January 4-8, 2016

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MARKET PERSPECTIVES FOR THE NEW YEAR

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2016 OUTLOOK

As signs of growth emerge around the world, our investment leaders share what to expect in the year ahead.

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12657-G-INV-0-12/16

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OUTLOOK 2016

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Will IBDs get their mojo back?

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EDITOR'S NOTE

Big changes coming to advice biz and *IN*

As we ring in the new year, *InvestmentNews'* outlook issue delves into the challenges and opportunities financial advisers likely will face in 2016. One of the highlights — or lowlights, depending on your perspective — will be the Labor Department's much-anticipated move to require advisers of every ilk to act in the best interests of their retirement clients. Indeed, when asked to choose the regulatory or legislative initiative they found most worrisome, 62% of advisers picked the imposition of the DOL's fiduciary standard.

Frederick P. Gabriel Jr.

In this week's outlook story, which begins on Page 8, we also look at advisers' views on the upcoming presidential election. While that race is just beginning, our survey found that Sen. Marco Rubio, R-Fla., and real estate developer Donald Trump would be the Republican candidates whom advisers would vote for if the election were held today, garnering 22% and 11% of the adviser vote, respectively. Former Secretary of State Hillary Clinton is the leading Democratic candidate with 19% of the adviser vote.

I hope you'll take the time to read our story. You'll find lots of interesting insights into the hopes, fears and expectations of your colleagues.

NEW HIRES

Speaking of expectations, I'm going into the new year with some great ones. That's because *InvestmentNews* recently made a series of new hires that I am extremely proud to share with you.

First, John Waggoner is now a senior columnist for us. Among other things, John will write a column and report on news related to mutual funds, ETFs and other investment strategies used by financial advisers. If John's name sounds familiar, it's probably because you've read his work in USA Today, where he served as a senior reporter and columnist for 26 years. John, who will be based in our Washington bureau, can be reached at jwaggoner@investmentnews.com.

Also joining *InvestmentNews* as a reporter is Christine Idzelis. Christine will be assigned to our New York headquarters and will be responsible for covering wirehouses, registered investment advisers and custodians. She comes to us from Bloomberg News, where she worked since 2010 as a corporate finance reporter. Christine can be reached at cidzelis@investmentnews.com.

Last but certainly not least, we also made a key hire within our art department. Scott Valenzano joined *InvestmentNews* late last month as our executive art director. In that role, Scott — who can be reached at svalenzano@investmentnews.com — will be giving us a little "refresh" in terms of how we present our stories online and in print.

Scott joined *InvestmentNews* from Source Media, where he served as the senior art director for Financial Planning Magazine and American Banker.

This week's striking cover marks Scott's first at *InvestmentNews*.

At a time when many of our competitors are cutting back, *InvestmentNews* continues to invest in top editorial talent so we can better serve our readers.

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COVER: GETTY IMAGES

What's on tap for regulation? Fiduciary, yes, and much more

By Mark Schoeff Jr.

Fiduciary duty could finally come to fruition this year.

The Labor Department is poised to release a final rule in the spring that would require financial advisers to act in the best interests of their clients when dealing with retirement accounts. Meanwhile, the Securities and Exchange Commission has put a similar proposal for retail investment advice on its regulatory agenda.

The timing of the final DOL rule is crucial. The agency needs to get it published in the Federal Register in time for the effective date — usually 60 days later — to fall well before Inauguration Day, so that a new presidential administration cannot rip up the rule and start over.

"If it's a Republican who gets into office, all bets are off," said Duane Thompson, senior policy analyst at Fi360, a fiduciary consulting firm. "It's in the best interests of DOL to get the rule done early in the year."

SEC Chairwoman Mary Jo White: Needs the support of at least two commissioners for a fiduciary duty proposal.

COMPOSITE

The DOL rule survived a legislative attempt to stop it in the omnibus government funding bill that Congress approved in December. Although the

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SEC details the extreme volatility on Aug. 24

But the report doesn't say why the disruption occurred or how to prevent a repeat

By Jeff Benjamin

Financial adviser Theodore Feight vividly remembers Aug. 24 as the day his clients lost $5.5 million within three minutes of the stock market's opening bell. A series of technical, and possibly human, failures rippled through the exchanges and were especially punishing for investors in exchange-traded funds.

"Aug. 24 shook me to the core, and it will live in my mind forever," said the owner of Creative Financial Design, who has since revised the way he trades ETFs in client portfolios.

The mystery of the infamous technical market disruption, which saw 19% of all ETFs decline by 20% or more, among other examples of the extreme volatility, has never been solved. But last Tuesday the Securities and Exchange Commission quietly rolled out an 88-page report detailing many of the breakdowns and the fallout.

Among the findings, which were presented in an off-the-record media conference call with SEC representatives, the report cites a free fall in ETF prices, while nearly half of the underlying securities held by ETFs didn't start trading at the open on the New York Stock Exchange due to safeguards in place to prevent catastrophic market sell-offs.

1,278 TRADING HALTS

For investors and advisers like Mr. Feight, the lack of trading in the underlying securities sent ETF prices into rapid declines, which quickly set off 1,278 trading halts because of the extreme volatility.

But the report also cited the extreme volatility that morning in ETFs like the Nasdaq 100 Index-tracker, PowerShares QQQ, even though all Nasdaq-listed

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Advisers in demand on Wall Street

Bloomberg News

Job cuts and shrinking bonuses dominated headlines from Wall Street last year, so it's easy to forget pockets of the industry are booming. Plunging oil prices, the Federal Reserve's first rate increase since before the financial crisis and the collapse in junk-rated debt are creating opportunities for some bankers and traders, spurring hiring and raises.

Analysts, recruiters and executives deem these the best jobs to have in 2016:

WEALTH MANAGEMENT

Top-producing financial advisers have never been more in demand. The steady revenue and cross-selling opportunities provided by wealthy clients are highly valued by banks grappling with higher costs for trading businesses.

"Big teams are worth paying for because they tend to bring everything when they move shops," said Mark Elzweig, an executive search consultant.

Bank of America Corp., Wells Fargo & Co. and JPMorgan all have said they're hiring in wealth management. With European firms pulling back from the U.S. and advisers' previous retention deals winding down, more teams could be in play next year.

FINTECH

Bank executives talked a lot in 2015 about the need to learn from other industries that have been decimated by Silicon

ISTOCK

Valley disruptors. Next year, more banks will unveil pilot programs that automate investment management and make use of technology based on bitcoin's blockchain, a software ledger that can speed up financial transactions.

"Banks are really aggressively hiring IT and data management to do anything around blockchain" and other financial technology areas, said Robert Dicks, who runs the human capital practice for financials at Deloitte Consulting. "They look at this as part of their infrastructure, part of the capabilities they need."

Customer-data analysts, compliance analysts and cybersecurity personnel also are in demand, he said.

OIL AND GAS BANKERS

Investment bankers advised a record $4.2 trillion of announced mergers and acquisitions in 2015, led by blockbuster deals in pharmaceutical, telecom and technology companies. Which industry is ripe for the next wave of consolidation? Battered by oil's plunge, energy companies will need to lean on bankers in 2016 to shore up equity or sell themselves to stronger rivals.

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MASTER COMMUNICATOR

CARL RICHARDS

Help clients filter out all that investment noise

By Carl Richards

At some point, we've all had a client walk into the office and start a sentence with something like "I heard" or "I read."

This happened pretty regularly after David Swensen wrote a book about his experience managing Yale's endowment fund. For a while, more than a few clients wanted to know how they could "invest like Yale."

It sounds like a great idea, right? Well, there's a big difference between an individual portfolio and an endowment fund. Most people skip that part and jump right to, "but he made a lot of money!" Why wouldn't you do exactly what David Swensen did?

Because, as I explained to my clients, "You're not Yale."

It can be really hard to help clients understand why it doesn't matter what anyone else is doing, even if it's Yale or Jim Cramer. That's why the concept of "only your goal matters" is so important.

I know how easy it is for people to focus on what everyone else is doing. But we're in a great position to help clients forget about everyone else and avoid a classic behavioral mistake.

When our clients make decisions, we need to help them have confidence that what they want matters more than what anyone else wants.

Imagine a neighbor wants to retire early and travel around the world? Great. Good for him.

The neighbor's travel plans have nothing to do with your client's goals. Same thing with the brother-in-law who found a can't-miss investment deal.

Encourage your client to wish the brother-in-law well, but keep in mind there's already a well-designed portfolio working for them.

It all comes back to a simple idea that most of us forget: The only goal that matters is yours. Help clients remember that fact, and it becomes a lot easier to ignore the noise masquerading as financial advice.

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

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 at the New York Times. He published his second book, "The One-Page Financial Plan" (Portfolio), last year. ***Email Carl at mastercomm@behaviorgap.com.***

After an ugly year, will IBDs regain momentum in 2016?

By Bruce Kelly

For the independent broker-dealer industry, which is home to roughly 160,000 independent registered reps and financial advisers, 2015 was a year to forget.

Share prices of publicly traded firms either stalled or plummeted. Market volatility ruled in 2015, and the S&P 500 was essentially flat for the year.

The share prices of publicly traded IBDs didn't fare any better, and some fared worse. Shares of LPL Financial Holdings Inc. were down 4% for the year as of late December, while the price of Ladenburg Thalmann Financial Services plummeted 26%. And RCS Capital Corp., known by its ticker RCAP and home to the Cetera Financial Group advisers, was down a stunning 97%.

Regulation out of Washington caused panic. The new fiduciary standard for brokers dealing with retirement plans that was proposed by the Labor Department could depress sales of high-commission products, such as variable annuities and nontraded real estate investment trusts, the bread and butter of

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Finra proposes pay-to-play rules

Restrictions on brokers' political contributions similar to SEC adviser regs

By Greg Iacurci

Finra has proposed industry rules that would restrict some political contributions by brokers to prevent any potential conflicts of interest. And it could play into brokers' activity in this election year.

The so-called "pay-to-play" rules "would regulate the activities of member firms that engage in distribution or solicitation activities for compensation with government entities on behalf of investment advisers," according to the proposal. The comment period for the proposal, which was filed in late December, extends for 21 days from publication in the Federal Register.

Investment advisers already are subject to similar pay-to-play restrictions under rules adopted by the Securities and Exchange Commission in 2010.

ISTOCK IMAGES

Language in the SEC rule said the Financial Industry Regulatory Authority Inc. had to follow up with pay-to-play rules for its member firms, according to Amy Lynch, president and founder of FrontLine Compliance.

"The broker hired to solicit the government entity must follow these new pay-to-play restrictions under this new rule, which is basically identical to the ones the SEC wrote for advisers," Ms. Lynch said. "There's really no difference."

CONTRIBUTION CAPS

The rules would put in place contribution caps of $350 in an election year and $150 in a non-election year for brokers. In the event a broker accidentally exceeds the caps, there is no penalty as long as a refund is received within a four-month period of receipt of the donation. Brokers who don't meet these exemptions are unable to solicit a government official or entity for business within a two-year period of the donation.

Depending on when the rule is

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On InvestmentNews.com

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Slide show
Best business apps for advisers
Who says business apps have to be boring? Here is a list of efficiency-driven apps that save time and money for advisers (and everyone else in their practices!).
InvestmentNews.com/app

VIDEO Watch this week's clips at InvestmentNews.com/INTV

The new rules for Social Security claiming strategies
The rules for claiming strategies, including file-and-suspend or spousal benefits, have changed. *InvestmentNews* contributing editor **Mary Beth Franklin** discusses what claimants need to know now and the deadlines they need to watch out for.
InvestmentNews.com/rules

WealthTrack
How to financially empower female clients
Surveys show that women often don't deal with their finances until there is a crisis. **Jewelle Bickford**, partner and wealth adviser at Evercore Wealth Management, discusses how she gets female clients to develop their financial awareness.
InvestmentNews.com/empower

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IN VOICES

InvestmentNews **readers weigh in on top stories**

Will a fiduciary requirement really disrupt IRA rollovers?

A story bucking fears a Labor Department fiduciary rule would greatly hamper IRA rollovers was greeted with reader comments still lamenting the coming changes. While some debated commissions versus fee-based models, others took aim at products, such as annuities and nontraded real estate investment trusts in retirement plans. Read the full story, "Fiduciary rule won't kill off rollovers" on Page 19.

