and build it such that you can trade mutual funds."

Walt Bettinger
President and CEO
Charles Schwab

The company's retail robo, Intelligent Portfolios, which was introduced in March, and its Institutional Intelligent Portfolios, rolled out in June, currently provide clients with portfolios made up of low-cost ETFs. Together, the robos have attained \$4.1 billion in client assets.

Robo platforms use algorithms to provide investment advice online with little to no human contact. Many believe the technology can help attract younger investors before they get hooked on a competitor's platform.

FUTURE IMPACT 'OVER-HYPED'

Mr. Clark said he thinks automated platforms are a great way to reach out and talk to the next generation "in the way they want to be talked to."

Mr. Bettinger agreed robo-advisers are a great solution for self-directed investors and can help advisers reach additional clients they don't serve today. However, he said the impact robo-advisers will have on the industry has been over-hyped.

"I don't know that I can categorize anything that's been more overstated in its impact than robo-advice in the last 15 to 17 years," he said.

Schwab advisers, though, increasingly believe in the value of embracing a digital solution.

About 70% of advisers recently surveyed by Schwab said they could envision a digital offering playing a role in their business, up from 50% a year ago, Mr. Bettinger said.

He also said Schwab wants to "shake loose" the \$23 trillion now held by investors with at least \$500 million in assets that is not currently with registered investment advisers.

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ISTOCK

Glassman to advisers: Update your message

By Liz Skinner

Most financial advisers are communicating the wrong message on their websites for clients and prospects, and that may be preventing them from getting the attention they deserve.

Advisers tend to take one of two approaches on their websites: bragging about how transparent and great they are or projecting themselves as experts on the markets or the economy, said Barry Glassman, founder of Glassman Wealth Services.

The text on adviser sites today nearly always includes one or more of the words fiduciary, holistic, objective or best interest, he said, among a few others.

"We're not standing out to the general public by using these kinds of terms," Mr. Glassman told registered investment advisers gathered at the annual Schwab Impact conference in Boston last Tuesday. "We are using a lot of that 'same old, same old,' which used to be special."

Instead, every RIA's message should be individual, authentic and focused on how they resonate with clients, he said.

WHEN YOU WERE AT YOUR BEST

Mr. Glassman used his own firm's homepage language to highlight this: "We value the human side of wealth management, which is why we work as hard to build trust and lasting relationships with our clients as we do to create wealth."

He recommended that advisers think about a time when they came through for a client and envision how that made their client feel. "Recall when you were at your best working with a client, and figure out how to project that person out into the world," he said.

Some advisers aren't crafting

> "WE ARE using a lot of that 'same old, same old,' which used to be special."
>
> **Barry Glassman**
> Founder
> Glassman Wealth Services

individualized messages because they worry about running afoul of advertising guidelines set by regulators. But the Securities and Exchange Commission only prohibits RIAs from doing two things, Mr. Glassman said: offering testimonials and publishing unaudited performance reporting.

"We can do everything else," he said. "So do it."

COMPETITIVE ADVANTAGE

RIA communications should have a competitive advantage over that of big brokerage firms, which face many more restrictions on what they can say, Mr. Glassman said. But it can't be a benefit if the message projected mirrors one that any professional at a brokerage would put out there.

Mr. Glassman shared a rule he has established at his firm, where any communication must put information in the context of how it impacts clients.

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IBM looks shaky as it celebrates century on NYSE

Company plays catch-up on trends like cloud, big data

Bloomberg News

IBM didn't make a big deal of its 100th anniversary as a publicly traded company last Wednesday, which came at an inauspicious time. With the stock down 16% this year, some investors are weighing whether to hang on as IBM starts a second century.

Originally listed on the New York Stock Exchange as the Computing-Tabulating-Recording Co., IBM has been the second-biggest drag on the Dow Jones Industrial Average this year. Since it was added to the index on June 29, 1979, IBM has grown just 1,700% compared with more than 6,000% for the entire Dow.

FEWER MAINFRAMES

"A number of trends have passed them by," said Ivan Feinseth, chief investment officer at Tigress Financial Partners. "There goes social, mobile, big data analytics, cloud — and IBM is trying to play catch-up in all of those."

The 104-year-old company has been lagging behind as enterprises buy fewer mainframe computers and more data and computing services are hosted off-site. As a latecomer to peddling this cloud technology, IBM has posted 14 consecutive quarters of declining revenue.

IBM also spent too much cash on stock buybacks earlier in the decade — money that it should have used to acquire fast-growing businesses or invest in developing products in-house, said Vahan Janjigian, chief investment officer at Greenwich Wealth Management, which holds IBM stock.

Still, for really long-term investors, consider this: If you had bought a share of IBM when it first listed on the NYSE at $47, you would now own 11,879 shares with a value of $1.6 million, according to the company. That's a 3,400,000% gain, not counting dividends — or an 11% annual rate of return. (IBM officially listed under its current name on the NYSE in 1924.)

BUFFETT'S AN ADMIRER

IBM has its admirers, none more visible than Warren Buffett, the biggest shareholder through Berkshire Hathaway Inc. He has only been adding to his hoard of IBM shares, even after Berkshire declared $2 billion in unrealized losses on the stake in the third quarter.

IBM has successfully transformed its business multiple times in the past, twice in just the last 30 years, which accounts for part of the faith that investors, including Mr. Janjigian and Mr. Buffett, have in the company.

Some analysts and investors say there's some cause for optimism, as long as IBM can keep gaining ground in the transition already under way:

— Prove that it can succeed in cloud technology, which for IBM means selling software as well as helping clients set up clouds for computing needs. In 2014, cloud revenue amounted to $7 billion, less than 10% of total sales. That needs to reach more than 15%, according to Dan Morgan, senior portfolio manager at Synovus Securities Inc., which holds IBM stock. The company is probably a distant fourth or fifth in cloud computing behind giants like Amazon.com Inc. and Microsoft Corp., he said.

— Reach its $40 million goal for new businesses — what IBM calls strategic imperatives — and have them account for 40% of total revenue by 2018. The company has been showing promise in some of its newer initiatives, especially in mobile, security and analytics, Louis Miscioscia, an analyst with CLSA, said. The growth is badly needed to offset declines in other IBM businesses, he said.

> "THEY'VE ALWAYS BEEN able to reboot themselves and grow again."
>
> **Dan Morgan**
> Senior portfolio manager, Synovus Securities

— Sell more software so that it becomes a larger share of overall revenue. That's because software is more profitable than IBM's other businesses, such as services and hardware. No one expects IBM at its size to be growing rapidly in revenue, which is why higher profitability is important, Mr. Janjigian said.

— Stabilize and eventually increase sales. Wall Street would be happy with 2% to 3% organic growth in revenue, Mr. Miscioscia said.

To be sure, investors can rely on getting cash from IBM; it has declared consecutive quarterly dividends since 1916 — a year after it joined the NYSE. That helps prevent massive selloffs of the stock and gives the company more time to figure out its transition.

"They've always been able to reboot themselves and grow again, so you give them more benefit of the doubt," said Mr. Morgan.

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Aspiriant to buy Hokanson Associates

By Liz Skinner

Aspiriant is taking over a San Diego firm with $570 million in assets under management — a deal that will boost the Los Angeles-based advisory giant to nearly $9 billion and more than 1,200 clients.

Under the terms of the deal, the five principals of Hokanson Associates will receive ownership shares in Aspiriant in exchange for the firm's assets. The value of those shares was not disclosed. Following the deal, which will close at the end of the year, Aspiriant will have 51 principals, up from 46 currently.

The transaction will provide a fourth California office for Aspiriant, which already has offices in Los Angeles, San Francisco and Irvine, in addition to locations in New York, Boston, Minneapolis, Milwaukee and Cincinnati.

FIRST DEAL SINCE 2010

The transaction is Aspiriant's first since 2010, when it acquired $2.9 billion in assets and 12 principals from Deloitte Investment Advisors, part of accounting firm Deloitte. It took years to integrate those assets. Aspiriant spent the past three years upgrading its systems and processes to prepare for growth. Now the firm is primed, said Aspiriant Chief Executive Rob Francais. "We spent a lot of time building the organization and now we're ready," he said.

$9B
Aspiriant's assets once it acquires Hokanson

Hokanson Associates, which has 12 employees, was a good match for Aspiriant's culture, Mr. Francais said. "It was clear from the beginning that we were cut from the same cloth and shared the same values and commitments," he said.

Neil Hokanson, president of the 25-year-old firm, said he knew Mr. Francais from a stint on the Charles Schwab RIA advisory board and reached out to him about a possible deal in April.

'BROADER SWEEP'

"Several years ago we decided that we needed more investment depth, as well as a plan for succession," he said. "The deal will allow us to provide clients a higher and broader sweep of services."

Aspiriant began looking for advisory firm candidates about a year ago. It is seeking firms with assets of $500 million or more, although it will consider smaller firms if they're near one of Aspiriant's existing offices, Mr. Francais said.

It is especially interested in firms in Atlanta, Chicago and Dallas, and in expanding its presence in Minneapolis and Boston, he said.

The Hokanson purchase would boost Aspiriant to No. 17 on the *InvestmentNews* list of fee-only registered investment advisers, up from its current No. 22 spot.

Aspiriant would likely rise to No. 16 in the first quarter of 2016 after Financial Engines completes its acquisition of The Mutual Fund Store. That deal was announced Nov. 5.

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ORANJ

United Capital snaps up two firms

The acquisitions will boost its assets by more than $1.5 billion

By Laura Sanicola

United Capital Financial Advisers announced last Monday it was adding more than $1.5 billion in assets by acquiring two firms.

The first, PSA Insurance & Financial Services of Hunt Valley, Md., has a retirement plan practice with $1.1 billion in assets under advisement and a wealth management practice with about $189 million in assets under management.

'AN IDEAL DESTINATION'

"This transition is a win-win for all parties," Trevor "Chip" Lewis, managing director at PSA, said in a statement. "We found an ideal destination for our advisers, clients and retirement plan participants."

> "MY TEAM and clients deserved ... a path of success and succession."
>
> **John Abriola**
> Founder
> Select Financial Group

United Capital also will acquire Select Financial Group, which has $270 million in assets under advisement. Founder John Abriola is now a partner and managing director at United Capital and has brought his seven employees to the firm.

'THE DRIVING FORCE'

"The driving force for me has been the culmination of what I've witnessed as a boutique owner over the past two-and-half decades," he said. "The industry has drastically changed and made it difficult to conduct business. I came to the conclusion that my team and clients deserved an environment that would offer a path of success and succession."

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Reverting to form, health-care costs to rise in 2016

Federal policy has kept prices in check, but those effects to end

Bloomberg News

Health-care costs, a significant component of the Federal Reserve's preferred gauge of inflation, are poised to accelerate, according to a new report from Goldman Sachs.

"Health inflation typically outpaces economy-wide inflation, but over the last couple of years the health sector has actually been running well below the rate of core inflation," wrote economist Alec Phillips.

The Fed uses the index of core personal consumption expenditures as its primary metric for assessing the upward pressure on prices, and medical costs are a substantial factor to this metric.

DISINFLATION

Disinflationary pressures, which have been emanating primarily from the public sector, are nearly at an inflection point, Goldman says.

Mr. Phillips outlined the four policy tweaks that have weighed on this segment in recent years:

— The 2013 sequestration resulted in reductions to Medicare spending that weighed on core PCE inflation by roughly 0.1 percentage points that year, though the effect has dissipated.

— Payment reforms as part of the Affordable Care Act reduce the annual inflation updates Medicare providers receive in a bid to control spending. These effects will continue to shave a few basis points off core inflation in the years to come, Mr. Phillips said.

— One-off payment changes applied to "disproportionate share hospitals" weighed on core inflation in late 2015. "Through October, these changes probably explain about 0.75 percentage points of the undershoot in PCE health inflation, and around 0.15 percentage points in core PCE inflation," he wrote.

— Coverage expansion increased Medicaid enrollment. As health-care providers receive lower payments from Medicaid than private insurers, this probably restrained core PCE inflation by 0.1 percentage points in 2014 and exerted a smaller drag this year.

REMISSION

"Taken together, these factors suggest that policy-related effects are holding down year-on-year PCE health inflation by about 1.1 percentage points at the moment, reducing core inflation by around 0.2 percentage points on a year-on year-basis," he concluded.

These policy-induced weights are set to largely go into remission by the second quarter of 2016, breathing new life into core inflation.

In addition, labor costs for hospitals are picking up steam, and services should follow suit, based on their historical, lagging link with wages.

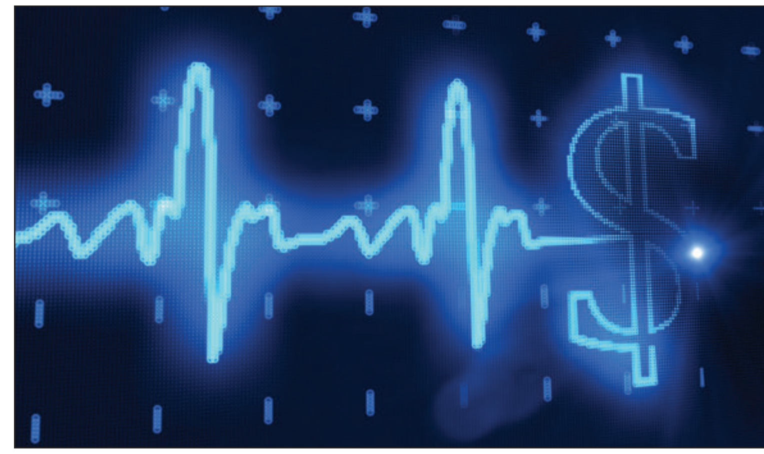
Medicaid reimbursements will also become less stingy as state governments' fiscal positions continue to firm, Mr. Phillips claimed.

"Assuming that the policy-related influences roll off as we expect and that the underlying rate of health inflation rises by the same rate as our predicted path (i.e., it starts from the lower-than-predicted level but rises by the same amount), we expect that the PCE price index for health services should return to around 1.5% year-on-year growth by [the second quarter of] 2016 under the base case, raising core PCE inflation by about 0.15 percentage points," he wrote.

"If our estimated equation is accurate and prices begin to catch up with rising wages in the sector, health inflation could potentially rise by a bit more."

As of September, the core PCE index has risen 1.3% year-over-year, well shy of the Fed's 2% target. A major challenge for the U.S. central bank, which has strongly hinted at liftoff for interest rates in December, will be proving that core PCE inflation can rise along with policy rate.

According to the analysis by Goldman Sachs, this key segment looks likely to cooperate in this regard, helping the central bank move closer to meeting its dual mandate.



ISTOCK

Tech can turn your firm into a well-oiled machine

Embrace automation and integration to boost efficiency


Guest Blog
Leslie D. Thompson

The thoughtful, personalized counsel that advisers bring to their clients can never be replicated by an algorithm or robo-adviser — but at the same time, the benefits that technology-enabled workflow automation provides for independent wealth management firms cannot be ignored.

Those that resist embracing a truly integrated technology platform are missing out on the opportunity to not only generate operational efficiencies, but also transform their practices into well-oiled machines that proactively and collaboratively help clients meet all their wealth management needs.

By 2008, we knew that our firm's lack of automation was holding us back, and we began searching for a technology provider. We wanted a unified wealth management platform to support our evolving portfolio- and client-management needs.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SINGLE-VENDOR SOLUTION

We also were looking for a single-vendor relationship so that all training, consulting and support related to our technology platform came from one source — and we believed that a single provider, controlling all data in its various systems and software, could deliver more meaningful integration. We finally found such a partner, which provided a platform that unified portfolio management and performance reporting with a client portal; portfolio monitoring, rebalancing and trading; and a customer relationship management system — all of which complement each other through data-sharing and meaningful integration.

Not everyone at our firm needs to use the platform's portfolio management, reporting and rebalancing applications, but all team members have been trained to use the platform's CRM system, which ties all the software together.

SEAMLESS COMMUNICATION

No matter what role a team member has, he or she can run automated workflows and seamlessly communicate with colleagues and clients without having to toggle between various programs. Furthermore, whenever a client calls our office requesting account information or reports, any team member can locate and send the content using the CRM and client portal.

The platform's automated workflows have strengthened our overall firm in myriad ways. For example, our office receives a number of checks for client accounts, and documenting and processing them used to take us many hours every week.

However, we created a custom dialogue box in our CRM to simplify the workflow for tracking and depositing checks, which has cut our weekly time commitment for that process in half. All our client associates have to do is enter certain information for each check regardless of account, which is automatically shared with the rebalancing and portfolio management applications. To cap it off, the CRM automatically sends emails to every client confirming that an account deposit has been received and processed.

STREAMLINE ON-BOARDING

The platform has also streamlined the opening of new accounts. This is a cumbersome process involving many steps, as every adviser knows — but the dialogue box we created for it in the CRM ensures every step can be completed efficiently and accurately across the platform's different applications. The automated workflow gives our advisers confidence that accounts were opened properly, and saves them time they can devote to wealth management and client communication.

The same goes for account rebalancing. Prior to adopting our technology platform, we employed a

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Overall Morningstar Rating For each fund with at least a three-year history, Morningstar calculates a Morningstar Rating™ based on a Morningstar Risk-Adjusted Return measure that accounts for variation in a fund's monthly performance (including the effects of sales charges and loads), placing more emphasis on downward variations and rewarding consistent performance. The top 10% of funds in each category receive 5 stars, the next 22.5% receive 4 stars, the next 35% receive 3 stars, the next 22.5% receive 2 stars, and the bottom 10% receive 1 star. (Each share class is counted as a fraction of one fund within this scale and rated separately, which may cause slight variations in the distribution percentages.) The Overall Morningstar Rating for a fund is derived from a weighted average of the performance figures associated with its three-, five- and ten-year (if applicable) Morningstar Rating metrics.
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professional whose sole task was to manually compile Excel spreadsheets for rebalancing. Now our automated rebalancing application allows us to simultaneously run multiple models, all of which take specific client preferences into consideration, in individual portfolios.

Through automation, we can run block trades across portfolios with greater compliance oversight — and also calculate projections of how potential trades would affect client accounts from tax and other standpoints — in seconds.

TIME ON YOUR SIDE

Before we automated our workflow processes, it would take us at least a month to prepare, print and mail quarterly reports to clients. Today, it takes a week.

The portfolio management and performance reporting application on our platform enables us to easily transfer account data into a variety of preformatted reports, and share them electronically through the client portal — a process that takes a matter of minutes. The only time-intensive steps in the process are writing the quarterly commentary and editing.

NO MATTER what role a team member has, he or she can run automated workflows and locate and send reports through the CRM.

Digital technology in our industry has rendered quarterly reports almost irrelevant for some clients. For example, our clients can obtain account updates through our platform's client portal at any time and from any location. In keeping with this trend, we are harnessing our automated workflow capabilities to quickly create on-demand client reports, as opposed to quarterly reports. In this way, our platform's combination of automated processes and cutting-edge digital technology not only saves us time, but also fosters more meaningful long-term engagement with clients.

GROWTH AHEAD

Truly integrated technology platforms enable the automation that empowers wealth management firms to run more-efficient businesses, strengthen client relationships and scale for long-term growth — without having to hire additional personnel. This has been our experience with Envestnet Tamarac's Adviser Xi platform.

Wherever your technology vendor search takes you, make sure the vendor has a long track record of delivering and supporting best-in-class applications that work together seamlessly to automate a broad set of workflows across your business.

Leslie D. Thompson is managing principal and co-founder of Spectrum Management Group, an independent boutique wealth management firm.

BlackRock lowers fees in hot ETF price war

Bloomberg News

BlackRock Inc., the largest provider of exchange-traded funds, cut fees on seven U.S.-listed ETFs aimed at price-conscious investors, as competition for market share heats up.

The firm is reducing the expense ratios for the funds — all part of its series of "core" ETFs — to as low as 0.03%, according to a statement last Tuesday by the New York-based money manager. It also introduced the iShares Core International Aggregate Bond ETF, which tracks an index of international investment-grade bonds while hedging foreign currency risk.

BlackRock, which in 2012 started its "core" series of U.S. funds to attract buy-and-hold investors into the products, is stepping up fee cuts as ETF providers compete in an increasingly crowded market. Its fiercest competitor has been Vanguard Group, whose broad-market ETFs appeal to individual investors with their low cost. BlackRock's move follows a similar round last year, when the firm cut fees on its core lineup and rolled out more low-cost funds.

0.03%
Expense ratio for the iShares Core S&P Total U.S. Stock Market ETF

"This is part of our continued drive to have really competitive funds in this space," said Ruth Weiss, head of the U.S. iShares product team, in an interview.

LARGE INFLOWS

BlackRock's core lineup has attracted more than $62.8 billion in new money since 2012. Vanguard, a latecomer in ETFs, has gained ground on rivals such as BlackRock and State Street Corp., whose offerings are popular with institutional investors. Vanguard, now the second biggest provider of ETFs, has attracted money from retail investors looking for low-cost funds.

The fee cuts bring the expense ratio for the iShares Core S&P Total U.S. Stock Market ETF to 0.03% from 0.07%, effective last Tuesday. The fund will start tracking a new, broader index on Dec. 18, BlackRock also said.

Expense ratios for the other core ETFs affected by the cuts are now between 0.16% for the iShares Core MSCI Emerging Markets ETF and 0.07% for the iShares Core U.S. Growth and Core U.S. Value ETFs.

To learn more visit Nuveen.com/Symphony or call 800.752.8700.

NUVEEN Investments

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Ratings are for the period ended 9/30/15. Morningstar rated the Nuveen Symphony Floating Rate Income Fund's Class I shares, for the overall and three-year periods, 5 stars among 195 Bank Loan funds; the Nuveen Symphony Low Volatility Equity Fund's Class I shares, for the overall, three- and five-year periods , 5, 4 and 5 stars among 1391, 1391 and 1242 Large Blend funds, respectively; and the Nuveen Symphony Credit Opportunities Fund's Class I shares, for the overall, three- and five-year periods, 4, 3 and 4 stars among 627, 627 and 534 High Yield Bond funds, respectively. These ratings are for Class I shares only; other classes may have different performance characteristics. Morningstar ratings may vary among share classes and are based on historical risk-adjusted total returns, which are not indicative of future results. Some funds may have experienced negative returns over the time periods rated. For funds with at least a three-year history, a Morningstar Rating™ is based on a risk-adjusted return measure (including the effects of sales charges, loads, and redemption fees) with emphasis on downward variations and consistent performance. The Overall Morningstar Rating™ for a fund is derived from a weighted average of the fund's three-, five-, and 10-year (if applicable) risk-adjusted return measures and Morningstar ratings metrics. The top 10% of funds in each category receive 5 stars, the next 22.5% 4 stars, the next 35% 3 stars, the next 22.5% 2 stars, and the bottom 10% 1 star. Each share class is counted as a fraction of one fund within this scale and rated separately. ©2015 Morningstar, Inc. All Rights Reserved. The Morningstar information contained herein: (1) is proprietary to Morningstar; (2) may not be copied; and (3) is not warranted to be accurate, complete or timely. Neither Morningstar nor its content providers are responsible for any damages or losses arising from any use of this information.

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Alts strategies for a fearful, low-growth world

Guest Blog

Thomas Hoops

Fear and demographics can be powerful drivers. Investors who remember the financial crisis fear a repeat performance. Understandably, they want stability. At the same time, demographic changes in developed markets are creating enormous pressure to deliver income on clients' assets.

Given stubbornly low interest rates and anemic global growth, most traditional investment strategies will be challenged going forward. A diversified income approach that incorporates alternative investment strategies can help meet clients' income goals, if they are willing to take some additional risk in their portfolios.

Few of us are fortunate enough to rely solely on the first two primary colors of investing: capital preservation and income. But what about clients who want — or need — our third primary color: growth?

Making the case for alternatives in this context is less about the absolute returns than their potential over full market cycles to deliver the same or greater outperformance than equity mutual funds — yet with lower volatility, lower correlations and enhanced diversification.

That may be a mouthful, but each element of that sentence has meaning. If an investor wants simple growth products, market-cap-weighted indexing will do nicely — as long as the markets do nothing but keep going up.

> **INVESTMENT** strategy and operational due diligence require heavy lifting.

Anyone making that bet these days?

Rather than all-risk, high-reward, many liquid alternatives are targeted at investors who root for the tortoise in Aesop's fable. The headlines go to the speedy hare, but in a world rife with risk, flashes of occasional brilliance rarely surpass the benefits of solid, steady growth.

Investors can use alternatives to go beyond traditional stock and bond funds, relying on actively managed products specifically designed to capture growth, even in the most grim and volatile markets. This comprises products previously available only in the high-net-worth space: private equity, venture capital, real assets (real estate, infrastructure and REITs) and hedge funds.

HIGH RETURNS, RISKS

Private equity and venture capital can offer very high returns — when they hit — but they frequently miss too. Both strategies are difficult to deliver in liquid investment vehicles and are usually only available to accredited investors.

In competitive markets, high-return real estate has become harder to find. It takes acumen, experience and the wherewithal to consistently deliver growth across a full market cycle. Still, there are asset managers with demonstrated track records through varied economic cycles that provide liquid products in the REIT and infrastructure spaces.

As for hedge funds, it is important to understand they are not a separate asset class, nor are most the "black boxes" some fear. While they often pursue similar objectives, well-chosen hedge funds can outperform public equities and fixed income. Many aim for lower volatility and less market correlation, giving them the potential for greater risk mitigation and superior diversification.

SO MANY OPTIONS

The real value proposition of buying alternative products from an asset manager comes in the vetting. Investment strategy and operational due diligence require heavy lifting. Even the savviest, most-resource-rich institutional investors can have a hard time assessing the many available hedge funds. Asset managers go deep with each hedge fund, taking the time to ferret out their true exposures, along with their strategies and risks. When a hedge fund's performance pushes against the asset manager's tolerances, steps can be taken to actively address the issues.

All investments carry risk, of course, but investors can sleep better knowing that expert managers are overseeing their investments.

Thomas Hoops is executive vice president and head of business development at Legg Mason Global Asset Management.

ISTOCK

Foreign investments may be volatile and involve additional expenses and special risks including currency fluctuations, foreign taxes and political and economic uncertainties. Emerging and developing market investments may be especially volatile. **Class Y shares are not available to all investors. Please consult your financial advisor to determine if you are eligible to purchase.**

Pimco says Gross waging 'reputational warfare'

Claims that he was forced out have no basis in law, says firm

Bloomberg News

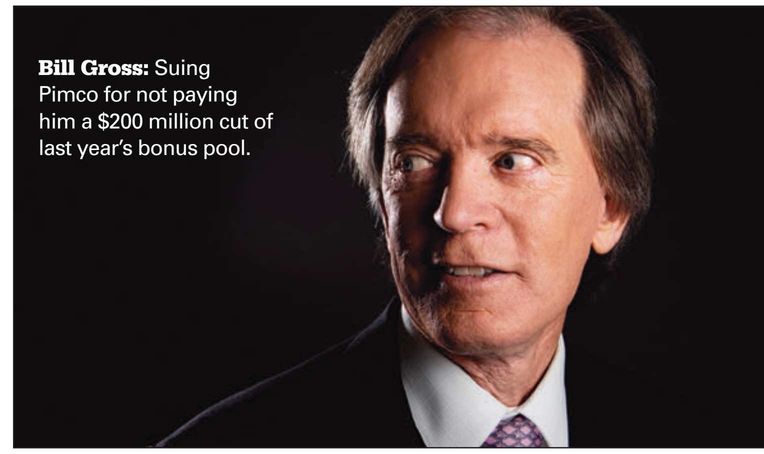
Pacific Investment Management Co. fired back at the co-founder who oversaw the firm's ascent for 43 years, saying Bill Gross' lawsuit over his departure looks more like a screenplay than a legal filing and should be thrown out.

Mr. Gross' claims that Pimco forced him out to avoid paying him a $200 million cut of last year's bonus pool have no basis in law and amount to "reputational warfare," the investment management company said last Monday in its first response in court to the lawsuit.

"Mr. Gross' complaint is a legally groundless and sad postscript to what had been a storied career at Pimco," according to a copy of the filing provided by the company. "This suit is only the latest step in Mr. Gross' effort to resurrect a personal reputation damaged by his own unacceptable behavior."

Last month Mr. Gross sued Pimco, once the manager of the world's largest bond fund, claiming he was forced out by a "cabal" of managing directors and that his share of last year's profit was illegally withheld.

Pimco's assets have begun to stabilize after Mr. Gross left suddenly in September 2014. At its height in 2013, Pimco oversaw about $2 trillion in assets. As of Sept. 30, that had dwindled to $1.47 trillion.


Bill Gross: Suing Pimco for not paying him a $200 million cut of last year's bonus pool.

BLOOMBERG

'HUNDREDS OF MILLIONS'

Mr. Gross sued Newport Beach, Calif.-based Pimco on Oct. 8, a little more than a year after his departure for Janus Capital Group Inc. He seeks "hundreds of millions of dollars," claiming wrongful termination and breach of written contract.

Pimco argued Mr. Gross can't claim he had a contract that was broken, was forced to resign, or was entitled to a third-quarter bonus, Pimco said. The filing couldn't be confirmed immediately in state court in Santa Ana, Calif.

His departure followed a public falling out with others at the firm he co-founded in 1971. Having built Pimco on fixed-income investments, Mr. Gross opposed the company's expansion into higher-risk asset classes such as equities, commodities, real estate and hedge fund-like products, according to his lawsuit.

Pimco, now a unit of Munich-based Allianz SE, hired lawyer David Boies, chairman of Boies Schiller & Flexner, to defend it. Pimco asked for a March hearing on its bid for throwing out Mr. Gross' claims.

Mr. Gross and his lawyers are confident in their case, Patricia L. Glaser, one of his attorneys, said in an emailed statement.

"We are disappointed that Pimco has chosen to use a procedural tactic to delay getting to the merits of the case," Ms. Glaser said. "Pimco's papers do not dispute the substance of Mr. Gross' allegations in any material way."

Pimco declined to comment beyond the filing, said Michael Reid, a spokesman.

JANUS FUND DOWN

Mr. Gross now manages the $1.39 billion Janus Global Unconstrained Bond Fund, which is down about 1.33% this year, according to data compiled by Bloomberg. About half of the money in the fund is from Mr. Gross' $2 billion personal fortune. Mr. Gross has said he will donate any award or settlement from the lawsuit to charity.

Janus declined to comment on the lawsuit, which is "a personal matter for Bill and unrelated to his work at Janus," said Erin Passan, a spokeswoman for the Denver-based firm.

Mr. Gross hasn't had much success with his new fund at Janus. It has lost 3.8% since he started running it, compared with a 1.8% gain for the Barclays US Aggregate Bond Index over the same period.

And while the Janus fund attracted $5.9 million last month, Bloomberg reported this month that George Soros, who committed money to a Gross-managed account after he moved to Janus, had pulled $490 million, almost all of his firm's original investment.

STANDING OUT FROM THE CROWD

Today's frenzied, multi-media marketing environment poses a daunting challenge: How can advisers capture the attention of prospective clients and retain the attention of existing clients in order to deliver their message?

Despite their greater resources, asset managers face the same challenge. Whether trying to increase adviser awareness of their offerings or to educate advisers and investors, mutual fund firms from boutiques to giants find that cutting through the media cacophony and clutter is increasingly difficult. As a resource in their communication efforts, many fund companies have turned to the Mutual Fund Educational Alliance, an organization created more than four decades ago to help the investment management industry's senior leaders serve and support advisers and investors.

Each year, MFEA recognizes excellence in fund communications and marketing through its STAR awards. This year, the awards honored programs in a broad array of categories — website, mobile website, educational brochure, ad campaign, newsletter/magazine, introduction kit, marketing campaign and digital innovation, among others. And while each program was designed to meet the objectives of a specific asset manager, there is much that advisers can learn from the winners, especially lessons in how to create and execute marketing messages that resonate with prospects and clients.

The digital challenge

Consider the challenge of digital communication. Like everyone else, advisers' clients are glued to their mobile devices and rely on them for an ever-greater share of their media consumption. So what should advisers be doing to meet their clients' increasingly mobile digital needs? In that area, advisers can find direction from JP Morgan Asset Management, which won STAR awards in its asset-class category for digital innovation in adviser communications, retail communications and retirement communications.

The core element of the firm's retirement communications winning efforts is a digital target-date fund comparison tool that allows advisers and the plan sponsors they serve to examine the universe of target-date funds in order to determine which may best serve the needs of plan participants.

"More than 40 fund companies offer target-date funds and advisers kept telling us that there was no easy way to compare them," said Michael Miller, Managing Director and head of DCIS Adviser Sales at JP Morgan Asset Management.