"The rule should prevent the abusive sales of annuities to IRAs. No knowledgeable, prudent person would invest their personal IRA in an annuity or a nontraded REIT, so those sales will likely be prohibited by robust supervision and compliance."
— Diane Nygaard

"Longevity insurance [is] now approved in the form of QLACs for IRAs and employer-sponsored qualified plans. There are certainly abuses in annuity sales … However, there are things that annuities can do that no other financial product can do … A true fiduciary will include low-cost annuity options in clients' overall retirement plans."
— Tony_in_Montana

"In the right case, in the right amount, annuities and nontraded REITs can be very beneficial to IRAs. You are doing a disservice to your clients if you aren't at least looking into annuities."
— Jeremy_Newton

"I've had to try to extricate retirees from nontraded REITs and VAs that had lost money and that they couldn't sell when they needed cash. As you know, older people have family crises, illnesses and often need to pay for their care."
— _ (alias is an underscore)

"It is very simple. Once the rule passes my account minimum requirement will be $250,000. One of my wholesalers for a variable annuity said his company is going to do the same thing."
— RICHARD_RALSTON

"IRA rollovers will comply with ERISA and will be enforced as required of all who render advice. If B-Ds do not comply, they put their brokers' assets up for grabs to those that can fulfill their fiduciary duties."
— stephenwinks

"You'll be 'allowed' to open a myRA account with 100% in US government bonds!!"
— Route 66

"Anyone working on a fee basis can meet a fiduciary duty in handling investment management for a client regardless of the tax qualification of the assets. Things can get tricky if the adviser is selling products for a commission, however."
— Scott_Bombeck

To see all reader comments and leave your own, visit InvestmentNews.com/rollovers.

WARREN GEBERT / ILLUSTRATION SOURCE

Barclays to pay $13.75M for unsuitable fund sales

By Bruce Kelly

Finra continued its recent push to hold broker-dealers accountable for the suitability of product sales, announcing last Tuesday that it had reached a settlement with Barclays Capital Inc. in which the company will pay clients restitution of more than $10 million for mutual fund-related suitability violations. Barclays Capital was also fined $3.75 million.

From January 2010 to June 2015, Barclays' supervisory systems were not sufficient to prevent unsuitable switching or to meet certain of the firm's obligations regarding the sale of mutual funds to retail brokerage customers, according to the Financial Industry Regulatory Authority Inc.

A mutual fund switch involves one or more fund redemption transactions coupled with one or more related mutual fund purchases.

"For the relevant period, Barclays identified over 6,100 unsuitable mutual fund switches," according to the Finra consent order, the charges in which Barclays Capital neither admitted nor denied. "The recommended switches were unsuitable because the purchased funds were equivalent to the redeemed funds or an alternative fund with no fees was available, and resulted in customer harm in the amount of approximately $8.63 million."

> "THIS CASE highlights Finra's commitment to ensuring that firms meet these obligations."
>
> **Brad Bennett**
> EVP and chief of enforcement
> Finra

Barclays Capital also failed to give appropriate breakpoint discounts for the sales of mutual funds, according to Finra. The firm, over the same time period, "failed to have a supervisory system reasonably designed to ensure that mutual fund purchases were properly aggregated so that customers were provided with available discounts."

APPROPRIATE DISCOUNTS

A Barclays spokesman, Marc Hazelton, said the firm had no comment beyond the Finra settlement.

"The proper supervision of mutual fund switching and breakpoint discounts is essential to the protection of retail mutual fund investors, and this case highlights Finra's commitment to ensuring that firms meet these obligations," Brad Bennett, Finra executive vice president and chief of enforcement, said in a statement.

Finra has been cracking down recently on broker-dealers for failing to give appropriate discounts for large purchases of investment products, commonly known as "breakpoint discounts" in the industry.

In October, it sanctioned a dozen independent broker-dealers for failing to give clients discounts for large purchases of unit investment trusts.

bkelly@investmentnews.com
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World's richest people lost $19B in 2015

Bloomberg News

The richest people on Earth became a bit poorer last year.

The world's 400 wealthiest individuals shed $19 billion in 2015, according to the Bloomberg Billionaires Index. Falling commodities prices and signs of a slower-growing China spooked investors around the world, leading to the first annual decline for the daily wealth index since its 2012 debut.

"After three great years, 2015 stock markets worry-wiggled sideways," said billionaire Ken Fisher, founder of Fisher Investments, which manages more than $65 billion. "Fears over an oil glut, soft consumer spending and China breaking like a plate and taking commodities with it saw investors take fright."

Mexican telecommunications mogul Carlos Slim was the biggest decliner on the index at the close of trading last Monday, as his America Movil SAB dropped 25% in 2015. The world's richest person in May 2013, Mr. Slim fell to No. 5 last year after losing almost $20 billion as regulators ratcheted up efforts to break apart the business that controls the majority of Mexico's landlines and mobile phones.

> **$4T**
> Approximate amount of wealth controlled by the 400 richest people

U.S. investor Warren Buffett, the world's third-richest person, lost $11.3 billion as Berkshire Hathaway Inc. saw its first negative annual return since 2011. Microsoft Corp. co-founder Bill Gates, the world's richest person since May 2013, fell by $3 billion during the year.

Mr. Gates' losses and the continued rise of Inditex SA, the world's largest fashion retailer, lifted Spain's Amancio Ortega within about $10 billion of the top slot. Mr. Ortega, Europe's richest person since June 2012, leapfrogged Mr. Slim and Mr. Buffett as he rose $12.1 billion to $73.2 billion.

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DIVERGENT GROWTH REQUIRES A SELECTIVE EYE

2016
Global Market Outlook

Developed markets are improving, yet developing markets still weigh on global growth. It's just one reason why our investment professionals believe careful selection will be critical for taking advantage of opportunities around the globe. Explore our insights, and put our experts' thinking to work for you and your clients.

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VIEWPOINT

EDITORIAL

SEC questions require answers

THE SECURITIES and Exchange Commission, though claiming it is too underfunded to hire all the staff it needs to carry out all of its core responsibilities, suddenly is expending resources in an area that seems to belong to the Department of Labor.

As reported in this issue of *InvestmentNews*, the SEC has sent a 13-page questionnaire to investment advisers and brokers seeking information pertaining to the advice they give their clients about rollovers from 401(k) plans to individual retirement accounts, the fees they charge, conflicts of interest, and supervision and compliance controls.

One-third of the questions relate to situations in which the adviser or broker provides advice on qualified default investment alternatives. That is usually the province of the DOL, which has the responsibility to enforce the Employee Retirement Income Security Act.

The move prompts a number of questions. First, what is the SEC's motive in sending out the questionnaire? Is it simply seeking to broaden its area of responsibility? Is it trying to build a case for an expanded role in the 401(k) arena and therefore a bigger staff?

Mission creep is not unknown in Washington, as an expanded mission usually justifies a bigger budget and more staff. Is the SEC's current staff not busy enough? Given the agency's constant complaints that it needs a bigger budget, that seems unlikely.

Does it believe the DOL is not doing a good enough job? If so, what is its evidence, and how is its effort designed to supplement the DOL's effort?

MORE PAPERWORK

The SEC must be more transparent about its questionnaire. What is the ultimate purpose? What justification is there for imposing a 13-page, 75-question document on investment advisers and brokers? Investment advisers and broker-dealers have more than enough regulatory paperwork to do satisfying the DOL on IRA rollover matters, and the IRS, the SEC and Financial Industry Regulatory Authority Inc. on other matters, without the SEC adding another layer that overlaps with the DOL.

WHAT IS the ultimate purpose of the agency's retirement questionnaire?

Regulators should bear in mind that all that information-seeking paperwork is not without cost to those required to fill it out. They should spare no attempt to minimize duplication of efforts. Every penny financial firms spend filling out government paperwork adds to the cost structure in the industry and must ultimately be recovered from clients.

Those clients include retirees and others saving for retirement, so that any unnecessary paperwork costs ultimately reduce retirement security.

MORE
Several agencies are policing retirement advice.
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It's possible the SEC's questionnaire is related to the fiduciary rule Congress gave it the authority to develop in the Dodd Frank financial reform law. But ERISA gave the Department of Labor and the Internal Revenue Service joint responsibility for overseeing retirement income plans. They have done so with reasonable effectiveness since 1974. There seems little reason for the SEC to butt in now.

Letters

InvestmentNews received several letters to the editor regarding our Dec. 14 game-changers project on "The advice industry's diversity problem."

Diverse views on diversity

Most financial planning firms are small, independently owned businesses. If you feel there are not enough black people in the industry, how about addressing the black community, berating them for not starting enough financial planning firms? I have enough problems on my plate as an owner of a small business in a heavily regulated industry without having to worry about how many minorities I am employing.

Adrian Day
President
Adrian Day Asset Management
Annapolis, Md.

I'm writing you today to say thank you for the *InvestmentNews* coverage of a story that needs to be talked about — the lack of racial diversity in our industry. I see this through a different prism. I am a 56-year-old white guy who has been in this industry since 1988, and married to my wife (who is African-American) for almost 24 years.

We have talked about this frequently over the years. And I think that pieces like the one Elizabeth MacBride wrote help, but it raises this question: How can we help this industry become more diverse? How does one go about finding a qualified Latino, Asian-American, African-American or other "minority" adviser (or someone who hopes to become an adviser)?

Our industry is in crisis when it comes to recruiting and training young advisers (there are more advisers over age 70 than under age 30). The world has become more diverse. The spread of wealth among people who have been viewed as "minorities" is growing every day. There is a new demographic of people who need the help of qualified financial advisers going forward. How about a real conversation about attracting advisers who reflect the changing demographic landscape?

Thom Shumosic
Founder
MidAtlantic Retirement Planning Specialists
Wilmington, Del.

Being a 59-year-old white guy in this biz for more than 30 years, I have lots of opinions floating around on this subject. The bottom line: Why does anyone see this as a "problem"? So, here are several comments:

• This is not a socialist nation; everyone in this biz succeeds or fails based on their own efforts. If blacks, Asians and Hispanics are "underrepresented" within our industry, then they need to apply. I was told by two firms I was not qualified, and I continued to search for a way in, and through dogged determination, managed to survive and prosper.

• I almost failed several times; this business is not easy.

• I don't think the wealth of blacks and Hispanics, as a group, is as great for me to devote most of my time pursuing them. Of course, I am open to them and would treat them as well as any others.

• As far as more advisers being minority, it may be a matter of their education, common skills and ambition. And, I'm sure they would have a mother lode of prospects to work with if it's as lucrative a market as the author portrays it to be.

I have lots more on this, but the bottom line is, the capitalistic economy is not "equal," nor always "fair." It's a competitive economy! Why are whites "underrepresented" on NBA or NFL teams? It wasn't the case a few years back. Because they are better at that skill, that's why!

That's reality.

M. Scott Huddleston
Financial consultant
Newcastle Financial Advisors
Fullerton, Calif.

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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Spotlight

OUTLOOK 2016

OPTIMISM PREVAILS

In spite of political climate, pending regs and global unrest, advisers see bright year ahead

By Liz Skinner

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ADVISER EYES WILL BE LASER-FOCUSED on the Labor Department in 2016, as the agency is poised to finalize new rules requiring advisers to act in the best interests of their retirement clients. But despite concerns about effects the rule might have on their businesses and the havoc global unrest could wreak on markets, advisers are quite optimistic.

The DOL fiduciary rule — and a proposal the Securities and Exchange Commission is developing, also based on a best-interests standard — is just the beginning of the new rules advisers will confront in 2016.

Others include proposals to require outside compliance reviews and anti-money-laundering programs, as well as a possible rewrite of the accredited investor standard.

"The regulatory climate in D.C. and around the world is more challenging and more complex than ever," said Karen Barr, chief executive of the Investment Adviser Association. "The cumulative effect of all these will have a real impact on people's businesses."

About 35% of advisers said regulatory overload is the biggest issue the financial advice industry will face this year, according to the *InvestmentNews* 2016 Outlook survey. When asked to choose the regulatory or legislative initiative advisers worry most about, 62% picked the DOL fiduciary standard and 11% selected a possible SEC best-interest rule. About 14% of advisers said cybersecurity rules are their top regulatory concern, the online survey of 423 advisers found.

Of course, 2016 will be an especially interesting year because of the November presidential election.