The increasing popularity of target-date funds within retirement plans of all sizes brought to light the issue, Miller said. While target-date funds typically have similar names, their investment philosophies and approaches may differ greatly, even for funds with the same target date. For example, managers of one 2025 target-date fund may invest based on the assumption that investors will hold their funds past that date and spend down the fund throughout retirement, while another manager might assume that investors will exit the fund upon reaching 2025. Each approach affects how fund managers construct and manage their portfolios between now and then, with some managers holding a small percentage of equities at certain times in the life of their fund, for instance, while managers of other funds with the same target date hold a high percentage of equities.

Unbiased information

"Since every client is different, our belief was that if we could provide a digital tool that was purely educational and completely neutral and unbiased, we would be able to help advisers, plan sponsors and, ultimately, plan participants select the right funds based on their needs and specific attributes," Miller said.

The educational approach is working. Advisers serving the retirement plan market have come to rely on the JP Morgan tool and use it regularly. Approximately 12,000 reports have been requested by advisers using the tool, said Miller, and almost 2,000 advisers serving the retirement market have used it. "We wanted to stand out from the crowd, and our belief is that one of the best ways to do that over the long run is to provide an intellectual capital resource to the marketplace that is unbiased and that advisers can rely on to solve a problem that faces so many clients," Miller said. "What we've provided is an engagement tool that successful advisers can use to differentiate themselves. The tool — along with the ancillary resources we make available — enables advisers to have robust conversations with plan sponsors about participant demographics and behaviors, as well as the funds that may be best suited to serve a plan's specific needs. It helps advisers fulfill their fiduciary responsibilities and become a true resource to plan sponsors."

While most advisers don't have the resources to build their own digital tools, using objective diagnostic and assessment tools, whether from third parties or from investment management companies including JP Morgan Asset Management, for instance, can be equally effective. The key to their effectiveness, as the STAR award winners will confirm, is that the tools — whether digital, print, video or anything else — be educational, helpful and not a thinly veiled sales message. As STAR award-winning Ariel Investments' Merrillyn Kosier says, "It's not about you, it's about them."

Thinking big

As a small firm with a marketing budget far more limited than those of its giant rivals, Ariel Investments carefully thought through a marketing communications strategy that would enable it to stand out from the crowd — an exercise that advisers would do well to emulate.

"We decided that we must be clear and concise, and that everything we communicate — our messages, our 'look' and our tone — must be in our unique voice," said Kosier, an Executive Vice President of the firm, which is a value, deep value and global manager. "People are bombarded by communications these days, so to stand out your message has to be crisp, clear and easy to navigate. At Ariel, we want to connect information and help people understand what it all means to them and make clear why they should care, not just pump out more information."

From her own firm's market research, the extensive analysis of data it collects on its marketing communications activities and from what she's learned from her peers through MFEA, Kosier says that what investors demand today is truth.

"They want investment products that deliver on what's promised," she says. "Trust is essential."

Based in Chicago, Ariel Investments' marketing approach seems to have taken a leaf from the city's adopted architecture lion Ludwig Mies van der Rohe, who famously said, "Less is more." Where the firm once had specific web sites for advisers and institutions, Ariel now combines everything on one site that addresses everyone's needs in one voice.

A unique voice

"In whatever we do in the way of communication, we always ask ourselves it it's unique. If you took what we had created and covered up our name, could the printed piece or the online content just as easily have come from another asset manager? Would the message be any different from anyone else's message? Would the look be indistinguishable from someone else's? Those are the questions we ask ourselves all the time," Kosier said, "and if we can't honestly say that what we've produced is unique, we go back to the drawing board."

Advisers crafting their own messages to prospects and clients should be asking themselves similar questions. In today's marketplace, advisers must make their unique marketing message crystal clear across all media. They must also be perceived as being a provider of useful, factual and unbiased information that can help clients and prospects address real issues in their lives. Those are the key lessons of the STAR award winners.

The MFEA & InvestmentNews would like to congratulate the 2015 STAR Award Winners:

- Aberdeen Asset Mgmt.
- Ariel Investments
- Columbia Threadneedle Investments
- Deutsche Asset & Wealth Management
- FAM Funds
- Franklin Templeton Investments
- Goldman Sachs Asset Mgmt.
- Hartford Funds
- Hennessy Funds
- Invesco
- J.P. Morgan Funds
- Janus Capital Group
- John Hancock Investments
- Matthews Asia Funds
- MFS Investments
- Nationwide
- Natixis Global Asset Mgmt.
- Neuberger Berman
- Nuveen Investments
- Putnam Investments
- RidgeWorth Investments
- Saturna Capital
- The Royce Funds
- Thornburg Investment Mgmt.
- Tortoise Capital
- U.S. Global
- Value Line Funds
- William Blair Funds
- T. Rowe Price

MFEA ALIGNING THE “STARS”

The Mutual Fund Education Alliance is an organization that brings together senior leaders from the investment management industry to examine the most important issues and trends that impact how fund companies are supporting financial advisers and their clients.

The strong alliance between MFEA and its members has created a unique forum and consistent dialogue that has allowed MFEA to understand and respond to the rapid changes in fund distribution, product development, marketing strategy and technology since the organization was launched in 1971.

To highlight the industry’s true best practices – and ultimately the most impactful and effective ways to educate and engage advisers and their clients – the MFEA launched its STAR Awards program nearly 20 years ago.

These industry awards specifically call attention to the fund companies who have emerged as established leaders in mutual fund education and marketing communications.

The STAR Awards program acknowledges investment management industry firms for their successes in informing and educating the marketplace with a broad range of strategies. The STAR Awards program has distinguished itself as the premier fund industry competition, encouraging excellence and fostering innovation.

The MFEA and InvestmentNews are proud to honor this year’s STAR Award winners for their extraordinary marketing, communications and digital efforts in 2015.

Congratulations to all of this year’s winners.

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* J.P. Morgan Plan Sponsor Research, 2015.

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J.P.Morgan
Asset Management

Time to expand toolkit for retirement income

Advisers need to help retirees walk line of risk versus return

With the prevailing mindset around retirement planning today being one of accumulation, retirees often are left ill-prepared to shift their focus to generating income.

Successfully converting accumulated assets into an efficient lifetime income stream is a very real challenge for retirees and their advisers. How can retirees get the most out of their assets during retirement while ensuring they don't run out of money too early?

There's a need for a new way to help retirees tackle their income challenges. Annuities in general are designed for this purpose, but they're typically heavily focused either on growth potential or guarantees.

Current retirement income products, while serving an important role, miss the mark in striking an optimal balance between investment opportunity and income protection for discretionary lifestyle dollars that define a fulfilling retirement for many.

PORTFOLIOS should tailor solutions to retirees' unique challenges.

The resulting polarization between guaranteed income and growth opportunity leaves an underserved segment of the population in the middle, taking income from nonguaranteed vehicles via systematic withdrawals or payments from dividends or interest. Annuity companies have the opportunity to focus on this market with new product designs that integrate managed withdrawal strategies with longevity protection on an open, flexible investment platform.

Even among professional money managers and advisers, estimates of the "safe" withdrawal rate for retirees range anywhere from 3% to 6%. Retirement asset allocation strategies also vary, with some now shifting to a higher percentage of equity exposure during the later years of retirement in order to foster growth and inflation protection.

While life insurance companies have done a good job helping retirees generate lifetime income from immediate annuities, fixed indexed annuities and variable annuities, these products are not suitable for every situation.

LITTLE FLEXIBILITY

With these products, the insurance company must support guaranteed income with conservative investments, and income levels that reflect the current low-interest-rate environment, lessening withdrawal strategy risk, but leaving little flexibility for retirees. Plus, if the money is not for essential living expenses, retirees may be paying for guarantees they don't necessarily need and forgoing the opportunity to offset inflation and enhance their lifestyle with additional income from any market appreciation.

The adviser's role is also minimized in traditional variable annuity products, as investment options are often limited in favor of managed-risk funds or investment models. The ability to customize a portfolio to each client's unique needs is an important service that advisers should be able to offer.

Other retirees and advisers use nonguaranteed products to take systematic withdrawals or interest payments. While this allows the retiree to participate in market appreciation, the lack of longevity protection makes it difficult to know how much it is safe to withdraw each year. Retirees are caught in the middle between possibly forgoing a higher standard of living than they might otherwise afford and risking depleting their assets too early.

As product development strategists strive to address retirement income challenges, they'll be looking at the common risks retirees face and how to tailor solutions that help address the challenges:

- **For inflation risk,** the focus is on investment flexibility and growth — retirees need access to a diverse selection of investment options in order to capture growth opportunities and keep pace with inflation.
- **For withdrawal and lifestyle risk,** the focus is on adaptive income — retirees need to manage withdrawals to reflect investment performance, thereby maximizing income and stretching assets.
- **For the risk of outliving assets,** the focus is on incorporating longevity protection — retirees are living longer and need to plan for advanced age. A couple age 65 faces a 50% chance one will live to age 93 and a 25% chance one will live to age 97.

Annuities are well-suited to serve as a platform to address retirement income management.

There is a place in the market for products that allow retirees and their advisers to make the asset allocation decisions, while providing a mechanism to ensure that withdrawals are responsive to realized investment performance, with longevity protection that will continue the income stream at the same level after the account value is exhausted.

Michael Reardon is the head of product strategy for Global Atlantic Financial Group

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When banks make it harder to collect client data

ISTOCK COMPOSITE

As advisers see greater need for aggregation, not all players agree

By Alessandra Malito

As advisers begin to collect personal financial data in an automated fashion, some banks may want to stop playing along.

J.P. Morgan Chase & Co. and Wells Fargo & Co. might begin to restrict access to their data by personal-finance platforms and data aggregators, according to a story in the Wall Street Journal Nov. 5th. Advisers use such information to pull in held-away asset information and create a full financial plan for their clients.

According to the article, security was a major issue for these banks.

"In our continuous effort to enhance the security of our digital banking services, we often add additional layers of authentication to protect our customers' information," said Jason Menke, a spokesman for Wells Fargo. "These efforts may inadvertently impact the ability of financial aggregators to gather customer information."

He said the company is looking to find a better means of sharing information with financial service and technology companies.

Chase did not respond to a request for comment.

"Advisers want to learn more about clients," said Lowell Putnam, chief executive of Quovo, a data aggregator in the financial services industry. "How is that bad for anybody?"

The data aggregating process, though increasingly popular through automation, can also be a burden on banks' technology. Mr. Putnam said that while that's a legitimate concern, aggregators and banks need to work together.

"As data aggregation grows in popularity, we have to partner with institutions we are taking data from," he said. "If we become serious IT burdens, that forces large banks to have to increase traffic, and we become a problem, not a solution."

But this restriction also could be an indication that banks are seeing data aggregators, personal-finance platforms and digital-advice sites as competition.

John Prendergast, chief executive of Blueleaf, a software provider that helps advisers build relationships using aggregated data, said a policy to pull back on providing aggregators and websites with client information isn't just hurting these third parties.

> "I EXPECT as a younger person to be able to get my data in whatever way I deem fit."
>
> **John Prendergast**
> Chief executive
> Blueleaf

"If you make it hard for data aggregators, you are making it hard for your clients," Mr. Prendergast said. "It's a very tricky business."

Of course, advisers will still be able to get information on held-away assets, because they or their clients can manually find and input the information. But it is less efficient and a regression in the overall progress this market has seen, he said.

"It's as backward a policy as there can be," Mr. Prendergast said. "I expect as a younger person to be able to get my data in whatever way I deem fit."

David Benskin, chief executive of Wealth Access, a personal-financial-management platform that pulls data from various aggregators, said data aggregation is an integral part of wealth management, which is why firms shouldn't rely on a single place to get their client information. His company takes data from numerous sources, he said.

So does Quovo, Mr. Putnam said. He added that if these channels were to close, the company could work around it by cooperating with other third parties and maintaining strong relationships with other institutions.

"We have to be able to bridge the gap effectively, so flexibility makes a good aggregator," Mr. Putnam said. "That should never be a concern. It doesn't mean data is lost or it won't keep going. It's just a hiccup."

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Preparing firms to become more complex in future

The following is an edited version of the InvestmentNews *webcast, "Key findings from the 2015 InvestmentNews Adviser Compensation and Staffing Study," held Oct. 1. The session was moderated by Mark Bruno, associate publisher of* InvestmentNews, *and participants included Brandon Odell, partner and director of business consulting at The Ensemble Practice; Tom Kindle, vice president of relationship management at Pershing Advisor Solutions; and Matt Sirinides, senior research analyst at* Investment-News.

WEBCAST

Brandon Odell: We know this industry is continuing to grow. We've had a lot of success. We've grown at a little bit slower rate than we have in the past, but there is growth. That pushes on our firms that have needs of designing our organizations to balancing our human capital needs, monitoring our productivity and capacity, and defining what that means for us.

One thing that has come out of this year's study is that there are a lot of employee advisers – a lot more than there are owner-advisers. Firms traditionally known to be independent are hiring a lot of support who aren't owners in the business. They see clients as a lead adviser. They see clients in full autonomy for the contribution and the betterment of a firm.

And that in and of itself is a true definition of an advisory firm. It's not a practice. It's a firm. Because there are individuals who are working for the benefit of others around them, not just for themselves. And it's an interesting change. It's further proof of the maturation of our industry and the growth that we're having.

Something that's a little bit possibly contradictory is that salaries are flat for employees. Over the last two years, we found that salaries really haven't moved that much. Why is that?

> *"Over the last two years, we found that salaries really haven't moved that much."*
> **Brandon Odell**
> The Ensemble Practice

Part of the reason is incentive compensation has gone up. What we're doing is we have more employee advisers. We have more advisers who are paid a salary and a bonus. They're not particularly paid on production, although there are some production models used, such as being paid a percentage of revenue managed.

In that schema, the bonus is typically used to let an adviser participate in the upside. So we're seeing that a lot of firms are basically hedging their bets, hedging their risk of inflating salary by holding salary a little more consistent and letting the bonus grow. Since firms have grown, we're seeing some growth in compensation there.

CAUSE FOR CONCERN

The growth we are having is a little bit interesting if we dig deeper into the numbers. It should be good. But if we look at what drives that growth, we find that there might be some hidden cause for concern.

So what does that mean for us? Our takeaways are that the industry is growing. Our firms are growing. And we need to prepare to become the complex organization that we will be in the future. We're being driven in that direction regardless.

How do we manage our productivity? Productivity is two things. It's client relationships, including our revenue per client, how we manage relationships, how much time it takes to service those relationships for the revenue we earn. And it is productivity of our staff, including revenue for our professionals and for staff in our office. There's a high and a low point on each of those.

Can we continue just to go for larger and larger clients? Well, interestingly, the industry demonstrates that, no, that maybe that's not the best strategy.

Can we continue to squeeze out more productivity from our professionals, our advisers, and our business? No, not particularly there, either. There's a point where we limit the amount of capacity one individual can withstand. We can't extend revenue per professional to an infinite level without burning out an employee. So there is a finite ceiling. So how do we manage that as we move forward? What does that mean for our business?

And lastly, where do our people come from? How do we find these people? Is there a talent shortage? Are we actually able to attract those people? All things for us to consider as we look at using the results from the study to progress forward.

DOUBLING SIZE, REVENUE

The growth number I talked about is double digits. It's 13.5% for 2014 growth. Nothing to shy away from, nothing to sneeze at. That growth rate over five to seven years doubles your firm size. Just to kind of put things in perspective, that doubles your revenue size. Possibly it doubles your organization size. Possibly it doubles the number of your clients.

So it's a number that does continue to push us in a direction forward, but it is a lower number. And we also know September in the markets was less than stellar. How will that impact us as the market is a very large contributor to our revenue?

Firms, as they allocate their resources, there's sort of been a change in direction. Growth has slowed slightly. Firms, though, are getting larger. Income per owner continues to go up. Somewhat expected, but let me kind of illustrate a little further why that may not fully be expected.

ISTOCK

As a firm grows, traditionally it's been the story that as a firm grows, more employee advisers become owner-advisers, or the firm introduces more owners into the mix, therefore sort of diluting the available income per owner. We're not particularly seeing that.

There haven't necessarily been as many owners added as the growth has attributed back to the owner. Income per owner means both a salary or bonus that is paid to the owner, plus any profitability that is due to the owner per their ownership allocation.

For the average owner of an advisory firm, $527,000 was the take-home for an owner. That's on par, if not above, most other professional service organizations through accounting, legal, medical.

It also says something about, why is it that we don't have to add more owners? Why is it that we're not diluting that number as we continue to grow? Well, part of the reason is there's a growth of the employee adviser.

One area of leverage is ownership leverage. How do we leverage the equity? And that's what we're seeing here. We have owner income rising because owners are leveraging employee talent. The largest, or the job title with the most submissions in this last study, was the lead

Panelists

Brandon Odell
Partner and director of business consulting
The Ensemble Practice

Tom Kindle
Vice president of relationship management
Pershing Advisor Solutions

Matt Sirinides
Senior research analyst
InvestmentNews

SagePoint FINANCIAL FSC SECURITIES CORPORATION WOODBURY FINANCIAL Royal Alliance

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adviser. There were 439 lead advisers who participated in the study this year, larger than any other job title. Lead adviser being someone who has the full autonomy, full trust of the organization to work with a client, but isn't an owner.

REVENUE PER PROFESSIONAL

Practicing partner, on the other hand, is essentially a lead adviser with ownership. Quite a bit fewer practicing partners than lead advisers, demonstrating that firms are investing in the employee organization growth and being more specific or choosy about who actually becomes a partner or an owner someday.

And here's a further demonstration of why that's happening. We're coming down on the end for 2014 of revenue per professional. To get revenue per professional, you take the entire revenue for your firm, divide it by the total number of professionals. Professionals are anyone who's a practicing partner or anyone who sees clients as an owner, anyone who works with clients as a lead adviser, service adviser, and in some cases a support adviser or an analyst.

Using the full body, the curve has gone down a little bit, saying we're maybe less productive. Why is that? What goes into that number?

It's important to consider that your productivity has a high point and a low point. We don't want our productivity to be too low because that means we've hired a bunch of staff, doing some charitable work here to get people a place to work, but we're not producing a lot of revenue to fund them, to support their income, to support their compensation and support the growth of their career.

At the same time, if our revenue per professional is too high, we potentially have people who are working far too many hours, have zero capacity left to help future growth or to help with internal mentoring or other projects. And therefore we've hit a ceiling.

What's potentially happening here is there is further investment in the organization in the form of employees, non-owners, to further be professionals and staff the revenue growth. So what's likely to be the reason our productivity's come down in 2014 is because firms are staffing. They are hiring more. So they are finding talent somewhere, and they're putting it in as an employee professional.

FOCUS ON LARGER CLIENTS

So again, quick example here. If we had two professionals managing $1.5 million in revenue, our revenue per professional would be $750,000. Now if we just hire a third professional and they don't come with any assets, they just come into our organization, now we have three professionals managing $1.5 million. Our revenue per professional drops to $500,000. So that's why we see the drop.

But is our firm in a better position? If we can afford that individual, we now can afford further growth.

One of the reasons that you may be able to manage a large amount of revenue with more people and larger size is because larger clients seem to exist within larger firms, or they're larger firms because they have larger clients. Chicken, egg. Which provided for the benefit of the other?

I argue that if you want to be larger, focus on that larger client. Focus on someone who is larger than your current revenue per client.

Lastly, we have a lot of employee advisers. We have firms that are very much maturing. We've put a term "building enterprises" around this year's study, meaning that the firms assemble something of an enterprise or an organization that has governance, that has management, it has leadership, it has employee advisers who are contributing to the revenue and they're not even owners.

But compensation's not particularly going up. We're competing to find talent to bring into our firm, but we're not necessarily having to pay more to bring it in.

Basically what the firm is saying is, we can't keep escalating like a runaway train in salary. We can share the good times with the employee, but not take undue risk to pay a salary that possibly could really hurt us if there's a market correction.

> *"When I first think of leverage, I think of empowering … your advisers."*
>
> **Tom Kindle, vice president,** Pershing

HESITANT NATURE

So we're seeing definitely a hesitant nature to advisory firms. Possibly it's remembrance of 2008.

Mark Bruno: Tom, tell us a little bit about what you're seeing just in the way of some best practices around bringing sort of leverage into an organization. And ultimately, what are some of the most effective ways that firms are structuring these roles so that the owners and the partners can be more productive and ultimately more successful?

Tom Kindle: When I first think of leverage, I think of empowering non-owner professionals, your advisers. The second area is around the idea of nonprofessionals per professional, and that ratio over time, and really measuring that staff-per-professional ratio.

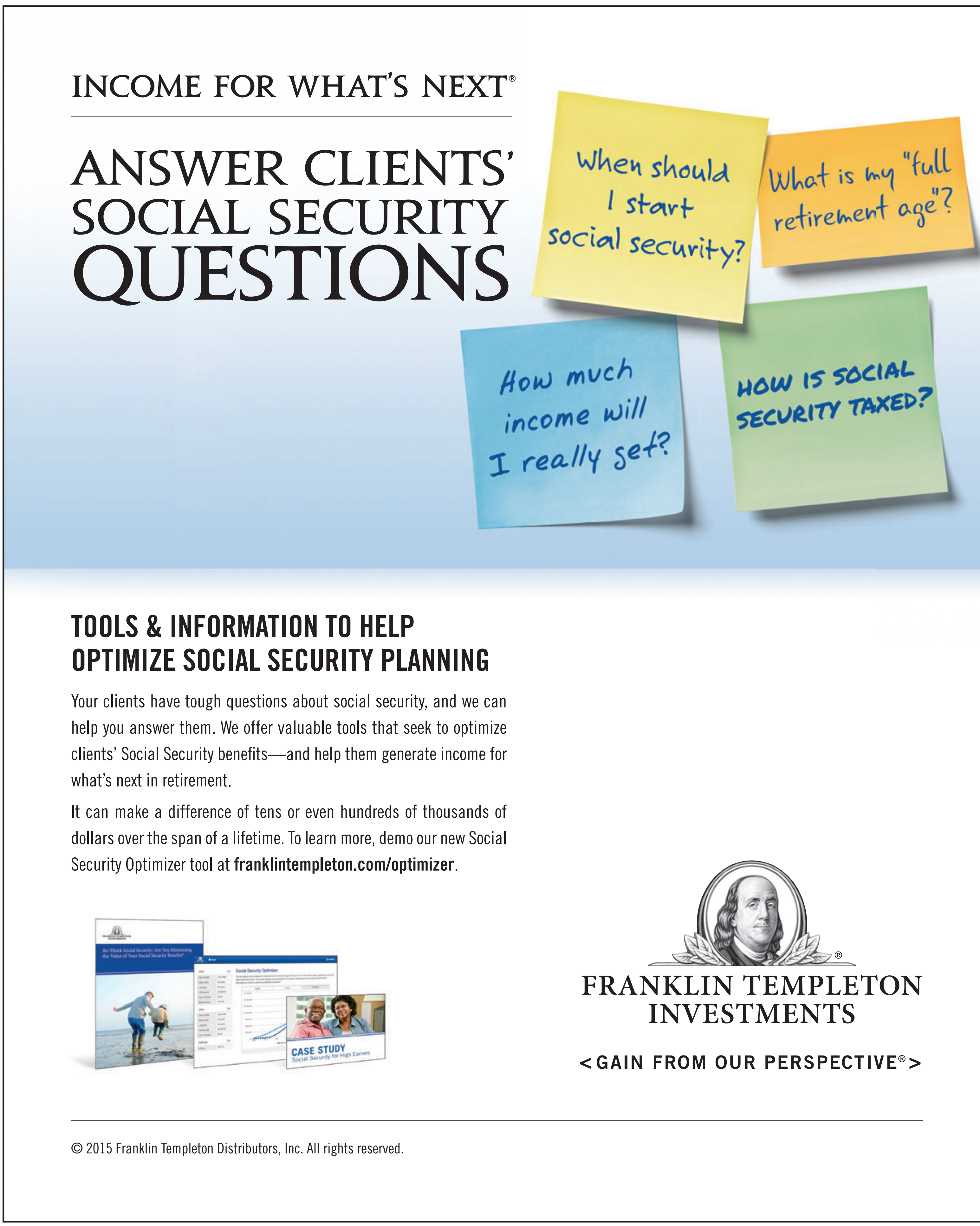
The idea of staff would be, again, they're not managing relationships.

So typically as a firm gets larger, that ratio increases. And you'll see it as high as two-and-half to even three staff for every one professional. And again this year, the data in the study bears that out.

And the ownership leverage — there's about $21 billion in assets under management with firms that we've really taken a close look at, where we've asked for a lot of information and engagements, and that's shared because there are serious issues and opportunities for us to help. And our revenue per owner in some cases is very high. There are opportunities in many cases with the firms we work with to really look at that, and see if there's not an opportunity to have other owners buying into the firm.

On the organizational design

Continued on Page 30



Preparing for more complexity

Continued from Page 29
front and career pathing front, the RA industry and really in general the independent channel have never been stronger. And I think just the fact that, you go back five or six, seven years ago, this study would be talking about career tracking, career pathing from an adviser track standpoint. And now we're looking at it in multiple ways: investment management path, the operations path. So I think that is a testament to the success we're having.

WEBCAST

NEXTGEN CONTRIBUTIONS

And we've never been stronger on performance management and connecting performance management to incentive compensation. But this is an area, I think in particular, where there's an opportunity for improvement.

Mr. Bruno: The leverage piece and the ratios that you pointed to of support professionals, it's an important theme from this year's study.

We've isolated some of the firms that actually have NextGen advisers. A finding we're starting to see emerge suggests that they can contribute to growth and the ultimate success of an organization directly.

But let's get back to productivity and incentive compensation. We've seen over the years the transition where a lot of firms are using more incentive-based compensation. How has or has that actually in your experience translated to improved productivity? Tom?

Mr. Kindle: So Mark, I'm struck by two conversations that I had this week. One was an owner-operator with a small team, a team of four, who shared that he tells employees as they're hired upfront that you cannot expect cost-of-living increases with my firm. And he shared a recent example where he had a very frank discussion with a team member that he'd believed had reached their cap from a compensation standpoint. And not surprisingly, that team member left the firm a couple of months later.

In another case, a director of operations told me he he had maxed out in his compensation that he could earn, was very frustrated by this. I mean, this is extraordinary to me in a world where incentive compensation can be used to motivate and drive different behavior, that these types of conversations would be taking place.

So the notion of firms using incentive compensation to drive different behavior is really only partially true. And I saw the data that was shared. I'm seeing that incentive compensation maybe is increasing for those that are using it effectively. But there are many firms that are not really using it effectively.

We work with firms that are, on average, $300 million in assets under management. But as an industry, 85% of firms have less than $500 million in assets under management. So these emerging ensembles and enterprise ensembles are the $5 million to $10 million in revenue peer group, there are opportunities here to really work with your team to incentivize them using incentive compensation.

In many cases, especially with the super-ensembles — the $10 million and larger revenue firms — we're seeing a true connection between performance and incentive compensation. We see strategic plans that flow down to the team and individual level that are updated consistently.

We see a refined approach with job descriptions, and team members really understanding their roles. Not just having a job description, but actually understanding what they should do day to day.

Let's not forget there's a clear delineation between labor, for which you're paid a base compensation, incentive compensation and owner distributions.

What they really were saying was, here's the ownership distributions that we use. And I think embracing that language can be really helpful for us as we really think this through. And there are opportunities for improvement.

Mr. Bruno: Brandon, we've talked quite a bit about pricing, as firms get bigger, what happens to essentially that yield. Can you put in context what it is that we've seen in this study data, and what it is that you expect to see going forward?

EMPHASIS ON CLIENT SERVICE

Mr. Odell: You will have AUM that yields in varying amounts, depending on the referral source, depending on the other business lines that you may have, depending on if you're doing retirement or 401(k)-type work. Obviously it's in addition to more traditional wealth management work. So there's definitely a lot of other contributing factors that boil into it, but there have been every single year. There have been every single year we've looked at the data.

Are we having to charge less for the assets we manage? Statistically speaking, no.

And the reason is that there's more emphasis on the client service the firm provides to their clients.

Mr. Bruno: Matt, can you tell us a little bit about what we've seen relative to features over the years, and what it is that some of the study participants are saying will likely happen to their fees going forward?

Matt Sirinides: We haven't really seen in our study the effect of the, quote, "commodification" of investment advisory services really coming into play when it comes to the yields that we're witnessing for firms in our studies.

TARGETING HENRYS

And another thing that makes that a little more unsurprising as well is that last year when we asked firms if they intended on raising their fees in the coming year, 70% of them said no, 23% yes, and 8% said they were considering lowering them. Now larger firms tended to be more likely to say they were going to raise their fees.

Mr. Bruno: One of the most compelling findings of this year's study, when you look at the largest firms, they are the ones that are basically — and we don't know the age of their clients — but we can look at the numbers and suggest they're seeing distributions taken at a more consistent clip than really any other segment in the data. So are their clients effectively older? And do these firms, the largest firms in the business, need to, quote, "get younger?"

Tom, can you talk a little bit about strategies or best practices for how firms can pursue smaller clients, but ultimately develop them into more productive relationships?

Mr. Kindle: So I agree. There is some momentum around this notion that successful firms are and will change their approach to targeting — and in particular, you've heard the term. it's the HENRYs, the high earners, not-rich-yet group. So I spoke with a COO just this week who shared that his 50-person firm has made a conscious decision to ignore their $1 million minimum — minimum assets under management, I should say — to pursue the HENRY category.

> *"Successful firms ... will change their approach to targeting."*
> **Tom Kindle**
> Pershing

And they're using what I'll describe as an older millennial adviser — so 30-, 32-year-old type of adviser. Young advisers are saying, we don't run in the same circles as some of these entrepreneurs and successful professionals. And they're looking for opportunities to grow their business. And they look at the success at — look at the success that many of you had, as you did work for seasoned entrepreneurs and professionals, but you also grew your business, in many cases, with younger clients.

So this 50-person firm, to the fee question, they're charging 1%. It does tier, of course. A lot of these clients are going to have $150,000 in assets and won't reach those tiers for a while. The millennial adviser currently manages 80 client relationships and has capacity to add more. The firm has not dedicated support staff to him, but they do have a very institutionalized approach to managing client relationships. In other words, they've got an operations department to support him.

They offer financial planning

ISTOCK

light, as they call it, using a third-party financial planning software provider. And importantly, they're using a virtual approach, leveraging WebEx. They basically are doing this from the get-go of the relationship. They believe that especially with the millennials, that they will pick up and move out of town. And they want to have that progression expected that we can work with you anywhere that you end up in the country. And so very much for that category.

BENEFITS OF SIZE

Now most of these clients are in the millennial, younger Gen X kind of category, because they want to see them grow as professionals, earn more, and really fulfill the expectation of that HENRY category.

Mr. Bruno: Brandon, can you focus specifically on just some of the core benchmarking data that the Adviser Compensation and Staffing Study can provide? In particular, you're looking at some of the productivity ratios and strategies for ultimately improving productivity.

Mr. Odell: Know that the trend continues. Larger firms have the benefit of being able to have more capacity and are more productive. More capacity is generated when you have more individuals working together to support one another. One plus one equals three type of scenario.

As a firm grows, there's more institutional processes. And let me just use one as an example. Super-ensembles traditionally grow at a clip very comparable to firms of lesser size. And in past years, they've actually grown faster. That wouldn't be expected. You would expect a firm of $1 billion in assets to grow potentially slower than a firm of $10 million in assets.

But that's not the case. And the reason is that a larger firm has more institutional process to growth. They have a business-development strategy actually in place. So as they're developing advisers, putting them out in the market, the advisers know what they're saying. They know — there's already a brand that precedes them in the marketplace. The communication from the marketing perspective is already out there. They also have a team that supports them.

That's just one example to the extreme. But as we aspire in our growth, aspiring to make the firm institutionalized in its approach is what gives us the benefit. There's an expansion of capacity because of how we work together.

Size does somewhat matter. Again, from that perspective of firms as they get larger, they have more specific processes, more consistently executed, which means there's more management. Probably the headache if you're an ensemble thinking about that is, man, that's a lot to manage.

And we also see that there are more compensated CEOs in a super-ensemble or enterprise ensemble because that management has value. Being a CEO pays for itself in terms of how we can expand the productivity of the firm, how it could find acquisition or merger targets. So management does have value.

Mr. Bruno: Tom, we saw this year there was some correlation between firms that had very definite career tracks and firms that were the most productive, a very compelling finding. Is there something specific that you would point to when we're looking at ways to improve productivity?

Mr. Kindle: The hiring of the chief operating officer. That role, it often, from a governance structure standpoint, you can bring somebody into the COO role, but often there's not an opportunity for them to become owners of the firm.

"People want to be on a team. They want to contribute to a team."

Brandon Odell, The Ensemble Practice

In fact, the *InvestmentNews* data backs this up. Only 43% of COOs are actually owners of the firm. But I see this as a next wave of — these firms are going to figure out how to get that ownership interest from a governance standpoint at the COO level.

Mr. Bruno: Brandon, is there a takeaway you would like to offer?