Seven months out from the political conventions that will finalize the Democratic and Republican tickets, about 22% of advisers would vote for Sen. Marco Rubio, R-Fla., and 19% would pick former Secretary of State Hillary Clinton. New York real-estate developer Donald Trump finds support among 11% of advisers, according to the survey.

I expect our industry to continue to see more and more fee compression, as well as the offering of more and more services without additional compensation.

Paul Schatz, president, Heritage Capital

Historical research about the performance of equity markets during a presidential election shows the event doesn't have much influence, but some advisory clients will be affected by the process no matter who wins.

CLIENT WORRIES

"The election isn't going to matter from a market perspective, but it will have an impact on client attitudes," said Ric Edelman, founder and chief executive of Edelman Financial Services. "If their candidate loses, clients can become fearful, and the adviser will have to spend more time reassuring them that the world isn't coming to an end."

Advisers believe risk from the U.S. political environment is the second biggest issue facing the nation's financial markets. About 23% worry about the American political climate, while 33% believe global unrest is the greatest threat to markets, the survey showed.

Both these worries are top of mind for clients too, who will need advisers to calm a lot of nerves and help them stick to long-range financial plans, experts said.

"Advisers will spend a lot of time in 2016 managing emotions, handholding clients and helping them understand the long-term perspective," said Tash Elwyn, president of Raymond James & Associates' private client group. But most financial advisers expect the U.S. economy to continue operating pretty much as it did in 2015, or even to do slightly better.

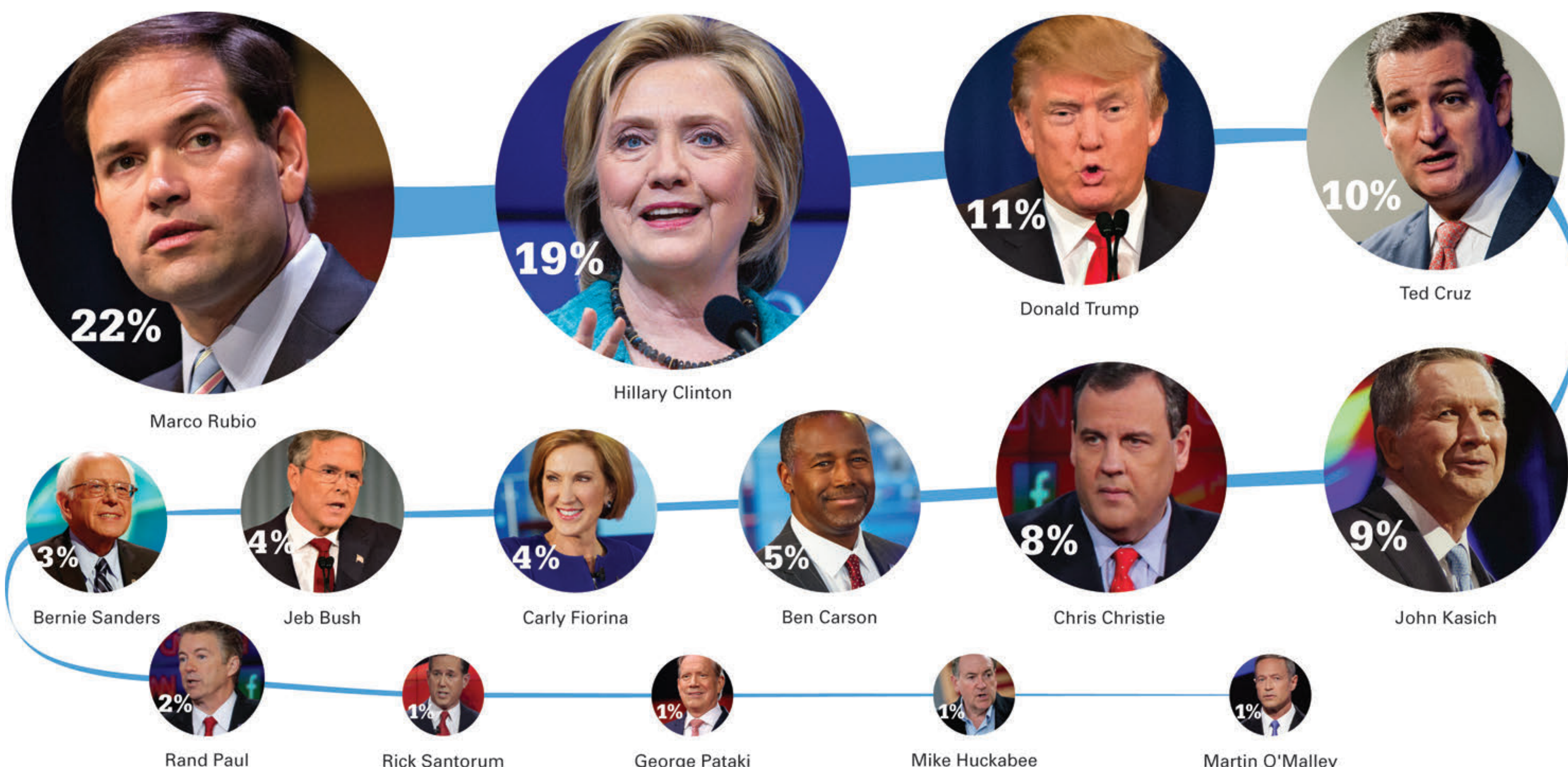
About 41% said the economy will stay on par with last year, 40% expect it to "slightly" improve in 2016

Continued on Page 10

The DOL's pending fiduciary ruling, rising technology and compliance costs, and increased regulatory scrutiny will continue to accelerate … consolidation.

Dan Arnold
President
LPL Financial

Mr. Rubio leads advisers' choices among presidential candidates



Source: 2016 *InvestmentNews* Outlook Survey/*InvestmentNews* Research

Advisers optimistic about 2016

Continued from Page 9
and 5% foresee significant improvement, according to the survey. About 14% think a recession is likely this year, compared to 11% who held this view at the start of 2015.

Many analysts forecast U.S. equity markets will perform better this year compared with last, when major indices closed at nearly the same point at which they opened on Jan. 2, 2015. But few expect results to come in as rosy as 2014, when the Dow Jones Industrial Average rose 11% and the Standard & Poor's 500 rose about 15%.

Financial advisers are largely recommending that clients keep the same mix of investments in 2016, though about 43% of advisers who recommend alternatives said they'll suggest a boost in that asset class, and 40% will counsel investors to increase international equity exposure this year, the survey found. About 30% of advisers will recommend a decrease in U.S. fixed-income investments, likely due to rising interest rates.

The successes in the advice industry in 2016 will be driven by evolving with the needs of the investing clients, while adapting to change factors such as technology advancements, regulatory requirements and competitive pressures.

Amy Webber
President
Cambridge Investment Research Inc.

ACTIVE MANAGEMENT

"Next year isn't going to be that much different for us, investing-wise," said Winnie Sun, founding partner of Sun Group Wealth Partners. "We will continue to add more heavily into equities because our clients have a long time horizon."

Her advisory firm will continue to use a combination of active and passive investment strategies this year.

Three-quarters of advisers expect active management tactics will outperform passive ones this year, suggesting the easy gains that passive strategies have enjoyed during the long equity bull run may not be possible in 2016.

Advisers appear more enthusiastic about their own business prospects in 2016.

About 50% of advisers are somewhat optimistic and 24% are very optimistic about their outlook for growth in their book of business this year, the survey found.

This enthusiasm translates into a majority of advisers planning to increase spending in 2016 in two categories: technology and marketing or business development.

Mr. Edelman said technology is the area advisers most need to stay on top of because of how fast new innovations develop. Technology also infuses every aspect of an adviser's practice, from data security and finding investment opportunities, to executing transactions and client service, he said.

"Advisers who ignore technology will discover soon that their practices, and themselves, will become obsolete," Mr. Edelman said.

This year about 22% of financial advisers plan to hire a NextGen adviser, and 11% said they already did so in 2015, according to the survey. A majority of those hiring young advisers said they expect these hires to have an immediate impact on servicing clients and finding new ones.

2016 should be a more volatile year for markets, so advisers will need to stay diversified and understand their clients' risk tolerance.

Todd Rosenbluth
Director of ETF & mutual fund research
S&P Capital IQ and SNL

David Canter, executive vice president of practice management and consulting for Fidelity Clearing & Custody Solutions, said advisory firms need to have young advisers to ensure the wealth held by their older clients stays with the adviser when it's passed down to the next generation.

"They need to hire and develop NextGen owners so that those future leaders of the firm are connecting to NextGen clients — and not just new prospects, but also the children of their older clients," he said.

With January just getting underway, 2016 promises to bring change for the advice industry, but advisers largely appear to anticipate the shifting landscape will result in more opportunities than trouble during the interesting new year ahead.

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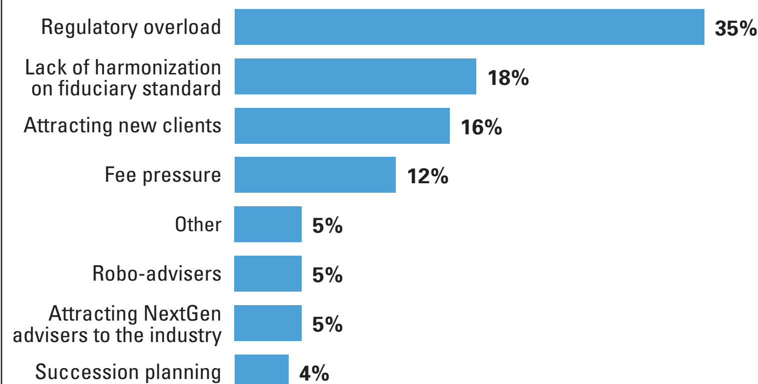
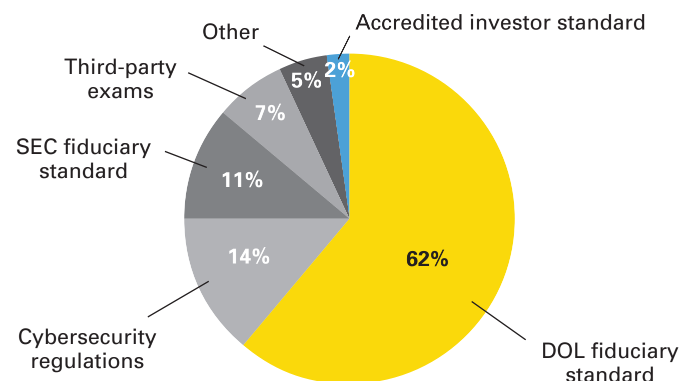
Advisers ... must take steps to ensure they are positioned to thrive in a changing and more challenging environment, and that begins with articulating all the services and all the value they deliver to clients.

Tom Nally, president, TD Ameritrade Institutional

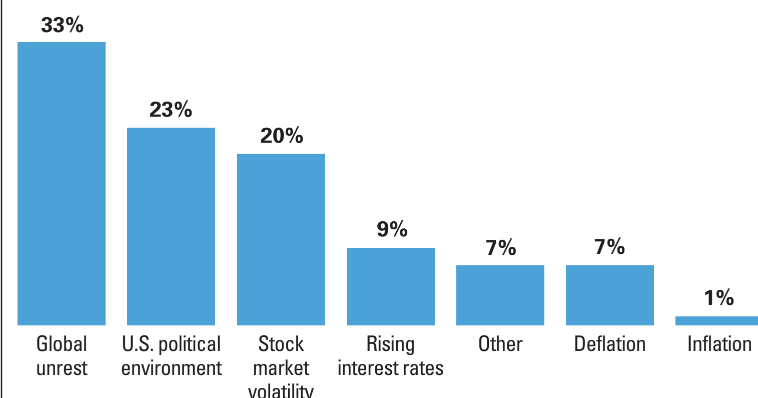
Biggest issues facing advice industry



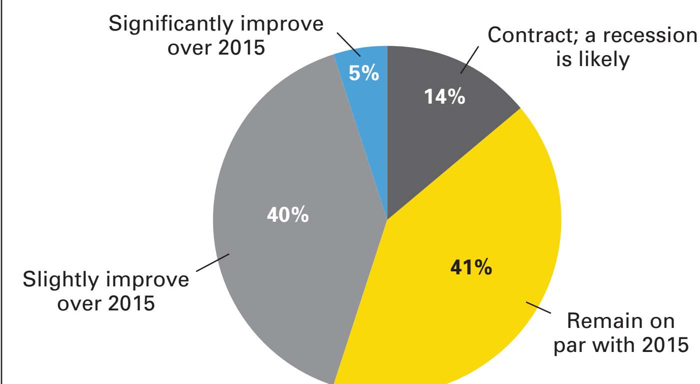
DOL rule leads list of regulatory worries



Top risks facing financial markets



How the economy will perform in 2016



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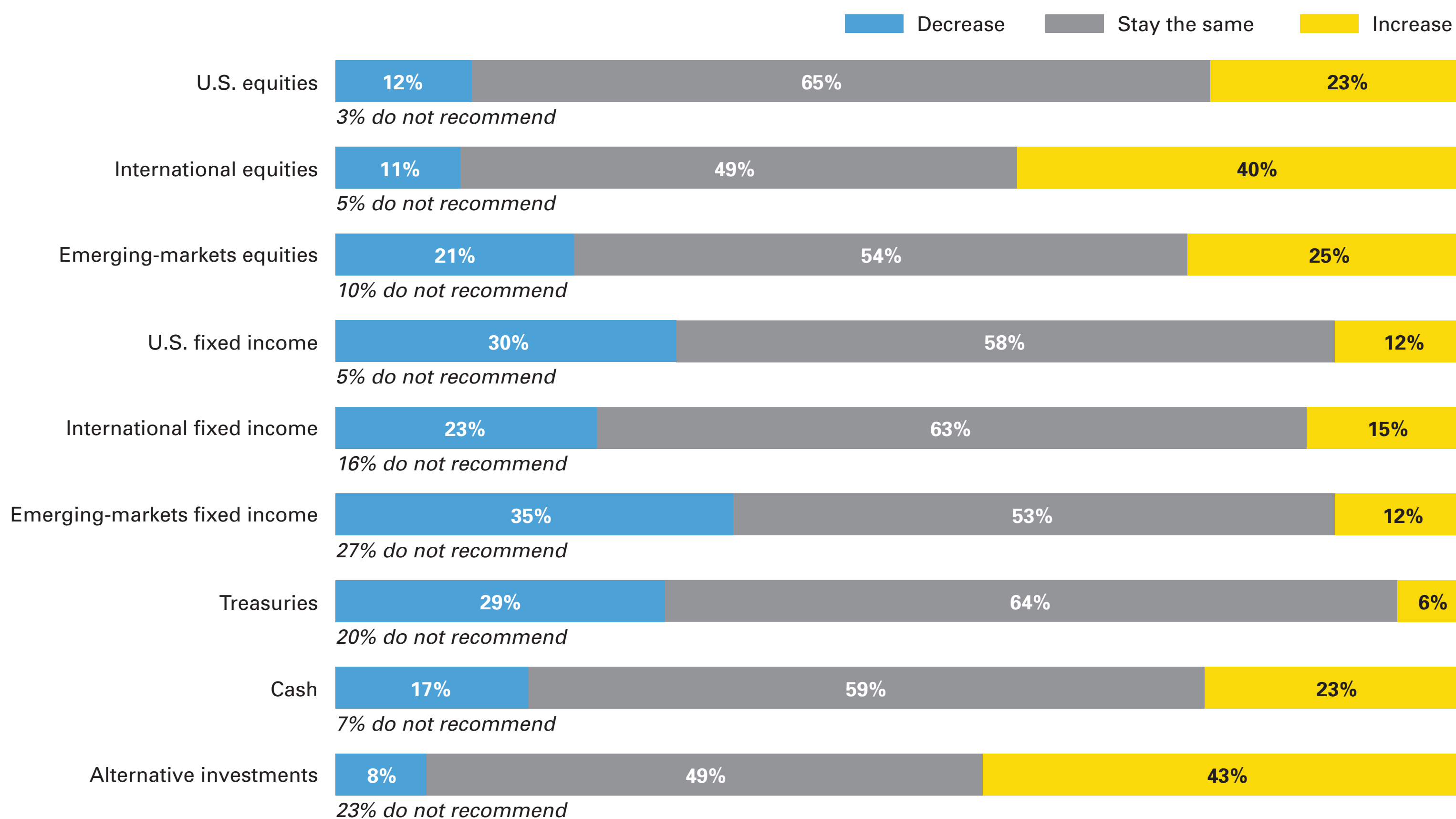
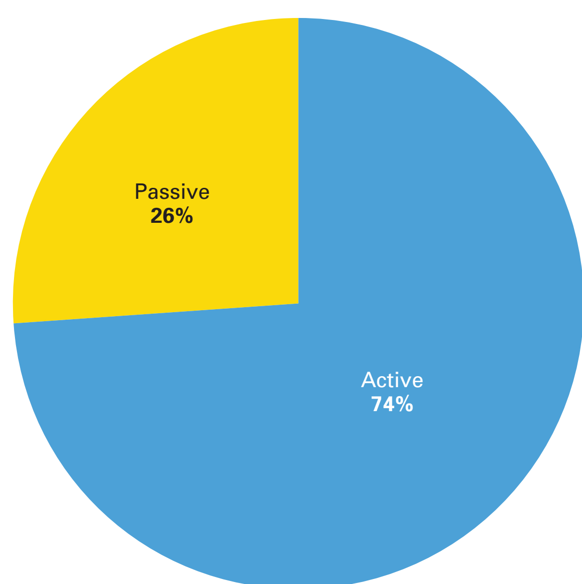
Adviser recommendations for asset allocations in client portfolios this year



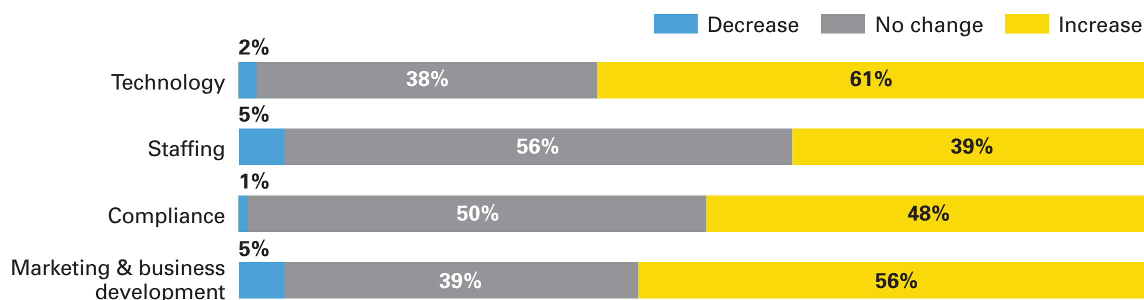
The biggest developments ... will be further consolidation of independent RIA firms to create larger, professionally managed businesses.

Mark Tibergien
Chief executive
Pershing Advisor Solutions

Investment strategy advisers expect will do best



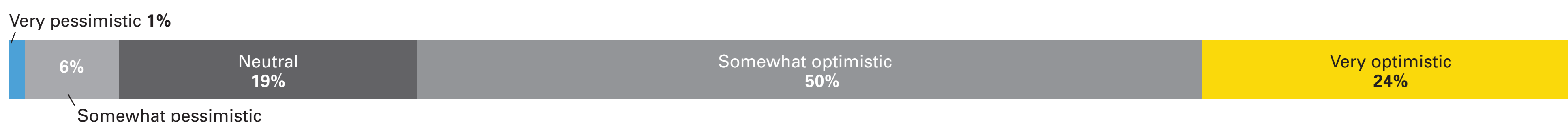
Firm spending on practice management in 2016



While the DOL's fiduciary rule is top of mind for all, a very wise man once told me to "be the protagonist." For 2016, I hope to take that advice particularly to heart and seek to turn challenges into opportunities.

Wayne Bloom
Chief executive
Commonwealth Financial Network

Adviser sentiment about their business growth in the new year



Source for all charts: 2016 *InvestmentNews* Outlook Survey/*InvestmentNews* Research

The year that stocks, bonds and cash failed to thrive

ISTOCK COMPOSITE

Bloomberg News

The idea behind asset allocation is simple: When one market struggles, it's OK because an investor can jump into another that is thriving. Not so in 2015.

In fact, if you judge the past year by which U.S. investment class generated the largest return, a case can be made it was the worst for asset-allocating bulls in almost 80 years, according to data compiled by Bianco Research and Bloomberg. As 2015 was wrapping, the Standard & Poor's 500 Index stood at a gain of 2.2% with dividends, cash was up less, while bonds and commodities showed losses.

After embracing everything from Treasuries to high-yield bonds and technology shares amid seven years of 0% interest rates, investors found themselves with nowhere to run at a time when the Federal Reserve's campaign of stimulus drew to an end. Normally it isn't like this. Since 1995, practically every year has seen some asset deliver returns exceeding 10%.

"It's been challenging from the point of view that the equity market and bond market are probably more joined at the hip than normal," said Hayes Miller, head of multi-asset North America, who helps oversee $35.8 billion for Baring Asset Management. "We've had high cash exposure relative to norm because we felt cash provides one of the only good diversifiers against the risk-off trade."

Bianco Research keeps track of the S&P 500, 30-year U.S. Treasury bonds, 3-month Treasury bills and the Thomson Reuters/CoreCommodity CRB Commodity Index to gauge performance in stocks, bonds, cash and commodities. The four are the most common asset classes considered by investors when an allocation strategy is designed, according to Jim Bianco, the founder.

RECIPE FOR PAIN

While the depth of losses in equities and commodities is nowhere near as bad as in 2008, the correlation of declines highlights the challenge for money managers who seek to amplify returns by rotating among assets. Among other things, it's a recipe for pain among hedge funds, according to Mr. Bianco. The industry is heading for its worst annual performance since 2011, with closures rising, data compiled by Bloomberg and Hedge Fund Research Inc. show.

"The Fed stimulus lifted all boats, and then the Fed withdrawing the stimulus is holding the boats down," Mr. Bianco said. "If the argument is right that the economy is going into 2016 weak and earnings are negative, those conditions will continue and therefore on the asset allocation level, I don't expect anything to break out just yet."

With nothing going up, exchange-traded funds that invest in different asset types as a way to diversify risk have struggled. Among 35 such ETFs tracked by Bloomberg, the median loss for 2015 was 5%. The iShares Core Growth Allocation ETF, which has a mix of 60% in stocks and 40% in bonds, slipped 0.5%, and the First Trust Multi-Asset Diversified Income Index Fund was down 7.4% as of last Monday.

Uncertainty over the timing of the Fed's first interest rate increase in almost a decade and its potential impact on the economy weighed on markets throughout 2015, according to Michael Arone, chief investment strategist at State Street Global Advisors' U.S. Intermediary Business. Policymakers signaled the pace of subsequent increases will be "gradual" when finally tightening this month.

"The Fed has finally broken that cycle by beginning policy normalization, and hopefully this will provide the market some clarification and resolve in a more solid direction," Mr. Arone said. "If the market feels comfortable at the pace of which the Fed moves interest rates and the economy is recovering, risk assets like stocks could perform well."

The S&P 500 made little headway in 2015, adding 0.1% without dividends as of last Monday. Equities fared worse in dollar terms outside the U.S., with the MSCI EAFE Index dropping 3.1% and the MSCI Emerging Markets Index sinking 16%.

Commodities have fallen to a decade low as tepid global inflation dimmed the allure of precious metals, weak Chinese demand hurt raw-materials prices and a global supply glut sent crude oil tumbling. In the bond market, high-yield corporate debt was heading for its first annual decline since 2008 amid a flood of investor redemptions from junk bond funds and concern rising borrowing costs would threaten corporate solvency.

According to the study, gains from the best-performing assets had surpassed 10% in all but one year since 1995. During the last nine decades, 23 years, or a quarter of the time, at least one asset class returned more than 30%, and only four ended with gains smaller than 4%.

"Investor expectations for both equities and bonds have been elevated by recent history," said Lowell Yura, head of multi-asset solutions for BMO Global Asset Management. The firms oversee $225 billion. Last year "is a wake-up call to think about lower returns for the next several years."

Benchmarking differs for target date funds

By Greg Iacurci

Target date funds have quickly become one of the most popular asset classes in defined contribution plans, beginning a meteoric rise in popularity following the Pension Protection Act of 2006.

Research firm Cerulli Associates estimates that TDFs will capture nearly 90% of new contributions to 401(k) plans by the end of 2019, representing about 35% of 401(k) assets. Currently, 13% of 401(k) plan assets are in TDFs, beaten only by company stock and actively managed domestic equity funds, according to the Plan Sponsor Council of America.