Mr. Odell: The ultimate goal of compensation is to have a tool that incentivizes, motivates individuals within our firm to perform a task in the way that we find to be beneficial to the growth of our organizations. So we're trying to motivate people. We're all people. So we need to just understand that there are multiple facets that go in beyond just compensation and to motivating our people.

Our culture matters. People want to be on a team. They want to contribute to a team. Let's give them opportunities to be on a team.

And we need to manage them. Some data you'll find in the study this year is firms that are actively managing the client servicing, the business developing, the leadership growth within their individuals, they're actively investing in their people, there's a hunger for that.

And we have our compensation, which should complement — the culture should complement, the management should complement the career track we've set forth for someone. Too often, compensation is done as the leading driver of motivation. It's done without too much consideration to how it messages and impacts the individual.

Mr. Bruno: Tom, what's your kind of key takeaway and closing statement from this year's competition and staffing study?

Mr. Kindle: I would just say this. Can your people answer the question, if I do more of x, I'll be rewarded with y? Fill in the blank. Tie your performance management to your incentive compensation approach. Those two areas, I'd start with that.

And lastly I would just say, pick ratios, productivity, profitability ratios that you can measure over time. Look at the trends over a five-year period. Benchmark against yourself. Use that as a management tool, not as a scorecard. And I wish you luck in that endeavor.

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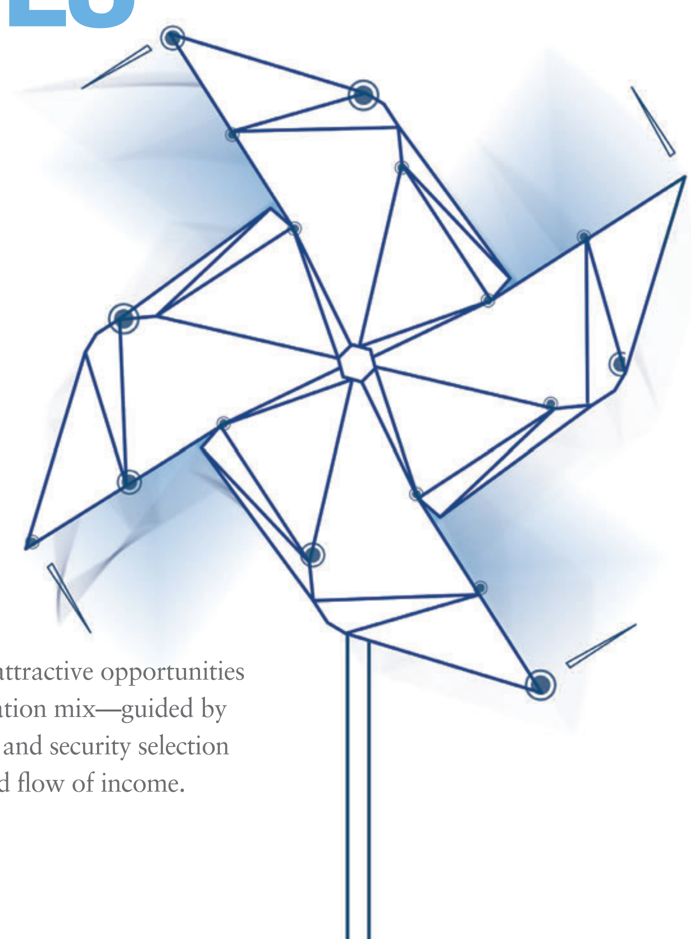

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Advice for the millennials as they forge financial lives

Habits developed in 20s and 30s guide future success

Millennials have presented quite a challenge to wealth managers who are trying to bring this crowd aboard.

In my experience, many of them have an inherent skepticism about financial professionals that comes from living through one of the worst financial crises in history. It takes a carefully crafted message to overcome that apprehension — one that specifically targets their individual needs and sparks the key synapse that incites action toward a plan for achieving financial independence.

The decisions and habits developed by young professionals in their 20s and early 30s are arguably the most critical to accomplishing their financial goals in the long run. How they choose to act regarding investing for retirement and paying down debt has the most profound effect, as the benefits and detriments are amplified by decades of compounding.

PUT YOURSELF IN THEIR SHOES

When I speak with young clients and prospects, I try to put myself in their shoes. What would I want to hear at that age? What would I have done differently? If I could hop in the DeLorean and go back in time, here's what I would tell my 25-year-old self.

Find your calling. Talk to someone in their 60s and ask how many times they've changed careers. Finding your true calling takes time and likely won't happen right out of college. I've been in the financial services industry for 25 years, but finding my passion didn't happen overnight. It wasn't until I was in my 40s that I realized I wanted to be a financial adviser.

Finding your calling can't be forced, so don't stress over it. You can't just flip a switch and figure out what career suits you best. Immerse yourself in the tasks that accentuate your skills and bring you joy. Over time, you'll find the sweet spot, a career that strikes the perfect balance: one that thrives on your abilities and interests but also supports a financially independent lifestyle.

Think about reaching financial independence. Don't think of retirement as the finish line. If your goal in life is reaching a level of wealth that allows you to quit working, you're missing the point. If you've found your calling and your health permits you to continue to work, then why quit? You don't need to stop what you're doing just because you've reached the "normal retirement age." I happen to be 65, an age society considers on the verge of retirement, but I have no plans to hang it up anytime soon.

Instead, strive to reach financial independence: having enough personal wealth to sustain a comfortable lifestyle without having to work. It doesn't matter how old you are, or how much you make. Financial independence means being able to generate enough wealth to cover your expenses without relying on income from your job.

Live within reason and develop a budget. Part of making financial independence attainable is setting limitations on your spending and accepting that you don't need an excessive lifestyle to live a happy life.

It's not the end of the world if you don't meet your numbers every month. It's important that you and your family develop and live with the awareness of what things cost. The very act of developing a budget (and regularly reviewing it) will give you a good understanding of what you are spending money on and where you can afford to cut back.

Start an emergency fund. Most financial planners will recommend that you reserve between three and six months of your income in the bank. If you are self-employed, you likely will require more than six months of income. The idea here is liquidity; that is, immediate accessibility, not rate of return. It's the money you can get your hands on by walking into a bank or visiting the ATM.

Take advantage of your employer's retirement plan. Maximize your employer match if there is one, otherwise you're leaving the employer's money in their pockets, not yours. The compounding you achieve by investing at a young age is incredibly important. The dollar you invest today is far more important than the dollar you invest 20 or even 10 years from today.

If your employer does not offer a plan, start your own individual retirement account. Some enable

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you to invest as little as $50 per month. As your income grows, set aside a portion of each raise to put toward increasing the periodic investments.

If your income affords it, contribute to both traditional and Roth retirement accounts. The federal government could someday change the tax treatment of various retirement accounts. It's smart to diversify into both traditional and Roth accounts and adjust your contributions according to the current tax law.

Reduce debt. Unfortunately, many millennials are burdened with enormous debt from student loans. Just as a dollar saved for retirement is amplified down the road, an extra dollar of debt paid off today makes a huge difference many years from now. The same is true for consumer debt, like credit cards. Try to live on less for a short time so that you can expand your lifestyle later. This delayed gratification also helps foster the mindset of financial independence.

Buy insurance. It's smart to buy more life insurance coverage when you're young and it's cheap. By purchasing insurance when you are young, you can lock in your best health classification for as long as you own the policy. Buy more than you think you will need. As you get older, you'll want to make sure large items like a mortgage and children's tuitions are covered. You'll save in

IF YOUR goal is reaching a high level of wealth so you can quit work, you're missing the point.

the long run if you lock in that coverage at a lower rate.

Buy disability insurance as well. Twenty years down the road, you likely won't be the professional athlete you are today. Throughout your working years, the chances of becoming disabled are greater than your chances of dying.

HINDSIGHT IS 20/20

Hindsight is 20/20, of course, and if I'm honest, I'm not sure that my 25-year-old self would've taken all this advice to heart. At that age, the things that trigger many individuals to put these tactics into practice — like buying a house or having children — may still seem far off, and the concepts of disability and death farther still.

It's our job as wealth managers to help millennials understand the importance of all these things. I try to start small and make it as easy as possible by putting automatic processes into place.

I also encourage them to speak to retired family members about the income sources that sustain them. Often when they do, they will quickly see that many of the old strategies, like employer-sponsored pensions, will no longer be available to them, making it more important than ever to get on the right path at an early age.

David Mirabito is a financial professional with the MetLife Premier Client Group.

New Google tool helps you answer emails

Smart Reply analyzes emails and suggests three short responses

Too busy or tired to answer your emails? If you have a gmail account, Google will do it for you. The new functionality, Smart Reply, will be available as part of its "Inbox" app on Google Play and the App Store.

So what, exactly, is Smart Reply? In ultimate Big Brother fashion, Google will analyze your emails — both inbound and outbound. Then, when an email comes in, Smart Reply will offer you three short responses. You simply tap on one of them to reply. If you need a more in-depth response, according to gmail blogspot, Smart Reply "gives you a jumpstart so you can respond right away."

The responses are generated through artificial intelligence, not preset phrases like those you set up on your smart phone (for example, "omw" turning into "On my way!"). The blogspot provides this illustration of Smart Reply:

Inbound email:

Hi Peter,

Do you have any documentation for how to use the new software? If not maybe you could put something together; it would be really useful for onboarding.

EJ

Suggested replies:

I don't, sorry.

I will have to look for it.

I'll send it to you.

Will this new tool save enough time to make up for the potential issues with exposure of your emails? Is this merely one step forward from an away message on your voicemail or auto-response on your email? Or is it a step toward enhancing the ability of robo-advisers to eventually replace us mere humans?

Sheryl Rowling is the chief executive of Total Rebalance Expert and principal at Rowling & Associates. She considers herself a non-techie user of technology.

903

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asset manager perspectives

an executive Q&A with

JONATHAN THOMAS
PRESIDENT & CEO

American Century Investments®

The Unique Way American Century Investments® Impacts Lifesaving Research

Some asset management companies offer investments guided by socially responsible/sustainable principles. Others make admirable philanthropic contributions. But no money manager is quite like American Century Investments, which supports some of the world's most advanced biomedical research through its unique ownership structure. Recently, the InvestmentNews Content Strategy Studio sat down with Jonathan Thomas, President and CEO of American Century Investments, to discuss how the firm — and the investors in its funds — are creating breakthroughs that are saving people's lives.

InvestmentNews Content Strategy Studio: In terms of its ownership structure and goals, American Century is probably one of the most unusual asset management firms in the country. Explain how it works and the connection to medical research.

Jonathan Thomas: Our late founder, Jim Stowers Jr., was a true visionary. He and his wife, Virginia, in an unparalleled act of generosity in 2000, transferred their equity stake in American Century to an endowment that supports the Stowers Institute for Medical Research (SIMR), a nonprofit, basic biomedical research organization in Kansas City, Mo., that the Stowerses created to focus on basic biomedical research. The Institute, which supports 20 independent research programs and employs a staff of 550, including 370 scientists, is dedicated to improving human health by studying the fundamental processes of life.

The Institute is the controlling owner of American Century, and over the years, more than 40% of our profits have been distributed to the Institute's endowment in the form of dividends. Since 2000, dividend payments to the Institute have exceeded $1.1 billion. To be clear, this isn't corporate philanthropy; it's an ownership mechanism for distributing profits based on Jim and Virginia's original philanthropic gift that is hardwired into our business model.

InvestmentNews CSS: The Institute is an independent entity and not part of a hospital or a university. Is there any other institution in the country like it?

JT: We don't think so. Legally, it's a Medical Research Organization. Three big things distinguish SIMR from other research centers. First, Stowers is supported about 90% through the endowment and about 10% from grants; the mix at the typical research institution is just the opposite. Without having to spend their time writing and submitting grant proposals, our researchers are able to pursue questions that have long-term payout.

Second, the Institute spends about one-third of its scientific budget on technology, which also is unusual, allowing researchers to use the latest equipment to its full extent to address important biomedical questions.

Third, breakthrough ideas from the Institute are turned over to a for-profit company that Jim and Virginia Stowers created called BioMed Valley Discoveries (BVD), which ventures into areas usually considered too early, too unconventional or too unprofitable for traditional biotech or pharmaceutical companies. BVD also receives funding from the endowment and returns any profits to the endowment.

InvestmentNews CSS: Have SIMR and BVD produced any biomedical breakthroughs thus far?

JT: There have been several, and two coming through the BVD pipeline are very exciting. One is something called C. novyi-NT, which is an engineered bacteria injected into solid cancers that eats away at tumors from the inside with minimal damage to healthy tissue. In fact, once the bacterium runs out of cancer tissue to consume, it stops growing and becomes inactivated. The second drug, BVD-523, targets a specific genetic vulnerability frequently found in melanoma, pancreatic cancer and certain colon and lung cancers.

"Since 2000, dividend payments to the Institute have exceeded $1.1 billion."

InvestmentNews CSS: The Institute is producing stunning achievements now, but what was the reaction when Mr. Stowers said he was going to create a world-class biomedical research center?

JT: People were surprised by a variety of things. From everything I've read and from everybody I've talked to, since I wasn't here

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when he made the original gift, the most astonishing thing was that he did it in Kansas City. Setting up a world-class medical research organization in the Midwest was considered unachievable by many people in academia and science. But, Mr. Stowers was determined to do it in K.C. because his family roots extend back to the founding of the city 200 years ago. What has happened, of course, is that the Institute has been able to recruit top-notch scientists from leading institutions around the world.

Second, not only did he give a huge amount of money to the Institute — he gave almost all of his money. The percentage is never disclosed, but it's safe to say that nearly all of his assets were put into this. And he decided to do it while he was alive so he could set everything in motion and watch the work being performed. Today, everyone in the scientific community is very familiar with the name.

InvestmentNews CSS: Since the Stowers Institute is doing such great work, why isn't it better known among the public?

JT: The chief reason goes back to funding; one of the reasons other organizations are more prominent is because they need the awareness in order to raise money for research. Because of our unique model, SIMR doesn't have to do that. But the model is also part of the challenge. It's so unusual that it doesn't lend itself to a quick conversation; you can't boil it down to an elevator speech. And if you do give a quick explanation, one of two things happen.

First, people make a broad generalization and equate you to something they already know, even though there is really nothing else like us. Or, second, they wonder if there's some kind of a catch. The whole thing sounds too good to be true. But there is no catch. It is literally just about Mr. Stowers wanting to do the right thing and a gift that set it all in motion many years ago.

InvestmentNews CSS: Why do you want advisors and their clients to know what you're doing?

JT: We want to share the story of the Stowers because when people do business with American Century, they really are making a difference in the lives of their children, their children's children and the world at large, which is the way we define impact investing.

There are thousands of choices in the asset management space and many great firms with well-performing investments. Who should you do business with? When performance is comparable, we often find that the impact dimension of who we are serves as a tiebreaker. People want to do business with us because they understand that our profitability results in dividends that are used in a unique and unusually good way.

InvestmentNews CSS: How committed is American Century to continue funding scientific research and the Institute?

JT: Your question implies that continuing funding for scientific research is discretionary, but, in fact, the support is an unalterable consequence of our ownership structure. The Institute is the controlling owner of American Century and receives dividends as a result. The Institute's ownership and control ensure long-lasting support. Both organizations are in this for the long run.

Actually, all our constituents are in alignment in terms of their long-time horizons: the Institute, the investors who entrust us with their assets, and all of our portfolio managers, who are measured on a long-term basis. As a result, we don't face the quarterly or annual pressures that a typical asset manager does. Running the business for the long term, we can invest and reinvest in the best interests of our clients. Our unique business model and its funding of the Stowers Institute not only is working to make life better for everyone through research, we believe it also frees us to do a better job for our investors. And from management's perspective, that's a real gift.

InvestmentNews CSS: Where can people go to get more information about your unique business model?

JT: We have a special landing page at www.americancentury.com/purpose

This is a sponsored special feature, developed by the InvestmentNews Content Strategy Studio, and supported by American Century Investments.

PRACTICE MANAGEMENT
Joni Youngwirth

Solo adviser or ensemble practice?

Choosing the right model depends on your assessment of the benefits and drawbacks of each

Solo advisers make up over half the industry — and are likely here to stay. Still, their ranks are shrinking while those at ensemble firms grow. Why? For one, it's difficult to start out as a solo adviser in today's industry. Next-Gen advisers, especially, see value in joining a firm that offers professional development, established procedures and protocols, and a known brand among clients and prospects.

So, how do you know if being a solo adviser or being part of an ensemble is the right decision for you?

To help answer this question, let's take a closer look at how the benefits of practicing solo compare with those of joining an ensemble.