It's increasingly important to properly evaluate TDFs for specific 401(k) plans. Yet from a benchmarking perspective, TDFs are a different animal than other 401(k) investments. They are meant to be a one-stop shop for all of a participant's contributions, plan advisers say.

"TDFs cannot be benchmarked similar to core investments inside of the retirement program, and they're probably the most important decision that the plan sponsor has," said Jamie Greenleaf, lead adviser and principal at Cafaro Greenleaf.

TDFs are a suite of multi-asset-class funds whose asset allocation shifts from aggressive to more conservative as an investor approaches retirement. A glide path is how that asset allocation shifts over time.

The in-flux nature of the glide path, differences in managers' mix of stocks and bonds, and allocations to different underlying style categories (some managers may use high-yield bonds or alternative asset classes, for example) make TDFs unique.

"[Benchmarking] is way more complex than with other asset classes because there is no homogeneity and there's no single accepted approach," said Jon Chambers, managing director at SageView Advisory Group.

DEMOGRAPHICS & BEHAVIOR

To gauge the perfect TDF suite for a retirement plan, advisers should start with a plan's demographic makeup and participant behavior. Even though it's considered a best practice, not many advisers do it this way, according to Fred Barstein, founder and chief executive of The Retirement Advisor University.

"It's meant to be the one fund you put all your money in, not an ingredient," Mr. Barstein said. "It's the difference between saying, 'I want to make sure the ingredients I make available for people cooking their meals are clean and healthy' versus 'I'm going to serve a meal for everybody and everyone will eat the same meal.' It's a different evaluation."

A participant base that skews younger, for example, may warrant TDFs managed by an equity specialist firm, because participants would be in longer-dated funds with higher equity exposure, Ms. Greenleaf said.

Advisers should couple demographics with the philosophy and goals of the plan's investment committee. For example, do they seek to capture upside or reduce downside volatility, Ms. Greenleaf said.

ISTOCK COMPOSITE

That narrows the field of appropriate fund families to a handful; those serve as a benchmark for the suite ultimately chosen because it's an apples-to-apples comparison, Ms. Greenleaf said. There are more than 50 mutual fund series on the market with approximately $725 billion, as of Sept. 30.

Providers such as Morningstar Inc., Dow Jones and Standard & Poor's publish TDF indices advisers can use to help benchmark funds.

However, indices are typically built at the midpoint of a peer group of funds, which won't be as helpful for funds with wide dispersions in asset allocation, Mr. Chambers said. He also cautioned that the indices don't show if deviation is due to management or a difference in allocation or sub-asset allocation.

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Utilizing live video stream to update, engage clients

According to Bill Winterberg's FPPad Bits and Bytes, the Innovation of the Year award goes to Periscope. Per Bill, "Before Periscope was introduced, there really wasn't an easy way for you to stream content in real time for your audience." Although advisers have long used webinars, Bill noted that these require desktop or laptop computers — which are not as convenient as using your cell phone.

The Periscope app (for iOS and Android) is a pretty new invention, launched by Twitter on March 26 last year. Essentially a way to tweet with video versus just words and photos, Periscope was named iPhone App of the Year by Apple on Dec. 9.

So, what exactly does it do? Periscope allows you to stream video to viewers in real time. The presenter can tweet out a link to their "live stream" and choose to limit the audience to only select users or make the video public. Alternatively, you can press a button to instantly notify your followers you are live-streaming. Viewers can express themselves by commenting (if allowed by the presenter) or tapping their screens to send hearts. A potential downside is that, absent using another app to record the video, your Periscope presentation is only available for 24 hours.

Why would this tool be valuable to advisers?

• Presentations can be done on the fly or scheduled.

• There is no complicated invite or sign-in process.

• The live element can be seen as more personal and provide a closer connection with your clients.

Thinking about actual uses for this by an investment firm, I've come up with a few tangible ideas. You can have regularly scheduled presentations. For example, a weekly update chat at the same time each week. Clients would be notified of this ongoing event and tune in each week. When there's a big event in the market, you can tweet out a link to your followers and even send out a quick email with information on viewing the Twitter broadcast. Finally, you can schedule a live presentation to complement quarterly reports.

It's definitely something I will try. It might not appeal to all of my clients, but I expect it will be welcomed by millennials, along with all those who appreciate new forms of communication.

Sheryl Rowling is head of rebalancing solutions at Morningstar Inc. and principal at Rowling & Associates. She considers herself a non-techie user of technology.

End of file and suspend not as severe as had been feared

Claim is often not the most valuable or optimal strategy

The financial impact of eliminating the file-and-suspend Social Security claiming strategy slated to take effect this spring might not be as severe as originally feared, according to one software company executive.

For married couples, the ability to coordinate their Social Security claiming strategies can boost their combined lifetime income by $100,000 or more, according to some estimates. But the stand-alone file-and-suspend strategy, which allows one spouse who is at least 66 years old to file for Social Security and immediately suspend benefits in order to boost future retirement income, is not the most valuable part of the claiming-strategy equation.

WHEN MOVE IS NOT THE BEST

Jeff Miller, co-founder of Social Security Choices, a software company that helps individuals and financial advisers calculate optimum Social Security claiming strategies, recently analyzed nearly 1,300 cases of couples who used his software.

"Assuming normal life expectancy, file and suspend was only optimal 18% of the time," said Mr. Miller, an emeritus economics professor at the University of Delaware.

"In these cases, the median loss is only $3,000," he said. "Very, very few people lose even $10,000 in cumulative benefits."

For a 66-year-old couple, average life expectancy is 82 for a man and 86 for a woman. But if you assume one or both spouses will live longer than average, the file-and-suspend strategy becomes the optimum claiming strategy in 26% of the cases he analyzed. Even then, the scheduled elimination of the file-and-suspend strategy would result in an average loss of about $6,000 over both lifetimes, Mr. Miller found.

The real value of coordinating Social Security claiming strategies for married couples, and in some cases qualified divorced spouses, is the ability to claim spousal benefits at full retirement age and defer collecting one's own retirement benefit until it is worth the maximum amount at age 70, Mr. Miller said. A spousal benefit is worth 50% of a worker's full retirement age amount if collected at full retirement age or older.

Normally, if you are entitled to both a retirement benefit on your own work record and as a spouse, the Social Security Administration pays you the higher of the two benefits. But if you wait until 66 to claim Social Security, you have a choice; you can collect just spousal benefits for up to four years and switch to your own larger retirement benefit at 70.

EFFECTIVE DATES

Both claiming strategies — file and suspend and filing a restricted claim for spousal benefits — will be eliminated as a result of the Bipartisan Budget Act of 2015, but each is subject to a separate effective date.

The law creates a new set of rules for any requests to file and suspend that are submitted after April 30, 2016. One must be 66 or older to file and suspend.

Under existing rules, filing and suspending triggers auxiliary benefits for a spouse or a minor dependent child. People who file and suspend under existing rules also reserve the right to request a lump-sum payout of suspended benefits at any time up to age 70 instead of claiming the 8% per year in delayed retirement credits.

But after April 30, 2016, no one will be able to collect benefits on a worker's record during the suspension. And the option to request a lump-sum payout of suspended benefits will disappear.

Separately, there is a four-year phase-in to file a restricted claim for spousal benefits. Anyone who was 62 or older by the end of 2015 retains the right to claim only spousal benefits when they turn 66 and switch to their own larger retirement benefits at 70. Those who were younger than 62 at the end of 2015 no longer have the choice of which benefit to claim. They automatically will be paid the higher benefit, whether on their own record or as a spouse.

ISTOCK

The good news is financial advisers have up to four years to help certain married and divorced clients make the best Social Security claiming decision that can still have a significant impact on lifetime benefits. But in order to claim spousal benefits under the new rules, the other spouse must already be collecting Social Security benefits or be old enough to have filed and suspended their benefits before the April 30, 2016, deadline.

DIVORCEES

The same four-year phase-in applies to divorcees who were 62 or older by the end of 2015. As long as they were married at least 10 years, have been divorced at least two years and are currently single, they can file a restricted claim for spousal benefits at 66 and switch to their own higher retirement benefit at 70.

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What's in store for advisers in the year ahead; plus tips to thrive

Now that another unusually active year has come to a rapid end, let's consider 2016 and imagine what the industry should anticipate.

In 2015, the stock market fluctuated along to a flat year. Indexing ruled, with a small group of stocks holding up the entire market. Yield remained scarce. Transactions for large RIAs were rampant, with two of the largest wealth managers changing hands. The robo-world gained traction: The Vanguard Group and Charles Schwab captured many billions in assets (far more than the independent robo-firms). This bodes interesting crosswinds ahead.

• **Unhappier clients.** Stagnant markets make for restless clients. This invariably leads folks to think about alternatives. Clients appreciate their advisers most when their investments are making money or when advisers walk them through a crisis. This year, more will question whether they are getting their money's worth, even for good advisers with great relationships.

• **Accelerated flows to indexing and increased pricing pressure.** We have seen a secular shift to indexing, but after a year like 2015, where it was close to impossible to outperform a passive benchmark, investors may continue the move to indexing for cost and performance. The Department of Labor ruling is about to force fiduciary standards, and it expressly promotes low-cost indexing. This will increase the visibility of one of clients' highest investment costs: what they pay their adviser. Don't be surprised if more of your clients bring up their fees. And if they aren't saying it, that doesn't mean they're not thinking about it.

• **Clients increasingly will test self-directed solutions.** Channel conflicts keep increasing and evolving. Clients may accelerate their use of different investment providers. The direct custodial solutions, the robos and the hybrid bionic solutions from fund companies like Vanguard may persuade individuals to try them out with some of their money. Since most advisers give away the planning and get paid for assets they manage for clients, it's easy to see how some clients might shift a portion of their assets to a cheaper self-directed index solution, thereby receiving all of the adviser's guidance while reducing what they pay their adviser. Imagine if all your clients did that with 25% of their assets. What would happen to your revenues? How about if a client chooses to shift 75% to a self-directed solution, but keeps you to provide planning and manage the remainder? At what point would you feel your clients were not paying adequately for your guidance? This dynamic will become more common.

• **Acquisitions pick up steam.** It's been a highly active M&A market. Add all the new entrants looking to buy firms, an aging adviser base, a listless market and a rapidly changing, digitized industry, and you have the makings for an explosive year of acquisitions. They won't just involve acquiring RIAs, but technology solutions and platforms too. I also expect many more mergers of equals.

• **Digitization adoption surges.** Having your own version of a digitized client experience will not be a choice for any successful growing adviser, but the world is still very complex and undefined, with no clear winners. Many firms are racing to create engaging client solutions, but no one really knows what the winning combination will be. The custodians, or any one of the platform firms, are spending furiously to create solutions to help advisers.

FOUR MOVES TO THRIVE

In times like these, clients need to be reminded why they pay us. They need a clear road map, explicitly describing what you do in good and bad times. Here is where you want to be by the end of 2016:

1. Oversee the client's entire financial life. Provide a consolidated view of their entire balance sheet and handle all financial choices.

2. Charge for the client's value. If clients pay you only for investments, they will consider alternatives. If you don't charge for guidance, they can take your advice and only pay you for what you manage, even if it's only half their money. To thrive, charge and deliver guidance on a client's entire financial life.

ISTOCK

3. Remind clients how you earn fees. It's easy to assume that your clients are happy unless they say something; however, every client thinks about costs in stagnant markets. You must routinely remind them why you charge what you do and why you are worth it.

4. A technology-enabled client experience. Every adviser will need to have a computer-heavy, people-light view of their practice. Pricing is coming down and that demands reliance on technology instead of people to maintain your margins, and your lifestyle.

We are in the midst of one of the most disruptive periods in our industry and this year it will be accelerated. Embracing change is the key to thriving in this brave new world. Make it a happy 2016!

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

LPL faces regulatory music

By Bruce Kelly

A close reading of two of the recent state settlements with LPL Financial concerning the firm's poor supervision of the sale of nontraded real estate investment trusts shows the intense effort required to act in compliance with state consent orders and pay clients back.

LPL Financial said in September that it would pay a $1.43 million fine and return money to investors for inappropriate sales of nontraded REITs. The settlement is the result of a multistate investigation conducted by the North American Securities Administrators Association.