BENEFITS OF BEING SOLO

Being a solo adviser certainly has its perks. Solo entrepreneurs have control. They generally like to call the shots on everything from investment products to the type of coffee served in the office. In fact, those who have been solo practitioners for years may find it hard to embrace the compromise required of ensemble advisers.

Solo advisers can retain a high percentage of revenue. It's interesting to overhear the conversation between ensemble advisers and solo advisers when profitability and margin come up. Solos often run lean and mean. As a result, the quality of their marketing events, office space, website design and so forth might not match that at larger ensembles — but these are costs the solo adviser proudly does without.

For archived columns, go to InvestmentNews.com/practicemanagement

Solo advisers may avoid pressure. Some solo advisers maintain a more laissez-faire attitude in leading their laid-back-lifestyle practices. After all, they might not feel the pressure to keep up with other advisers within a firm in production, investment performance or even golf game. The pressure they may feel, however, is that of self-imposed expectations.

ENSEMBLE'S PROS

Of course, ensembles have benefits, too.

Ensembles provide the opportunity for economies of scale. Because they promote the services they provide on behalf of all advisers in the firm, ensembles may have a cost advantage. Data to support the economy-of-scale logic, however, are somewhat mixed. A key variable in determining its effectiveness is size. For example, depending on firm size, ensembles may have significant expenses for marketing and branding efforts, upgrading the look and feel of the firm, or hiring staff such as middle management to oversee human resources and coordinate professional development.

Ensembles offer a collegial environment. Many solos agree that it can be lonely out there. An ensemble, on the other hand, has the benefit of a team of advisers with whom to share thoughts and ideas about portfolios, client challenges and management issues.

IT'S DIFFICULT to start out as a solo adviser in today's industry.

Ensembles typically allow for internal succession. Many advisers hope to establish a legacy, and some solos turn to the ensemble practice as a pathway to this legacy. But is this a misguided decision? After all, the founder of an ensemble doesn't need to be gone long before the firm name changes, the original services and standards are augmented, and once-beloved small clients are pruned. The truth is that everyone leaves a legacy. It's less about the name on the door and more about the quality of relationships that endure.

One point to keep in mind, however, is that as advisers age, so do their clients. Boomer clients may ask their solo adviser, "What happens to us and our money if something happens to you?" But the ensemble firm is set up to meet the challenges of an aging clientele.

ALL ABOUT THE CLIENTS

The trend toward forming ensemble firms can't be denied, but it's not for everyone. Of course, options should be weighed and the pros and cons assessed. But in the end, it's about your clients and what they want and need. Although one client may be comfortable and feel special with a solo practitioner, another might prefer the security of an established firm.

So, when deciding between practicing as a solo or being part of an ensemble, perform the due diligence required of such a decision. It will help ensure that your selected path is right for you — and your clients.

Joni Youngwirth is managing principal of practice management at Commonwealth Financial Network.

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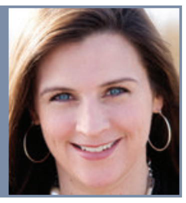

Dealing with difficult people online

Take these steps to maintain your integrity in a social media environment that can get heated

Let's face it: social media has created a wealth of opportunities for all of us in financial services — along with a handful of potential pitfalls. With social media users hidden behind a computer screen, it seems people are far more empowered and eager to share their opinions and thoughts online than they ever would be in person. Most of the time visitors to our pages are nice and engage in great conversations. Occasionally, though, they are not.

While some firms have eliminated this from ever becoming an issue by not allowing visitors to post on their page, other firms do allow posts by site visitors in order to facilitate conversations with their clients and prospects. Any time you open yourself up to a conversation, there is always a chance for some negative comments to come out. Whether it is a typical client complaint, or someone disagreeing with a post you made or an article you posted, at some point someone will not agree with you. Don't get me wrong; engaging in conversation with your followers, clients and prospects is always good — just be sure that you know how to manage those conversations that are less than ideal.

YOUR PAGE should state that any vulgar or offensive comments will be deleted.

If it hasn't happened to you yet, there will come a time when a client gets upset, a disgruntled former employee or colleague decides to make a less-than-favorable post, or a random visitor to your page decides to give his or her two cents worth in the form of a not-so-nice post or comment. You could also find yourself victim to a troll who decides to fill your wall with spam or other nonsense.

Let's deal with the complainers and the haters first. When someone posts something negative on your page or post, here are the steps to take.

ACKNOWLEDGE CONCERNS

When people complain, it is important to remember, first and foremost, they primarily want to be heard. Publicly acknowledging their concern will let them and your followers know that you care and that you want to solve the problem. (Note: You will want to check your firm's compliance guidelines to determine what may need to be reported, or what steps you need to take if the post is determined to be an actual complaint.)

Don't respond without thinking. One of the benefits of being online, as opposed to being face to face with someone, is that you can take time to think through things before you respond. Be sure to respond with kindness and a genuine desire to address the concern.

Take the conversation offline. This is particularly important for advisers, as we typically deal with very sensitive information. In the interest of confidentiality, let posters know publicly that you will contact them directly to further discuss their concerns and to ensure they remain happy with you and your firm.

BE HONEST, TRANSPARENT

No one is perfect. We all make mistakes. It is OK for others to see that. Don't delete the negative comments; it will look as if you are trying to hide something. Instead, let followers see you are trying to resolve any concern there may be. Being authentic and real always will trump hiding the truth.

For archived columns, go to InvestmentNews.com/onsocialmedia

In terms of the other category of people — the spammers and the rude ones, the answer is quite simple: Delete their spam/post and block them. If a visitor to your site who you do not know is attempting to sell something or to offer a service, get rid of them. If someone posts crude, offensive or vulgar comments, delete their posts. It will help to have a paragraph on your page that simply states that any promotional materials, spam and vulgar or offensive material will be deleted from the page, so that others understand that such comments or posts will not be tolerated.

My hope is that you never need to use any of these tips — that all of your social media followers are happy all the time, and continually engage in thought-provoking and insightful dialogue on your page. But if the day does come that you need these tips, follow them to ensure you stay on track and maintain an informative, insightful and engaging page.

Kristin Andree (kristin@andreemedia.com) is president of Andree Media & Consulting.

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As BRICs crack, Goldman shuts down losing fund

Manager that coined the acronym merges 9-year-old product

Bloomberg News

The BRIC era is coming to an end at Goldman Sachs Group Inc.

The bank's asset-management unit folded its money-losing BRIC fund, which invests in Brazil, Russia, India and China, and merged it last month with a broader emerging-markets fund. Goldman Sachs pulled the plug on the nine-year-old product because it doesn't expect "significant asset growth in the foreseeable future," according to a filing with the Securities and Exchange Commission.

Fourteen years after former Goldman Sachs economist Jim O'Neill coined the acronym that ushered in an unprecedented investment boom, the biggest emerging markets are now sputtering. Russia and Brazil have fallen into recessions. China, long an engine of the world's growth, is poised for its weakest expansion since 1990.

The downfall of the BRIC fund, which had lost 88% of its assets since a 2010 peak, also underscores how the strategy of bundling disparate countries into a single investment theme is losing its appeal among investors.

"The promise of BRIC's rapid and sustainable growth has been challenged very much for the last five years or so," said Jorge Mariscal, the chief investment officer of emerging markets at UBS Wealth Management, which oversees about $1 trillion. "The BRIC concept was popular. But nothing is eternal."

The BRIC fund is being swallowed up by the Emerging Markets Equity Fund as part of Goldman Sachs's efforts to "optimize" its assets and "eliminate overlapping products," the bank said in the Sept. 17 filing.

88%
Percentage of assets the fund has lost since 2010 peak

FUND MERGER

Instead of liquidating the fund, Goldman Sachs opted for the merger because it will give investors access to "a more diversified universe" of developing nations. The bank pointed out that the emerging-markets fund has outperformed in the one-, three- and five-year periods.

The BRIC fund lost 21% in the five-year period through Oct. 23, the last trading day before the merger. Its assets declined to $98 million at the end of September after peaking at $842 million in 2010, according to data compiled by Bloomberg.

"Over the last decade emerging market investing has evolved from being tactical and opportunistic to being a strategic part of most asset allocations," said Andrew Williams, a spokesman for Goldman Sachs. "We continue to recommend that our clients have exposure to emerging markets across asset classes as part of their strategic asset allocation."

Mr. O'Neill, who stepped down as the chairman of Goldman Sachs Asset Management in 2013 and became commercial secretary to the U.K. Treasury in May, declined to comment.

BRIC POWER

In the decade following the creation of the BRIC moniker, the group surged as a global economic power, amassing 40% of the world's foreign reserves. MSCI Inc.'s BRIC Index returned 308% in the 10 years through 2010, compared with a 15% gain in the Standard & Poor's 500.

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While the four countries still account for more than one-fifth of the global economy, their growth prospects have dimmed. In a December 2011 report, Dominic Wilson, then chief markets economist at Goldman Sachs, said the economic potential for BRICs probably peaked because of a smaller supply of new workers.

The predicament has become even more striking this year. Brazil is reeling from a corruption scandal and the worst recession in a quarter century, while Russian companies are locked out of global capital markets because of international sanctions. In China, the government was caught off guard by a stock crash this year that wiped out $5 trillion in market value. Even in India, where growth accelerated, Prime Minister Narendra Modi is struggling to push through reforms.

ERA ENDS

Over the past five years, MSCI's BRIC benchmark has lost 26%, compared with a 92% advance in the S&P 500 and a 16% decline by the emerging-markets benchmark.

"The excitement came from the rapid growth from China," said Anindya Chatterjee, managing director at City National Asset Management Inc. in New York. While China's current shift away from exports and investment leads to a more balanced economy, it also slows its growth, "thus it is not a pretty environment" for emerging-markets investing, he said.

Mr. Chatterjee's $775 million City National Rochdale Emerging Markets Fund has returned about 8% annually over the past three years. It beat 98% of its competitors during the period by shunning companies in Brazil and Russia and focusing on those profiting from Asia's growing middle class, including China's Internet giant Tencent Holdings Ltd.

Investors had withdrawn $1.4 billion from funds investing in BRIC countries this year through Nov. 4, extending the outflow since the end of 2010 to more than $15 billion, according to EPFR Global. That more than unwinds all the inflows since 2005.

STRATEGY FLAWED

The acronym-based investing strategy is flawed and has come under increasing scrutiny, according to Xavier Hovasse, who oversees $2.3 billion in emerging-market assets at Carmignac Gestion. That's because markets are now driven more by country-specific factors than global trends, causing performance to diverge.

"The BRIC acronym didn't make any sense in the first place because you just randomly group four countries which are completely different," Mr. Hovasse said. "If you restrict your investment universe too much, it's more difficult to perform. I am not surprised that those funds are collapsing."

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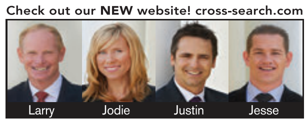

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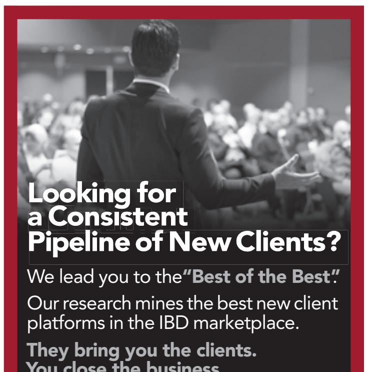

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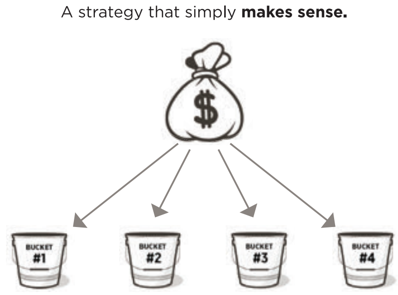

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Social Security software revised

Continued from Page 3

Separately, another rule change will eliminate the ability of spouses and divorced spouses to collect half of their spouses' or ex-spouses' full retirement-age benefit amount when they turn 66 while their own retirement benefits continue to grow by 8% per year up to age 70.

Under the new rules, anyone who is 62 or older by the end of 2015 retains the right to claim spousal benefits when they turn 66. Younger people do not. When they file for benefits, they will be required to collect the highest benefit to which they are entitled, whether on their own earnings record or as a spouse.

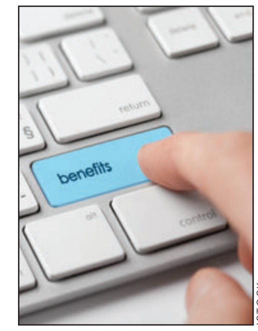
EXPLOSION OF INTEREST

Joe Elsasser, head of Social Security Timing, said he and his team were putting the finishing touches on the software updates even before the president signed the bill into law. He reported an explosion of interest in his website, which includes a video and articles explaining the rule changes.

"People keep asking, 'Is Social Security planning dead?'" Mr. Elsasser said. "In the short run, far from it."

He noted that there will be enormous planning opportunities over the next four years as the new rules are phased in. Even after that, it still will be important to advise clients on the best time to claim Social Security to maximize a couple's lifetime income and survivor benefits, he said.

Heather Vaartjes, chief operating office of Impact Technologies Group, which developed Social Security Pro, said the company updated its software within three days of the legislation's passage and added language to its reports and action plans to explain the time constraints for special filing provisions to those still eligible.



ISTOCK

"With the elimination of the special Social Security filing strategies for most people, it's more important than ever to ensure taxes on benefits are minimized and cash flow maximized," Ms. Vaartjes said.

Dinesh Sharma, head of Omyen Corp., a technology company that produces Social Security Maximizer, recommends that advisers rerun their Social Security plans using the updated software and discuss potential shortfalls the changes may have caused in clients' retirement plans.

"No doubt, it will be a difficult conversation for many clients as it may mean the elimination of $100,000 or more in benefits for some couples," Mr. Sharma said.

At the other extreme, Maximize My Social Security, a planning website run by Boston University professor and author Laurence Kotlikoff, says its software should be updated by today. It warns subscribers not to make any claiming decisions until then.

Social Security Choices, a relatively new program that provides technical advice for the Social Security Advisors network, has not yet updated its software. "We are no longer providing reports for divorced individuals or married couples," founding partner Jeff Miller wrote in an email.

"We are still providing reports for single people and widow(er)s since they are not affected by the changes," he wrote. "We are working diligently to revise our software, but we have not set a date for when we will provide reports again."

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

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Mary Beth Franklin is a certified financial planner.

SEC warns on outsourced compliance

Continued from Page 3

cies and procedures to mitigate or address the risks."

Chip Arvantides, executive vice president of FrontLine Compliance, whose firm creates customized compliance programs but does not act as CCO on an outsourced basis, said the function is best housed inside an advisory operation with the backing of the firm's leadership.

'VERY STRONG MESSAGE'

"They have to have the ability to effect change and work directly with senior management to do that," he said. "This is a very strong message to firms that they need to be wary of outsourced CCOs. Firms need to take the time to understand what the CCO role should be."

The SEC also criticized outsourced CCOs' use of "standardized checklists" to obtain information from advisory firms, and advisory firms' use of outsourced compliance templates that were not tailored specifically to the firm.

A consulting firm that provides compliance services welcomed the standards the SEC outlined in its risk alert.

> "FIRMS NEED to take the time to understand what the CCO role should be."
>
> **Chip Arvantides**
> Executive vice president
> FrontLine Compliance

"We don't think you can execute compliance without a lot of face-to-face communication," said Todd Cipperman, principal at Cipperman Compliance Services. "You can't run compliance with a template and form documents."

Mr. Cipperman said his firm avoids clients that simply want to sign away compliance responsibilities.

"We've been engaged with firms that have not bought into those kinds of [SEC] criteria, and we have resigned," he said.

The SEC relies on compliance officers to enforce securities laws and regulations, Andrew Ceresney, the agency's enforcement director, said.

"We will do all we can to help you perform your work," Mr. Ceresney said Nov. 4 in a speech to the National Society of Compliance Professionals in Washington. "I do not want you to be concerned that by engaging in good-faith judgments, you will somehow be exposed to liability."

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White: SEC focused on fiduciary

Continued from Page 2

allow adviser examinations by third-party organizations.

In a meeting with reporters on the sidelines of the conference, Ms. White said the agency is further ahead on the exam rule than the fiduciary rule, but "it's going to take time to do them right."

An advocate for the DOL rule said the agency should proceed independently, in part because of the timing of an SEC rule.

"Nothing that Chair White said today provides any justification for the DOL's delaying or reconsidering its efforts," said Barbara Roper, director of investor protection at the Consumer Federation of America. "They need to finalize the rule."