LPL said it would remediate losses for unsuitable nontraded REIT sales from Jan. 1, 2008, through Dec. 31, 2013. Total restitution will be determined by a third-party review of about 2,000 sales.

Teams at LPL have been set up to help investors with remediation, according to recent orders with Texas and Pennsylvania, and offer letters to clients who bought the REITs will be sent out. Second letters are sent to investors if they can't be immediately reached. Those who agree to a remediation must tender their shares of the REITs in question.

2000 the number of unsuitable REIT sales being considered for restitution.

And when all is said and done, LPL will then circle back to the individual state and NASAA and hand them a report detailing the amount of funds reimbursed.

BESET WITH INQUIRIES

LPL has been beset with inquiries over its nontraded REIT sales since February 2013 when it reached a $2.5 million agreement with the Commonwealth of Massachusetts to pay fines and restitution over certain sales of nontraded REITs to Massachusetts investors.

"We are pleased to have resolved this matter," said Brett Weinberg, an LPL spokesman, in an email. "LPL has dedicated substantial resources to improving our processes and technology and enhancing our practices around the processing, sale, and supervision of complex products, and we believe these efforts will lower our risk profile and provide even greater consumer protection going forward."

As part of the settlement, LPL did not admit or deny the states' findings or conclusions.

The burden on LPL was reminiscent of how broker-dealers handled settlements in paying clients who bought auction rate securities, the market for which froze during the credit crisis in 2008, said Don Runkle, an industry consultant and former chief compliance officer.

"It was rather burdensome," he said of those settlements.

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IRA ALERT
Ed Slott

Newly improved retirement tax rules

Permanent QCDs, expansions and enhancements let advisers plan ahead with certainty

The so-called "tax extenders package" enacted on Dec. 18 improves on some existing retirement tax rules. Advisers should be aware of these changes and notify clients who might benefit from them early in the year.

Qualified charitable distributions are renewed — permanently.

QCDs finally have been made permanent, eliminating the almost annual wait-and-see ritual that has been the case since their inception in 2006. Advisers and clients have had to wait until the final days of the year to act with certainty.

QCDs expired again at the end of 2014, but the new law, the Protecting Americans from Tax Hikes Act of 2015, makes them effective retroactively for 2015 and beyond. No more expire-and-renewal nonsense each year.

QCDs allow charitably minded IRA owners and beneficiaries who are 70½ or older to directly transfer up to $100,000 of their IRA to charity each year. The distribution is not included in income, lowering adjusted gross income by a key amount that could otherwise trigger the loss of tax benefits or cause more Social Security benefits or investment income to be taxed.

SATISFIES RMD

The transfer can satisfy the annual required minimum distribution (up to the $100,000 annual limit). The QCD is not limited only to the RMD. Transfers can exceed the RMD up to the $100,000 annual limit.

For example, if Joe's RMD is $10,000 and he wishes to give $15,000 to charity for the year, he can transfer $15,000 directly to the charity from his IRA. The first $10,000 satisfies his RMD for the year, but the entire $15,000 is excluded from his income, lowering Joe's adjusted gross income.

For clients who wish to give to charity, the QCD provides the most tax-efficient way to give. In other words, the cost of giving is reduced by the tax benefit.

Now that the QCD provision is permanent, advisers can plan with certainty early in the year.

More public safety employees qualify for penalty-free access to their retirement savings.

The new PATH Act of 2015 enhances the ability of more public safety employees to take penalty-free withdrawals beginning in 2016. This is in addition to the trade bill signed into law in June 2015.

For many years, tax law provided an exception to the 10% early distribution penalty for withdrawals from company retirement plans for individuals who separate from service at age 55 or older. Another, less publicized exception, known as the "age 50 exception," is available for some public safety officials, and this provision now has been expanded.

Early distributions are still subject to income tax. The exceptions I am referring to here are only for the 10% penalty, but that still can provide much-needed savings for some. The exception is not available for distributions from IRAs.

New laws expand the definition of "public safety official." Under prior law, public safety officials only included state or local public safety employees. The first change in June 2015 expanded the term to include federal law enforcement officers and firefighters. Other federal workers, such as certain customs officials, border protection officers and air traffic controllers, were also given the ability to use the exception.

The second change, in the PATH Act, further expands that list to include certain nuclear materials couriers, any member of the U.S. Capitol Police or Supreme Court Police, and diplomatic security special agents of the State Department.

WIDER PLAN RANGE

As a result of the 2015 changes, the age 50 exception also is expanded to include distributions from governmental defined contribution plans. Previously, the exception applied only to distributions taken from governmental defined benefit plans. This will allow not only federal public safety employees, but also state and local public safety workers to access a wider range of retirement plans without penalty.

For archived columns, go to InvestmentNews.com/iraalert

To qualify for this exception, the distribution will have to occur in 2016 or later, but separation from the employer must have occurred in the year the employee turned age 50 or older.

It's generally best not to tap into retirement funds early. But if clients need to withdraw early and this new exception to the 10% early distribution penalty applies, it's good to know that they can access their company plan retirement funds penalty-free. The funds withdrawn are still taxable, of course, but there's no 10% penalty if the newly enhanced exception applies.

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

IN RESEARCH

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INVESTMENT STRATEGIES
Scott Minerd

Investing in a rising-rate environment

Energy, utilities, REIT and health care sectors are likely to outperform as Fed starts to tighten

I frequently remind myself of the inherent differences between traders and investors. Traders are more concerned with day-to-day price movements. They jump in and bail out, often at the wrong times. Investors, meanwhile, are focused on finding value for clients over the long term. Behaviorally, they adjust their portfolios less frequently and more strategically.

As an investor, I see many potential opportunities across geographies and asset classes that should start to emerge now that the Federal Reserve has begun to raise interest rates for the first time in nine years.

History shows U.S. equities usually rise in the first two years after the Fed begins a tightening cycle. And while we have upside in U.S. stocks, I'd think that we should expect a return of about 15% over the next two years.

Taking a closer look, our research shows that the energy, utilities, REIT and health care sectors have outperformed the broad market over the first two years of the last three Fed rate-hike cycles. Using the same lens, we find that small caps have outperformed large-cap stocks and growth has done better than value for the first 12 months after the Fed begins to tighten.

EUROPEAN EQUITIES

That said, the ratio of the total U.S. equity market cap to GDP is higher now than at any post-1950 bull market peak save the Internet bubble back in 2000. And when you start to look at the total market cap to GDP ratio in European countries, they're very close to their historical means. Given that the European Central Bank remains committed to accommodative monetary policy and the United States has entered a rising-rate environment, European equities will probably outperform U.S. equities in 2016.

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We also see the price/earnings ratio for emerging markets equities relative to developed markets approaching a level not seen since the financial crisis. This does not necessarily mean there will not be more pain, but emerging markets could bottom as early as March based on the historical pattern in which emerging markets typically bottom three months after the Fed begins to tighten.

While other equity markets may offer investors better relative opportunity, the bull market in domestic equities should continue, primarily because the growth outlook for the U.S. economy continues to be supportive. Ongoing labor market improvements, low debt levels and falling energy prices will assist the American consumer, which we expect will continue to support U.S. economic growth in 2016. Our projections show that a warmer winter resulting from a historically strong El Niño weather pattern could also be a boon. Previous strong El Niños have boosted U.S. GDP by 1.0-1.5%.

COMMERCIAL REAL ESTATE

Another driver of U.S. growth has been real estate. The amount of building activity in commercial real estate is roughly in line with the absorption rate, and we are only about midway through what historically has proven to be a consistent 18-year cycle in real estate. While valuations are getting frothy, commercial real estate should continue to be a strong performer in 2016.

Elsewhere, in currencies and commodities, the divergence in monetary policy between the U.S. and the rest of the world likely will lead to dollar strength and ongoing downward pressure on commodities in the near term. While we are inching toward the endgame in the decline of energy prices, it's not over. The last leg of a downtrodden energy market like this is usually one of the most dramatic parts, but we expect energy prices to find a bottom in 2016. It is time for long-term investors to become constructive on the energy sector and add names selectively to their portfolios.

HIGH-YIELD OPPORTUNITY

In credit, the recent sell-off in high yield, while painful for traders, presents an attractive buying opportunity that ultimately will prove rewarding for patient investors. A look at the first year of Fed rate-hike cycles since 1985 shows bank loans tend to deliver average returns of around 6%. On a risk-adjusted basis, a diversified portfolio of single-B bank loans that currently yield around 8% on average offers a superior risk-adjusted return relative to stocks.

It is also important to note that the average return in Morningstar's bank loan category has been positive in all but one of the last 20 years. That is a pretty good track record for investors to consider.

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

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RETIREMENT WATCH
Jamie Hopkins

Clients need prep for long-term care

Few have planned for such care, but 70% of 65-year-olds will require it in their future

A recent survey conducted by Lincoln Financial Group, "Managing Long-Term Care Risk," revealed some surprising reasons why Americans, aged 18 and over, are so unprepared to meet their long-term-care expenditures in retirement. An astonishing 73% of the survey's respondents significantly underestimated the costs associated with long-term care. Perhaps more troubling, only 22% of respondents believed that they would ever need long-term care. In fact, the risk that someone who is presently 65 will need long-term care at some point in their future is closer to 70%.

By underestimating the costs associated with long-term care and the likelihood of eventually needing long-term-care services, Americans will continue to be vastly unprepared for this major retirement risk.

Even the respondents who worked with a financial planner were not adequately informed or prepared for the potential risk of long-term care. Less than 40% of respondents with a financial adviser had ever discussed long-term-care planning with their adviser. While the topic of long-term-care planning can be difficult because it forces individuals to face their own frailty and mortality, it is a crucial conversation to have with clients to plan for a secure retirement.

BE COMPREHENSIVE

The long-term-care discussion should be comprehensive, include facts about the risks and costs, and provide clear explanations about the variety of long-term planning options now available.

Remember that long-term-care planning is not just a decision about whether to buy traditional long-term-care insurance or not. There are plenty of other options available. Advisers should be prepared to present the possibilities to clients and their families so together they can formulate a plan tailored to the individual's needs.

While long-term-term care insurance is specifically designed to help fund long-term-care expenditures, it can be very expensive and not everyone can qualify for coverage. However, in the past decade many so-called hybrid products have been developed that combine the benefits of long-term-care insurance with either a life insurance policy or an annuity. These hybrid products can act as a multipurpose utility tool for retirees, providing them with multiple forms of insurance coverage and a degree of flexibility not found in traditional long-term-care insurance.

In addition to insurance, Medicaid can be a primary funding mechanism for long-term-care expenditures, but this approach has serious disadvantages. To receive long-term-care coverage under Medicaid, an individual must effectively spend down all of his or her assets before any Medicaid benefits can kick in. Another downside of relying upon Medicaid is that you and your family often give up control of your care. This means you can no longer select exactly where and how you will receive care.

Another strategy used to pay for long-term-care expenditures is self-funding. This strategy puts the majority of the risk directly on your savings, meaning you have to set aside a large amount of money. Additionally, self-funding usually coincides with a heavy reliance on family caregiving. In fact, more than 70% of all long-term-care services are provided by family members, who spend an additional $5,000 out-of-pocket per year on average to provide care. Stress and demanding time schedules can force some family caregivers out of the workplace earlier than planned, often jeopardizing their own retirement security.

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TALK TO CAREGIVERS

This means any planning should at least include family members who might provide funding or caregiving services to make sure they are willing and able to assist if needed. Having a proper plan in place in advance can help alleviate the caregiver burden placed on family members by securing enough resources, whether insurance or otherwise, to help pay for assistance.

Long-term-care planning starts with a serious and well-informed discussion about the risk, and requires a comprehensive review of the potential funding options. If common misunderstandings about the severity and likelihood of long-term-care risk can be replaced with solid facts and realistic choices, American families can begin to take the necessary steps to become better prepared for a more financially secure retirement.

Jamie Hopkins is a professor of tax at the American College's Retirement Income Certified Professional program. Follow him on Twitter @jamiehopkins521.

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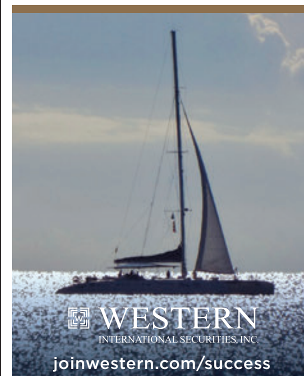

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THE InvestmentNews ADVISER CENTER

MAKE THE SMARTER MOVE

Fiduciary rule won't kill off rollovers

Income products, withdrawal options make IRAs attractive

By Greg Iacurci

Ever since the Labor Department handed down its rule to raise investment-advice standards for retirement accounts this past spring, stakeholders have talked about what effect the proposed regulation will have on the 401(k) and IRA markets.