MORE EXPENSIVE ADVICE

But Mr. Hammerman said Ms. White's comments highlight the threat that a flawed fiduciary rule could make retirement advice more expensive.

"She has a solid command of the complexity of the issue [and] why it's important to get it right," he said. "Part of getting it right means preserving financial advice to investors at reasonable price points."

Ms. Roper said current advice rules are more dangerous.

"What about the unintended consequences of nonfiduciary advice, which investors have been living with for decades, as the SEC stands by and does nothing?" Ms. Roper said.

Investment advisers currently must meet a best-interests, or fiduciary, standard, while brokers are subject to a less-stringent suitability rule when selling investment products.

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Using the IRR might send clients' nest eggs to the ER

Rising health care costs can foil a popular gauge of retiree income needs

By Greg Iacurci

Ballooning health care costs mean more retirement nest eggs may be at risk, and a common retirement-savings metric may be luring Americans into a false sense of security.

The so-called "income replacement ratio," or IRR, is a broadly used benchmark for determining whether individuals' assets will last throughout their retirement years.

The rule of thumb typically says that retirees who have about 75% to 85% of their pre-retirement income per year will be able to have a lifestyle in retirement that's equivalent to that during their working years.

However, using that figure to gauge income needs in retirement doesn't work when it comes to health care, according to a new study by HealthView Services Inc., a provider of health care planning tools for advisers.

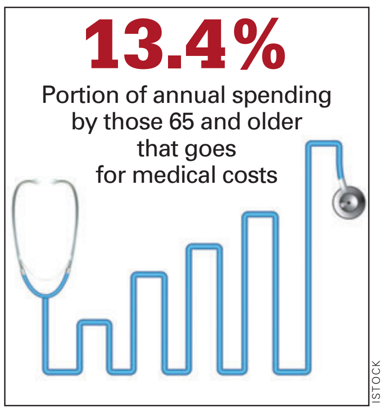
"Health care is the biggest question mark," said Scot Hanson, financial adviser at EFS Advisors. "It's usually going to be whatever [clients] estimated was too low."

NOT TAILOR-MADE

The report, "Retirement Health Care Costs and Income Replacement Ratios," contends the IRR provides advisers with a streamlined way of gauging clients' retirement readiness, but fails to appropriately tailor a financial plan to clients in a detailed, comprehensive way through the inclusion of "individual line-item expenses" such as health costs.

For one, pre-retirement health expenses can't be used to predict those expenses in retirement, because expenditures are very different, the report argues. For example, working Americans pay approximately 25% of their health costs — group insurance premiums — with employers paying the rest, but retirees are responsible for almost 100% of such costs.

Further, the pace of inflation in the U.S. health care sector far outstrips that of the inflation assumption used in typical income-replacement models. HealthView projects health care inflation, including Medicare Part B, will grow an average 6% annually for the next decade, while IRRs traditionally assume household expenses with a rate of around 2.5% or 3%.



David Edwards, president of Heron Financial Group, said he starts with a 100% income-replacement goal with clients, rather than 80%. He uses a dynamic approach: The 100% target could change as new information or situations arise that affect a client's financial plan.

Eighty percent could ultimately be the magic number, depending on the client, Mr. Edwards added.

"All of these prescriptions about what is a good target income rate, sustainable withdrawal rate, are nice rules of thumb to start with, and then you have to actually get into the weeds and figure it out," Mr. Edwards said. "The financial planning process isn't a map set in stone. It's like a GPS. 'Based on what you told us, this is the route to your destination.'" And if something changes, then the route changes accordingly.

Medical costs are the third-highest expenditure for those 65 and older, averaging 13.4% of annual spending. For those 45 to 54, on the other hand, medical expenses are the fifth-largest expenditure, averaging 6.8% of annual outlays.

Mr. Edwards aims for 100% income replacement initially with clients because while the medical portion of expenses is higher, many other expenses are lower — mortgages are usually paid off, the tax bill is generally lower and clients don't spend as much money on items such as clothing and furniture, for example. The "mix" of expenditures changes, but the overall level of income needed remains fairly level in retirement.

Too often, people underestimate how much they'll need in retirement, said John McManus, founder of McManus & Associates.

"We're not seeing advisers thinking through enough [on medical cost] and adding that to the cost of retirement," Mr. McManus said.

"You're not wrong by being liberal in your [retirement] calculations," he added. "The worst thing that happens if you've been too liberal is you have more money, and you're not feeling like your tank is on empty."

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ETF, long a money pit, lures cash

Bloomberg News

Here we go again.

Interest in the most popular exchange-traded fund that's used to bet on increasing U.S. interest rates is rising again as investors speculate that the Federal Reserve may embark, as early as next month, on its first hiking cycle in almost a decade.

The ProShares UltraShort 20+ Year Treasury (TBT), which uses derivatives to provide twice the opposite of the daily performance of 20-year Treasury bonds, has become the way many investors bet on rising rates. TBT has a 94% correlation to Treasury yields. In short, if yields go up, as they would be expected to in a rising rate environment, TBT would go up by double.

SIREN SONG

This seductive dynamic is also why no ETF has incinerated more investor cash than the ProShares UltraShort 20+ Year Treasury, which has seen nearly $10 billion worth of inflows in its life but has only $2.8 billion to show for it today. Like the Sirens from Homer's Odyssey, TBT has lured countless investors with its sweet song of huge profits when interest rates rise, only to dash them against the rocks repeatedly as rising interest rates failed to materialize.

This interest rate fake-out is why you see TBT's minus-84% performance as well as its consistent quarterly inflows. This rare phenomenon of an ETF obliterating cash can also be found in exchange-traded products tracking gold miners, the CBOE Volatility Index, natural gas and Russia, albeit on a smaller scale.

> "IT TAKES MORE than just one fed fund rate raise to allow this trade to unfold."
>
> **Sharon Snow**
> Portfolio manager
> Metropolitan Capital Strategies

This year, flows into TBT have died down as once (or twice) bitten, extremely shy investors stayed on the sidelines. Most recently, the Federal Reserve came out on Oct. 28 and left the door open for a rate hike. This was followed by a blockbuster jobs report, which revived market bets that the central bank will move to raise rates next month. Since then, TBT is up 8%. That swift and stark spike is one reason why this ETF has been so seductive; if it goes up 8% in two weeks on the mere thought of a Fed rate hike, imagine what it would do if we actually enter the prolonged period of rising rates many are expecting?

"We think TBT could be our best trade ever, when it occurs," says Sharon Snow, a portfolio manager at Metropolitan Capital Strategies and user of leveraged ETFs.

But for her, the trade isn't ready yet.

"It takes more than just one fed fund rate raise to allow this trade to unfold," she said. "We are looking at a longer-term time frame when the U.S. economy really takes off, which means three quarters of GDP between 3.3 [percent and] 3.7% with an indication of multiple of interest rate increases."

Beyond the tactical play of using TBT simply to bet on rising rates, many investors have used the ETF as a duration killer for their portfolio.

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TECH CONNECT

MoneyGuidePro, eMoney will let clients input data

Next year's launches will boost customer collaboration in planning

By Alessandra Malito

MoneyGuidePro and eMoney, two giants in the financial planning software market, are changing the way advisers work with their clients — by getting clients more involved in data entry.

MoneyGuidePro plans to launch its fourth-generation platform next year, in which clients input their own information and goals, while eMoney will provide a portal for clients to onboard themselves through advisers' websites. All enhancements are expected in early 2016.

'MORE HOLISTIC PLANNING'

"The industry is realizing the whole value they built around investment advice is changing drastically and now, in order to maintain their value to customers, they will have to add a more holistic planning element," said Bob Curtis, chief executive of PIEtech, Inc., which powers MoneyGuidePro.

And all financial planning will come down to client collaboration, Mr. Curtis said.

"It is the only way we have any chance of delivering the quality of plans," Mr. Curtis said. "It is the way people want to be worked with."

eMoney is also planning to have clients input their personal and financial information themselves. Beginning in 2016, advisers will be able to include a sign-up platform on their websites, where clients can register themselves for a full financial planning experience.

> "YOU NEED to give clients a choice to do business with you the way they want to."
>
> **Drew DiMarino**
> Senior vice president
> eMoney

eMoney also is unbundling its services so advisers can pick and choose what they want to use; a pricing structure is yet to be disclosed.

CHANGING EXPECTATIONS

"Technology is changing clients' expectations," said Drew DiMarino, senior vice president of eMoney. "You need to give clients a choice to do business with you the way they want to do business."

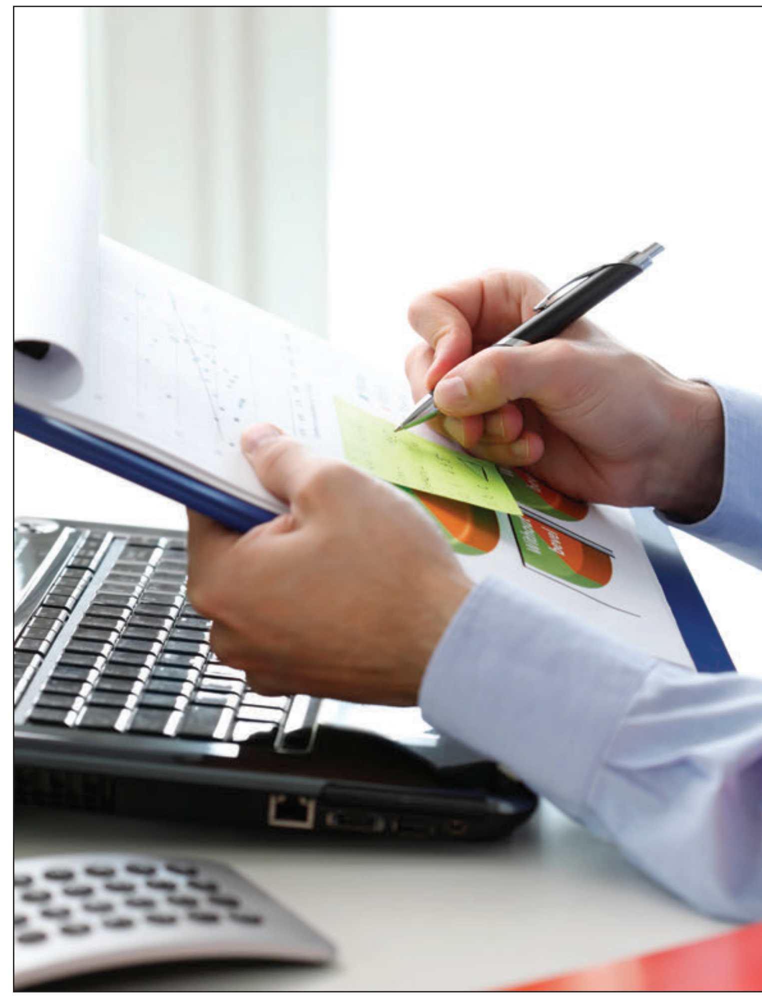
Raef Lee, managing director and head of new services and strategic partnerships for the SEI Advisor Network, said the eMoney model is one many more firms will adopt.

"I do see this as the next big thing," said Mr. Lee, who added that the new service will result in better planning and collaboration.

MOST POPULAR

In the *InvestmentNews* 2015 Most Popular Adviser Software survey, MoneyGuidePro was chosen most often among financial planning software products, used by 25% of the respondents, followed closely by eMoney, with about 24%.

MoneyGuidePro's new portal will allow clients to add their own information, including short- and long-term goals and a list of concerns they may have. The company also announced MoneyGuide Client, used for client prospecting; myMoneyGuide, a new service for client acquisition; and a yet-to-be-announced mobile client portal now referred to by code name "Shrubbery."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Clients "know that they need planning help and they want it, but they have not been given simple means of attaining it," Mr. Curtis said. "We need to change that."

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MetLife unit faces Finra fine

Broker-dealer unit may have misrepresented some VA sales

Bloomberg News

MetLife Inc., the largest U.S. life insurer, said the staff of the Financial Industry Regulatory Authority Inc. has indicated the agency will seek a "significant fine" from the company's broker-dealer unit as part of a probe into possible violations tied to variable annuities.

The company is cooperating in this investigation, MetLife said Nov. 5 in its quarterly regulatory filing.

The probe focuses on potential violations "regarding alleged misrepresentations, suitability, and supervision in connection with sales and replacements of variable annuities and certain riders on such annuities," MetLife said in the filing.

LEGAL COSTS

Finra, the brokerage industry's regulator, is among the government watchdogs seeking to guard against abuses in the sale of retirement and savings products in the U.S. The authority told the insurer Sept. 25 that it would recommend disciplinary action, according to the filing.

"We strongly disagree with the conclusions reached by Finra, and we will defend ourselves vigorously," John Calagna, a spokesman for the insurer, said in an emailed statement. "MetLife is reserved for this matter."

The insurer said in the filing that its estimate for reasonably possible legal costs in excess of reserves was as much as $425 million. That compares with an upper range of $410 million at the end of the second quarter.

DOL spurns bipartisan 'fix' to rule

Continued from Page 4

embark on a closed-door initiative — in partnership with Republican leadership and a select few from Wall Street — that lacks the inclusiveness and thoroughness he and others have called for."

A spokesman for Mr. Neal was not immediately available for comment.

The Labor Department introduced the regulation in April with the strong backing of the White House, which says it is central to its "middle-class economics" agenda.

NEW RULES

The proposal has gone through two comment periods and four days of hearings. A final rule is expected early next year so it can be finalized before the Obama administration leaves office in early 2017.

The administration says that new advice rules for 401(k) and individual retirement accounts are needed to protect workers and retirees from high-fee products that erode their savings.

The financial industry is calling for the DOL to repropose the rule. It says that in its current form the rule would significantly increase liability risk and regulatory costs for brokers, making advice more expensive to give and receive.

In a statement last week, the legislators echoed the industry's concern that the DOL rule would harm investors with small retirement accounts by pricing them out of the advice market.

They were not assuaged by the DOL's repeated assurances that it would modify the rule to address concerns about its complexity that have been raised by Republicans and Democrats.

"We acknowledge the Department of Labor's pledge to change aspects of the regulation before final issuance, but feel more must be done to adequately address concerns about the rule's impact on the ability of low- and middle-class families to save for retirement," the lawmakers said in a joint statement.

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Commonwealth creates CRM

IBD transfers its 3,000 users from Microsoft system to internal platform

By Alessandra Malito

Independent broker-dealer firm Commonwealth Financial Network has created its own client relationship management system that advisers began using last week.

Instead of implementing a CRM by an established third-party vendor, the Waltham, Mass.-based firm decided to transfer its 3,000 users to an internal platform. The new system replaces its previous Microsoft Dynamic system.

The in-house system is integrated with the independent broker-dealer's suite of other services, including client management platform Client360, business dashboard Practice360 and client portal Investor360, and will be available on mobile devices.

"IT REALLY enables them to totally customize the situation."

Lorraine Ell
President
Excellat Consulting

MORE CONTROL

Although there are a plethora of CRM platforms available for advisers, going in-house is a tactic often used by firms that want more control over their systems. Other systems have their own structures and may not be as adaptable.

"It really enables them to totally customize the situation for their specific processes and clients," said Lorraine Ell, president and director of training at Excellat Consulting. It also makes it easier for the firm's advisers to access all of their information.

SIGNIFICANT RESOURCES

A move of this stature takes significant resources, however. Ms. Ell said it involves a lot of time, manpower and money to build such a system, and then transfer all existing information from a previous platform.

"Not only do you figure out the structure of the CRM and all the underlying interconnectedness of the different components, but you have to make sure that dovetails with how you do business," Ms. Ell said.

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Part B premiums going up for 30%

Continued from Page 4

pated that the loan will be paid back over a five-year period by adding a flat-rate $3 monthly surcharge to all of those beneficiaries not held harmless in 2016. In the future, when there is a Social Security COLA, all other beneficiaries will pay a higher base premium and the $3 monthly surcharge as well.

HOLD HARMLESS CHECKLIST

Approximately 30% of current Medicare beneficiaries will not be held harmless. If your clients meet certain criteria they will not be held harmless from the Medicare B premium and IRMAA increases or the flat rate $3 month surcharge. Here is a hold harmless checklist:

- Not collecting Social Security benefits in November and December 2015.
- Not paying Part B premiums as a deduction from Social Security benefits from November 2015 through January 2016.
- Currently paying or will be paying in 2016 a Medicare Part B IRMAA.
- Enrolling in Medicare Part B effective Jan. 1, 2016, or after.