One main focus has been IRA rollovers. Providing advice on IRA assets, an act not beholden to a fiduciary standard of care under the Employee Retirement Income Security Act of 1974, would be held to a fiduciary standard under the DOL's proposed rule.

Some in the financial industry claim rollover activity would slow down as brokers currently held to a less-stringent suitability standard of care give up prospecting rollover business from 401(k) plans to avoid liability risks and regulatory costs.

Others say the effect would be minuscule.

"IRA rollover activity is unlikely to be meaningfully changed should the proposed rule be implemented," said Jessica Sclafani, associate director at research firm Cerulli Associates.

New money from IRA rollovers contributed $377 billion to overall IRA assets in 2014, according to Cerulli data. And investors will continue to have reasons to make the switch.

"I don't think [the rule] is going to have a huge impact," said Kirk Cassidy, president and chief executive of Senior Planning Advisors. "I think it'd still make sense for most people [to roll over] given the opportunity."

The lack of retirement income products currently offered in 401(k) plans means participants generally can only tap into annuity-type products through the retail market.

FLOWING TO ALTERNATIVES

"I don't see people staying in plans more," said Barbara March, chief executive of BridgePoint Group, a financial services consultancy. "I agree that people will continue to flow out to alternative investments" such as annuities.

The fiduciary rule also will likely force more transparency in annuity pricing, Ms. March said. That could make annuities more palatable in the retail market, because the "perception of cost" is a major barrier to their adoption, she said.

The inability of most 401(k) plans to offer flexible or ad hoc withdrawals also makes rollovers attractive, according to a new Cerulli report, which claims IRA rollovers wouldn't be meaningfully impacted if the proposed DOL rule were implemented. An ad hoc withdrawal is a one-time distribution that's separate from regular monthly distributions a participant may be receiving from the 401(k) plan in retirement.

"As participants get older and there's a greater likelihood of a health scare, they need to be able to access these funds," Ms. Sclafani said. "And if they're still in a DC plan, the chances they have that flexibility for a partial withdrawal is not very common."

According to Vanguard Group, about 10% of defined contribution plans offer ad hoc partial distributions.

COMPLIANCE COSTS

The Securities Industry and Financial Markets Association estimates startup costs of $4.7 billion and ongoing annual costs of $1.1 billion for large and midsize firms to comply with the rule.

"I think some of the need to comply may reduce the number of advisers a little bit," Ms. March said. "But there will still be plenty of advisers who'd like to take those IRA accounts."

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GERARDO TABONES/ISTOCK

SEC queries retirement advice

Exam asks about recommendations advisers give on funds leaving 401(k)s

By Mark Schoeff Jr.

The Securities and Exchange Commission is diving deep into the retirement account advice investment advisers and brokers are giving to their clients, asserting the agency's presence in an area normally associated with the Labor Department.

As part of its examination sweep, the SEC is sending financial advisers a 13-page information request that includes 75 queries. The document focuses on the recommendations advisers make to roll over funds from a 401(k) to an individual retirement account, fees they charge, conflicts of interest, and supervision and compliance controls.

MANAGED ACCOUNT QDIAS

The document also devotes 25 queries to situations in which the registered adviser or broker serves as the adviser to a managed account qualified default investment alternative. An emphasis on QDIAs usually comes from the DOL, which enforces the Employee Retirement Income Security Act.

"That's the first time I've seen the SEC formulate questions that smack of a DOL request," said Jason Roberts, chief executive of the Pension Resource Institute.

In June, the SEC announced its retirement advice exam sweep. Now advisers are reporting that they are receiving the questionnaires, according to Mr. Roberts.

PROTECTING SAVERS

The SEC, DOL and the Financial Industry Regulatory Authority Inc., the industry-funded broker-dealer regulator, have made the protection of retirement savers a priority over the last few years.

The DOL is moving toward finalizing a rule that would require financial advisers to act in the best interests of their clients in retirement accounts.

Critics of the DOL rule have said the SEC should take the lead in regulating retail investment advice and that the DOL shouldn't create special rules for retirement accounts.

The SEC is mulling over its own fiduciary duty rule but has not yet made a proposal, even though the Dodd-Frank financial-reform law gave it the authority to do so five years ago.

SEC Chairwoman Mary Jo White has steadfastly maintained that the agencies operate under different laws and that they can pursue their own advice rules.

> "THE REGULATORY turf war is in full force."
>
> **Jason Roberts**
> Chief executive
> Pension Resource Institute

The SEC retirement advice sweep, though, is putting the agency's fingerprints on retirement advice policy.

"The regulatory turf war is in full force," Mr. Roberts said. "You can certainly see that they're trying to step up their oversight of this area and say that they have a handle on regulating it, and that it is not the vacuum that DOL has portrayed."

An SEC spokesperson was not immediately available for comment.

The SEC, which focused on conflicts of interest surrounding pensions for many years, wants to better understand how retirement investment products are being distributed. That puts an agency that enforces securities laws in the same space as the DOL, according to one investment adviser.

'DISTINCT BODIES OF LAW'

"This is the primary example that ERISA lives at the intersection of distinct bodies of law," said Kimberly Shaw Elliott, president of Plan Advisors, the retirement division of Independent Financial Partners. "It's squarely in [the SEC's] jurisdiction, and it sounds like they're asking the right questions."

Mr. Roberts encourages investment advisers to be prepared for the inquiry related to retirement accounts by paying attention to special rules for them and to "critically think about how they're serving those clients."

"They need to take into account the unique risks associated with that line of business," said Mr. Roberts, who also is a partner at the Retirement Law Group.

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BLOOMBERG

Morgan data-breach adviser dodges prison

Bloomberg News

A fired Morgan Stanley financial adviser who downloaded client information to a home server to give his job search a boost was sentenced to three years' probation for accessing the bank's computer network without permission.

Galen Marsh, who prosecutors said called the stolen data "the world's best cold-calling list," had some of the data stolen from him and posted on the Internet.

Mr. Marsh took the information to advance his career and had no intention of selling it, his lawyer Robert Gottlieb told U.S. District Judge Kevin Duffy at a hearing Dec. 22. The lawyer begged the judge not to send his client to prison, saying Mr. Marsh has rediscovered his faith and is volunteering at a soup kitchen and working as a consultant to a startup software company.

APOLOGIZED FOR ACTIONS

Mr. Marsh, who faced as long as five years in prison, apologized for his actions as his father, mother and wife watched from the front row of the Manhattan courtroom.

"I know what I did was wrong and I'll feel ashamed for it for the rest of my life," Mr. Marsh said.

Mr. Duffy agreed to impose probation but warned Mr. Marsh "to expect the roof to fall in" if he violates any of the terms.

"I will hit you with everything possible," Mr. Duffy said. "I'll make sure you spend your time in one of the worst places I can find, either Florence or Leavenworth. God forbid you should screw up once."

Mr. Marsh pleaded guilty in September to transferring confidential data on about 730,000 customer accounts to a private server in his home in Hoboken, N.J., from 2011 to 2014. Morgan Stanley has said that account data for about 900 clients was found on an external website.

While prosecutors determined Mr. Marsh's private server was accessed by hackers, the harm to the bank was foreseeable because he took the information and stored it at home, where it was vulnerable to intrusion, Assistant U.S. Attorney Christine Magdo said in court papers.

Confronted by his superiors, Mr. Marsh admitted "the data he had taken was the world's best cold-calling list," Ms. Magdo said, "and that he had been exploring job opportunities outside the bank."

Schlichter files another suit for excessive fees in 401(k)s

By Greg Iacurci

Jerry Schlichter, the attorney who's grabbed headlines by targeting large corporations and financial services firms in 401(k) suits, filed another class-action suit in December, alleging breach of fiduciary duty as a result of excessive record-keeping fees and use of proprietary investment funds.

The suit, Pledger et al. v. Reliance Trust Co. et al., targets the fiduciaries of the Insperity 401(k) Plan for allegedly causing participants to pay excessive fees to the record-keeper, Insperity Retirement Services. Insperity Retirement Services is a subsidiary of the plan sponsor, Insperity Inc., a human-resources services provider.

The complaint also alleges that Insperity and Reliance Trust Co., the plan's discretionary trustee, breached fiduciary duties under the Employee Retirement Income Security Act of 1974 by offering funds with high expenses and poor performance, including proprietary mutual funds and collective investment trusts offered by Reliance. Insperity also failed to adequately monitor Reliance, a fiduciary responsible for investment selection in the plan, according to the complaint.

'OWN SELF-INTEREST'

"We allege that Insperity and Reliance Trust together operated the plan for their own self-interest, sending excessive record-keeping fees to Insperity's in-house record-keeper," said Mr. Schlichter, managing partner at Schlichter Bogard & Denton.

"Reliance Trust was a fiduciary responsible for investment selection and picked its own funds, including target date funds that had only been in existence for less than a week. They performed poorly, had high fees and had no performance history," he said.

Reliance and Insperity could have selected identical funds with lower fees, but they didn't in order to drive revenue-sharing payments to Insperity's record-keeping arm, Mr. Schlichter alleges.

"Insperity does not believe the allegations have merit," an authorized company spokesperson for Insperity said. "Our plan allows over 2,800 small- and medium-sized businesses to make available cost-effective retirement options to over 80,000 eligible employees nationwide. The plan's expenses are reasonable and are lower than what our clients generally would face outside of the Insperity relationship."

The suit was filed in the U.S. District Court for the Northern District of Georgia, Atlanta Division. Damages are ongoing, Mr. Schlichter said, so the amount of restitution sought by plaintiffs hasn't been calculated yet.

The Insperity 401(k) Plan has approximately $2 billion in assets and more than 85,000 active participants, according to BrightScope Inc.

Mr. Schlichter has gained fame for numerous high-profile 401(k) suits dating back to 2006, of which a common theme has been excessive fees paid for record-keeping and investment management services.

Last year alone, Mr. Schlichter won the two largest settlements for this type of case, including $62 million levied against Lockheed Martin Corp. and $57 million assessed from Boeing Co. In May 2015, Supreme Court justices handed him a victory in Tibble v. Edison, saying fiduciaries have an ongoing duty to monitor plan investments.

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Medical marijuana: watchful waiting

By Jeff Benjamin

It is still way too early to put any serious money behind the fast-growing marijuana industries, but the potential is certainly there, and worth watching.

"Right now it's basically a penny-stock industry in its infancy, but it will grow geometrically unless the federal government decides to enforce federal laws," said Paul Schatz, president of Heritage Capital.

So far, 40 states have legalized the use of medical marijuana in some form, and four states have legalized marijuana for recreational use. But those state laws are still in technical violation of federal laws, which deem most marijuana distribution and use illegal.

The federal government extended for a second year the so-called "cease-fire" of federal marijuana-law enforcement over state laws with President Barack Obama's signing of the 2016 omnibus appropriations bill in December.

That is good news for advocates of marijuana, and could be good news for investors in the various growing and distribution industries.

"All of the state-level programs out there right now are currently in conflict with federal law, but this cease-fire bars the Department of Justice from interfering with the state-level laws for another year," said Steph Sherer, executive director and founder of Americans for Safe Access, which she describes as a 100,000- member, patient-based organization.

The future of the $4 billion legal marijuana industry is gaining momentum with more recreational initiatives in California, Maine, Massachusetts and Nevada. And Ms. Sherer expects to see enhanced medical-use legislation proposed in as many as 17 states next year.