The table below shows the newly released Medicare Part B premiums and IRMAA 2016 payments. Remember that the 2016 Medicare Modified Adjusted Gross Income brackets are based on the tax return two years earlier, which is 2014.

In total, all of those subject to the higher 2016 Medicare Part B monthly cost will see a 16% increase for this one portion of Medicare alone. CMS also announced that the annual deductible for all Part B beneficiaries will be $166 in 2016, a 13% increase over 2015. Part B deductibles are not subject to the hold harmless provision and are therefore paid by all Medicare beneficiaries.

You can help your clients hedge against the impact of this Medicare cost increase and others by guiding them to:

- Shop smart for Medicare Part D prescription drug coverages and Medicare Part C or Advantage plans during annual enrollment going on now through Dec. 7.
- Review and respond to the Social Security annual Medicare Part B IRMAA notice in a timely fashion. Many people qualify for a reduction based on a change in circumstances.
- Consider incorporating tax-free retirement cash flow into their retirement planning strategy.

(Want to get more out of Medicare? Download my ebook at InvestmentNews.com/medicareguide.)

Medicare changes

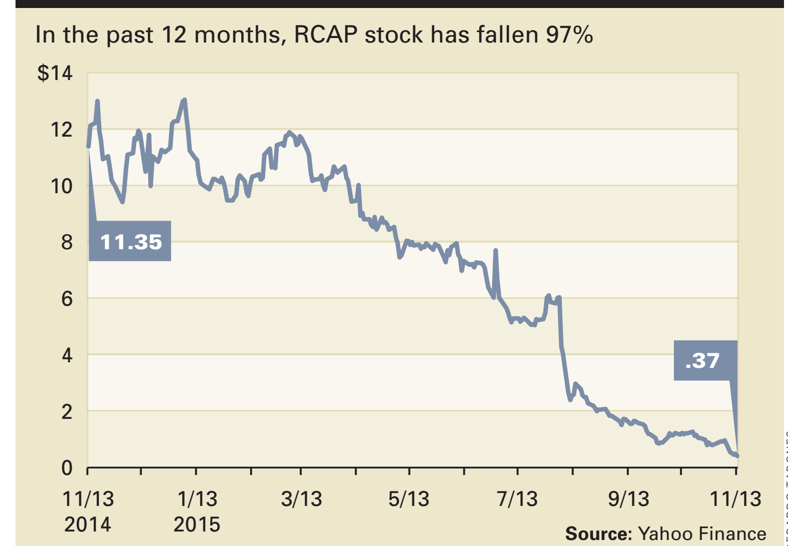
Modified adjusted gross income	Total monthly per beneficiary 2016 Medicare Part B premium + IRMAA*
Individuals $85,000 or less, married couples $170,000 or less	$104.90 (held harmless),** $121.80 (not held harmless)
Individuals $85,001 - $107,000, married couples $170,001 - $214,000	$170.50
Individuals $107,001 - $160,000, married couples $214,001 - $320,000	$243.60
Individuals $160,001 - $214,000, married couples $320,001 - $428,000	$316.70
Individuals above $214,001, married couples above $428,001	$389.80

*IRMAA is income-related monthly adjustment amount. **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 net reduction in their Social Security benefit.

Source: Katy Votava, Goodcare.com

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

RCAP stock price



Schorsch's troubles

Continued from Page 1

Massachusetts Secretary of the Commonwealth William Galvin said agents of RCS impersonated shareholders and cast fake votes for investments sponsored by AR Capital.

Mr. Galvin's office, which oversees the state securities division, has been investigating RCS for a year. It began its inquiry after another company formerly controlled by Mr. Schorsch, American Realty Capital Properties Inc., now Vereit Inc., said in October 2014 it had intentionally left uncorrected accounting misstatements over the first half of 2014.

One of the proxy vote incidents occurred at the June annual meeting of the Business Development Corporation of America and another at its monthly meeting in September. Mr. Schorsch was formerly chairman and chief operating officer of BDCA.

DEAL FALLS APART

The September vote was required in order for Apollo Global Management to buy real estate assets from Mr. Schorsch. In that deal, announced in August, Apollo would have bought a majority stake in AR Capital for $378 million and created a new company. But it fell apart last Monday, three days before the Massachusetts complaint was filed.

Apollo did succeed in buying RCS Capital Securities and other wholesaling operations at a sharply reduced price of just $6 million in cash. That's a far cry from what had been announced in August. RCAP had agreed to sell RCS Capital Securities and other related parts of the company for $25 million in cash.

"THE CETERA ADVISERS are the ones being impacted by what's happening at RCAP, and they had nothing to do with this."

Larry Papike
President
Cross-Search

REVOKE REGISTRATION

Mr. Galvin is seeking to revoke RCS Securities' broker-dealer registration in the state, impose a cease-and-desist order and levy a fine.

Andrew Backman, a spokesman for RCAP and AR Capital, did not return a phone call and email Friday morning to comment for this story.

On Thursday, RCAP issued a statement regarding Mr. Galvin's complaint. "RCS Capital is aware of the Massachusetts Securities Division's investigation and is fully cooperating with all relevant agencies," according to the statement. "RCS Capital has received the complaint and is currently reviewing it. At this time, the company has no further comment."

POSSIBLE DELISTING

Last Thursday was a particularly grueling day for RCAP. Along with Mr. Galvin's complaint, the company said it had earlier received notice from the NYSE that it was in danger of having its stock delisted. The Big Board had notified RCAP that its common stock did not meet NYSE's standards for continued listing. Specifically, RCAP stock had failed to trade above $1 a share for 30 consecutive trading days. RCAP's shares closed last week at 37 cents and were down 97% in the past 12 months.

Also last week, RCAP said it expected to report a third-quarter loss of more than $300 million due to a $331.7 million impairment, or write-down, of goodwill and intangible assets. RCAP's third quarter earnings report is expected to be released today.

Adding to the tumult at RCAP is its attempt to sell Cetera Financial Group. Cetera CEO Larry Roth told advisers last week on a private conference call that the brokerage network has half a dozen potential suitors kicking its tires and will have a new owner or significant private-equity investor by year-end.

"The Cetera advisers are the ones being impacted by what's happening at RCAP, and they had nothing to do with this," said Larry Papike, president of Cross-Search, a recruiting firm.

Margins are thin at Cetera, in the low single digits, Mr. Papike said, and a potential buyer would probably want to see current management cut expenses and integrate the back offices of the dozen or so different broker-dealers under Cetera's roof before making an offer.

"It's going to be very difficult to get somebody to buy it," he said.

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Bond ETFs can help clients' navigate rising rates

Make no mistake: The Fed will raise interest rates. Although the timing of the next Fed move is difficult to pin down, it's not too early to think about what it might do to your clients' bond investments. Nor is it too early to get ready for queries from clients eager to make sure their bond portfolios are properly positioned to ride out whatever waves the Fed's long-deferred action might kick up.

Many advisers already look to bond ETFs as a low-cost, tax-efficient solution for a wide range of clients looking to build diversified portfolios. However, a changing rate environment is bringing an additional set of portfolio applications to the fore.

Here are three ways advisers can utilize bond ETFs in an effort to navigate a rising-rate environment:

1 Shortening bond portfolio duration

Most bond ETFs are index-based, enabling investors to easily tap specific segments of the bond market through the ETFs that seek to track them. The level of duration in an ETF is fairly steady through time, as a fund will remain invested in the target market.

For example an index of one- to three-year bonds tends to have a duration of around two years. This gives advisers the ability to manage the level of interest-rate risk that clients are exposed to and shorten duration when necessary.

A wide range of short-duration ETFs provide exposure to government bonds, corporate debt and other segments of the market. This range of options gives advisers great flexibility in finding an appropriate ETF for their clients' portfolios.

One option that may be well-suited for when the Fed raises rates is floating-rate-bond ETFs. These funds invest in investment-grade corporate or Treasury bonds whose coupons reset with changes in short-term interest rates. When the Fed begins to raise short-term rates, the coupons on these securities will begin to rise, potentially providing an investor with an income boost. As a bonus, as a result of the nature of floating-rate bond coupons, floating-rate bond ETFs have a duration of less than a quarter of a year.

2 Putting the focus on credit exposure

The challenge with reducing interest-rate risk is that it generally will result in investors giving up yield. Investors can aim to address this by increasing the amount of credit risk in a portfolio. Interest-rate risk and credit risk are the two primary drivers of returns in a bond portfolio, and they are also the two main sources of income.

As rates trend up, advisers should look to reduce interest-rate exposure in their clients' portfolios, focusing on credit exposure for a better balance of risk and reward.

To that end, advisers and clients might consider short-maturity-corporate-bond ETFs. These funds have low levels of interest-rate risk while at the same time providing some income from credit risk. An adviser seeking a small income boost may look to an investment-grade fund, while an adviser seeking more income can look to high yield.

3 Putting cash to work

While investors face challenges on how to invest in a rising-rate environment, they also find themselves looking for ways to put cash to work. What they don't want to do is put their money in the bond market and then see their investment get hit if interest rates climb. At the same time, they don't want to see inflation erode the value of their cash. Although inflation has been running between 1% and 2% recently, even that low level is enough to make the real return on some cash investments negative.

ONE OPTION that may be well-suited for when the Fed raises rates is floating-rate-bond ETFs.

Short-term bond ETFs potentially can provide a solution that delivers income without taking on undue levels of interest-rate risk. This helps get cash working in the market again in an investment that can help overcome the potential loss of purchasing power from inflation. Advisers might consider diversified multisector- and corporate-bond ETFs.

Rising rates will pose challenges to fixed-income portfolios. As advisers consider the resources available to manage this next turn in the bond market cycle, bond ETFs should be on their list.

Matthew Tucker is the iShares head of fixed income strategy at BlackRock Inc.

Looking beyond Fed's rate hike

Continued from Page 1

anticipated move off the zero-mark, where the Fed funds rate has been since the start of the 2008 financial crisis, is still only expected to amount to 25 basis points.

Financial markets may very well react to the Fed's initial move, if for no other reason than it's taken the central bank so long to raise rates. But considering the stubbornly sluggish pace of U.S. economic growth, and the fact that virtually every other central bank around the world is lowering interest rates, there is little expectation that the Fed is on the verge of an aggressive rate-hike cycle.

SLOW PACE

"The pace of future interest-rate increases is expected to be extremely slow," Mr. Nelson said. "This could be the most dovish tightening cycle we've ever seen, and we don't think interest rates will be materially higher than they are now even a year from now."

Considering three rounds of record-setting quantitative-easing programs that have saddled the Fed with a $3.7 trillion balance sheet that still needs to be unwound at some undetermined date, dovish might be the ultimate understatement.

The Fed, which is obligated to conduct monetary policy based on a dual mandate of managing inflation and employment, has seen the unemployment rate drop to 5%, but depending on how inflation is measured, it is still well short of the Fed's 2% target. And then there's the stubbornly strong U.S. dollar, which will only gain strength if and when interest rates start to rise.

A strong dollar is particularly troublesome for multinational U.S. companies that sell goods and services outside the United States.

In essence, a Fed rate hike is a signal of a stronger economy, but that's not how it is likely to be interpreted.

The outlook for how the Fed will follow its first rate hike — whether it happens in December or early next year — ranges from the purely symbolic "one and done" to mildly aggressive.

The one-and-done scenario is as close as the Fed could get to the status quo, while still saving some face for having finally moved off of zero.

In this camp, some argue that by raising rates even a measly quarter of a percentage point, the Fed at least has that much ammo to cut rates again if necessary.

"The 25 basis points on its own is meaningless, but if it's taken as a genuine change in direction then it has implications," said Bob Rice, chief investment strategist at Tangent Capital.

The flip side is the prospect of a tightening cycle that is still deliberate by historical standards, but which could be interpreted as wildly aggressive in the context of the past nine years.

"The Fed is not a one-and-done kind of institution; I think they will hike by 25 basis points in December, and then go up by 25 basis points at every other meeting next year, which will bring us to about 1.25% by the end of 2016," said Paul Schatz, president of Heritage Capital.

Mr. Schatz, who does not think a rate hike is needed at this time, believes the financial markets will not initially embrace the new monetary policy.

"The markets will take some time to digest the certainty of higher rates," he said. "Artificially low rates tend to dampen volatility, so we'll see more-volatile markets, which doesn't mean corrections, but daily and weekly ups and downs will be more severe."

Mr. Schatz anticipates a "vicious sector rotation," where consumer staples, utilities and real estate investment trusts will face head winds and fall out of favor.

"A rising-rate cycle is agnostic for technology, consumer discretionary and retailers," he said. "And it's really good for banks and financials, because they will be able to make more on the interest margins."

But picking winners and losers in the rising-rate cycle requires, first and foremost, a rising-rate cycle.

All one needs to do is glance at the nontraditional-bond-fund category to see how much an investor can suffer by playing too much defense at the wrong time.

Largely promoted as go-anywhere strategies designed to navigate rising rates, there were just 31 nontraditional-bond funds totaling $12.9 billion at the end of 2009.

Through September of this year, the category has grown to 128 funds and $145 billion.

But after six consecutive years of net inflows, the category has seen $6.5 billion in net outflows through the first nine months of this year, suggesting that investors are growing tired of underperforming broader stock and bond categories while waiting for rates to rise.

"These funds are marketed with the idea of unshackling the manager to be able to go anywhere, but they're mostly being used to guard against the bogeyman of higher interest rates," said Morningstar Inc. analyst Eric Jacobson.

He explained that nontraditional bond funds, in general, have been playing so much defense against rising rates that they've shown their vulnerabilities to the other primary bond risk: credit.

In 2013, when interest-rate volatility was front and center, the nontraditional-fund category had an average return of 0.29%, compared with a 1.42% decline in the intermediate-term bond fund category.

But in 2011, nontraditional-bond-fund managers were caught flat-footed as credit risk picked up and the category averaged a decline of 1.29% while the intermediate-term bond category gained 5.86%.

HIGH-YIELD BONDS

"As a group, these [nontraditional bond] funds correlate highly with high-yield bonds and equities, and they don't correlate positively with interest rates," Mr. Jacobson said. "They will do well in a period of a short-term rate shock, but it's the periods in between where it will be more difficult for them to do well with very short or even negative durations, because they're trading off interest-rate risk for credit risk."

And it all might be for naught.

Robert Tipp, chief investment strategist at Prudential Fixed Income, believes the Fed will probably raise rates nominally next month, but he also believes the bond market has already factored that in.

It is a mistake, he said, to look in the rear-view mirror and try to navigate an unprecedented monetary environment based on history.

Over the past 20 years, for example, the average yield on the 10-year Treasury has been 4.2%. Today, it's 2.3%.

"Equities have had a great recovery, and the bond market has seen yields drop to some of the lowest levels we've ever seen," Mr. Tipp said. "Investors are confused as to where to look for a reference point, because against that backdrop people are anxious that yields will go up and they will lose money in bonds."

But the bigger picture looks quite different when the 10-year Treasury is stacked against the comparable German bund, which is yielding 0.83%.

That 1.5-percentage point spread ranks in the 99.7th percentile of the widest spreads between the two bonds over the past 20 years. And it ranks in the 99.9th percentile of the widest spreads over the past 10 years.

"I think rates have already risen, and it's already priced into the bond market," Mr. Tipp said.

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Winners and losers

As interest rate rise, some investments will fall out of favor, others will become more attractive and some will remain neutral.

Expected to be hurt:

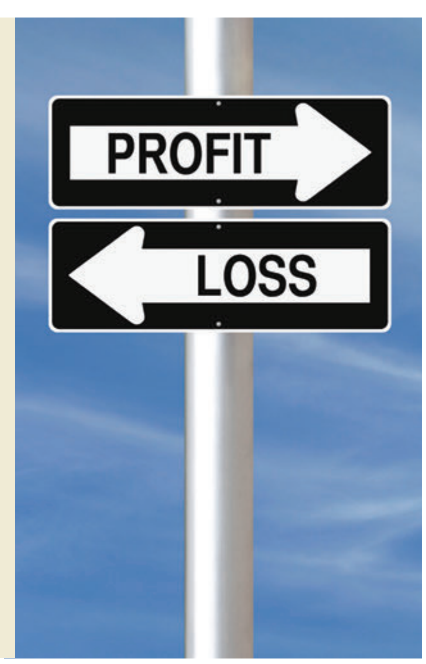
- Consumer staples
- Utilities
- REITs

Expected to be helped:

- Banks
- Insurance companies
- Brokerages
- Actively managed funds
- Alpha-seeking alts

Expected to remain neutral:

- Technology
- Consumer discretionary
- Retailers



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