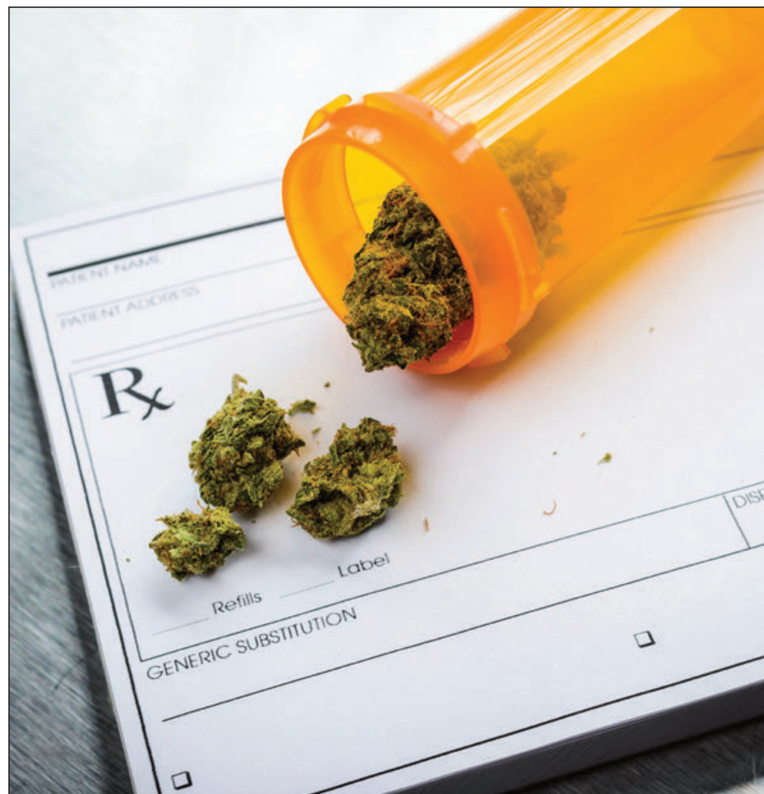
DOZENS OF FLEDGLINGS

But the investment community has yet to fully take shape.

As one might expect, there are dozens of fledgling penny-stock companies now being traded over the counter, displaying the kind of volatility that would likely rattle even the most aggressive investors.

For example, GrowBlox Sciences (GBLX), trading at 14 cents a share in December, was down 61% from the start of 2015. But in 2013, it had rallied to a 70% gain. CannaVest Corp. (CANV) was down 92.8% in December, at 15 cents a share, after falling 92% in 2014 but gaining 470% in 2013. Cannabis Sativa (CBDS), at 82 cents a share in December, declined 89% last year, following an 820% gain in 2014.

"My advice would be to invest in bakeries in states where marijuana usage has been approved," joked Bob Rice, chief investment strategist at Tangent Capital. "There aren't really any public companies you can seriously consider investing in," he added. "Soon enough some grown-up company, quite possibly a big tobacco brand, will start swallowing up the little local dispensaries and create a real national brand, and waiting for that might be the best bet for average investors."



ISTOCK

Mike Saul, an independent analyst and blogger at PaulandSaul.com, had to shelve a book he was writing about cannabis stocks because the extreme price volatility kept altering the storyline.

"Most of the stocks in the group are bulletin board stocks, which means the chance for manipulation is there, but we're still in the early stages," he said.

To be clear, not every stock in the highly fragmented universe is a fly-by-night penny stock. Cara Therapeutics (CARA), trading at more than $15 a share in the last week of December, was up 55% last year, but it wasn't listed in 2014. GW Pharmaceuticals (GWPH), at more than $68 a share in December, was up 3% last year after gaining 63% in 2014.

"If you're investing ... it should literally be money you expect to lose," said Mr. Schatz. "Most of the penny-stock companies will not be around in three to five years, and until the federal government changes the laws, it is high-risk squared."

He compares the investing risks and opportunities to Internet stocks in the early 1990s. "There's not a lot of credibility with these companies, and investors don't understand the industry," Mr. Schatz said.

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Morgan and Societe Generale fined

By Alessandra Malito

The Securities and Exchange Commission announced it has ordered Morgan Stanley Investment Management and brokerage firm Societe Generale Americas to pay $8.8 million and $1 million, respectively, for what the regulator claims was unsupervised prearranged trading conducted by a portfolio manager and a trader.

In what the SEC called an attempt to give certain clients preferential treatment, Morgan Stanley portfolio manager Sheila Huang allegedly arranged the sales of mortgage-backed securities to Societe Generale trader Yimin Ge at predetermined prices in 2011 and 2012. She then bought them back at a small markup. She also sold bonds at above-market prices but repurchased them at "unfavorable prices," without disclosing this to the client, the SEC said in a press release late last year. The scheme is known as "parking," according to the release.

> "HUANG engaged in ... trading schemes that benefited some clients while harming others."
>
> **Marshall S. Sprung**
> Co-chief, SEC Enforcement's Asset Management Unit

Marshall S. Sprung, co-chief of the SEC Enforcement Division's Asset Management Unit, said the firm failed to see what Ms. Huang was doing because of its lack of supervisory oversight and failure to implement policies. "[Ms.] Huang engaged in prearranged trading schemes that benefited some clients while harming others," he said.

$8 MILLION PENALTY

Morgan Stanley neither admitted nor denied the charges, but agreed to pay an $8 million penalty and a reimbursement of about $858,000 to the client accounts who were affected.

Ms. Huang also neither admitted nor denied the charges, but has agreed to pay a $125,000 penalty. She has been barred from the industry for at least five years.

A Morgan Stanley spokesman said the firm has taken "appropriate compensatory action with respect to clients harmed by the misconduct."

"The actions of this former employee stand in stark contrast to our firm's commitment to integrity and the highest standards of ethical conduct," he added.

The SEC also found Societe Generale failed to supervise Ms. Ge. The company neither admitted nor denied the charges, but agreed to pay an $800,000 penalty and $211,000 in disgorgement and prejudgement interest. It did not respond to a request for comment. Ms. Ge, who no longer works at the firm, has agreed to pay a $25,000 penalty and is barred from the industry for at least three years.

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Nostalgia strategy in response to robo-trend

A good approach for marketing when robo-competition is too much

Many advisory firms are feeling the pressure of competing with robo-advisers.

They're trying to figure out how to incorporate an automated investment platform into their practice in order to keep up with this technology trend. But does it even make sense for advisers to try to stand out using the premise of being on the cutting edge of technology? Most advisory firms don't possess the truly innovative technology that would clearly set them apart from the competition, so it isn't likely to benefit them to try to compete on this level. And yet they are trying.

With the trend among advisory firms to become more tech savvy, an opportunity emerges to stand out from the crowd by going in the opposite direction and embrace the old. This can be done through nostalgia marketing.

Professional marketers and advertisers have found that nostalgia is one of the most powerful emotional tools we have. Reminiscing about a seemingly simpler time creates feelings of comfort, happiness and connectedness.

The first step toward embracing nostalgia marketing is to identify the era that resonates most with your prospects and clients. Analyze your clients and pinpoint the decades during which they grew up. If your clients are baby boomers, that would

be between the 1950s and '70s; for gen-Xers, the '70s and '90s; and for millennials, the '90s and early 2000s.

FOCUS ON CHILDHOOD ERA

Once you have identified the right era, think about what may have been important to your client during their childhood that can be connected to your brand. Answer the questions below to start brainstorming ideas that will resonate with your clients and prospects. If you aren't in the same age group as your target client, consider bringing together a focus group so that your answers are authentic and not based on stereotypes.

- What are some of the traditions your clients would have had (e.g., holiday or seasonal traditions)?
- What were some of the key cultural moments for their generation?
- What are some of the cherished memories your clients share with others their age?
- What images do they associate with their adolescence?
- What products and services were an integral part of their lives (e.g. PanAm, Polaroid, the Walkman)?
- What cars did they drive?
- What music did they listen to?
- What movies and TV shows might they have watched?
- What toys or games could they have played with?

Once you have identified the elements that resonate with members of your clients' generation, it's time to think about how to integrate those concepts into your marketing. Here are just a few ways:

- **Build nostalgia into your brand.** If nostalgia fits into your company culture, consider integrating it into your brand. One advisory firm I work with built an entire brand around Americana, evoking a sense of nostalgia for simpler times. You can see how they integrated this concept in their company video.
- **Host an event.** Events can be a great way to transport clients and prospects back to their past. For example, during the holidays, you can rent out a classic movie theater and show the sing-along version of "The Sound of Music." During the fall, you can host an apple-picking excursion.
- **Work with images.** Use retro images in your email marketing, social media and even advertising campaigns. For example, financial planner and commentator Michael Kitces incorporated this strategy with his new pixelated avatar — an image that deeply resonates with children of the '80s.
- **Get creative with gifts and promotional products.** Even if you don't incorporate nostalgia into any other part of your marketing, you can still use it effectively through corporate gifts and promotional products. Instead of giving away a standard coffee mug branded with your logo, for example, consider presenting a mason jar with your logo etched on the glass.

As with any good marketing campaign, the key to a winning nostalgia marketing strategy is to be authentic and consistent. You don't want to overdo it or make it feel contrived, thus turning off clients and turning away prospects. As always, the goal is to connect emotionally. Recalling the pleasures of simpler times can be a great way of doing just that.

Kristen Luke is co-founder and marketing consultant at Kaleido Inc. You can follow her on Twitter at @kristenluke.

TECH CONNECT

Tips and tricks for navigating technological change in 2016

ISTOCK

It's not necessary to rehash popular quotes about change. Nor do we need dire warnings that if change doesn't happen, disaster is certain. More than ever before, we are aware of the demand for change from customers to our businesses. Moreover, we have seen the disruption to traditional business models outside of financial services (think Uber and taxis), and in our own backyards (think the current emergence of robo-advisers).

Getting into the appropriate frame of mind for change is not just about defining your requirements and affirming procedures. Those are essential steps. Yet there is more. Before your first demonstration or white paper, you have to consider the culture of how you operate your business and manage your staff. Understanding how you work and interact with your business technology today, good or bad, will ensure you understand the impact of the changes you are planning.

Talk with your team about likes and dislikes of current technology, how you have worked around missing features in systems, and why you are willing to change. Not everyone will have the same needs, and often even the frustrations are for differing problems. However, talking through it will ensure you all understand your differing roles and requirements.

NOT BUSINESS AS USUAL

What may be the most difficult element of preparing for technology changes in your business: understanding you will not be experiencing business as usual. This means accepting that there will be confusion, work may be completed more slowly at first and some signs of frustration will arise. Yet in telling yourself these are important steps, it means you are seeing, and communicating to your staff, the vision for where these activities and challenges will lead. Namely, more efficient systems and higher-quality output for your clients.

There are four things you can do to position yourself and your business for success with big technology changes:

1. Implement a strong internal communication plan. From the top down, this is where you begin, or else you may not get out of the idea phase. "The boss" has to be seen to embrace and believe in what will be happening in the business.

2. Nominate a strong project manager. If there is more than one person in the business, you absolutely need a project manager to serve as the point person and stakeholder for your tech initiatives. Choosing someone who can work with all vendors, internal staff and outside consultants is key.

3. Identify "scope creep." A term from the corporate enterprise, but relevant to tech change, is scope creep. This is when initial requirements are defined and decisions are made, and then, one by one, additional requirements begin "appearing" and put risk into the successful completion of the project. Your project manager will need to identify this activity and put a stop to it.

4. Develop a report card. The tool is not to punish folks for bad grades, but to track your progress and learn as you grow into your new technology. Measuring means affirmation that things are getting done, and perhaps more important, you and your team are understanding how to effectively use the new technology in real world scenarios.

It is important to remember that in any business, we have many different levels of skill and savvy with technology. Taking the time to invest in your organizational mental health will build a stronger, cohesive belief that your technology change will ultimately result in positive returns. Taking these steps and getting into the right perspective also will make you more confident in communicating clearly with those helping you, both vendors and consultants.

If you are planning technology initiatives in 2016, consider taking these steps sooner than later. That may help make those business resolutions more likely to happen, and help you ring in a productive new year.

Neal Quon is the co-founder of QuonWarrene.

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Young clients want face-to-face meetings with their advisers

By Alessandra Malito

Contrary to popular belief, young clients want face time with their financial adviser — not just FaceTime

Fifty-four percent of clients between the ages of 18 and 44 want to communicate with their advisers face to face. That's the same level of interest seen in clients between the ages of 45 and 54, and higher than the 48% level of interest seen in clients between the ages of 55 and 64, according to a study released last week by the Financial Planning Association and LinkedIn.

However, in figuring out how to best engage with clients, the age of clients is only one factor that should be taken into consideration, said Mike Byrnes, president of adviser consultancy firm Byrnes Consulting.

"Age is kind of the 101 version, but it should morph into customization," said Mr. Byrnes, who said advisers should also take into account a client's level of comfort with social media platforms.

First and foremost, advisers should simply ask their clients how they would like to stay in touch.

Advisers should first understand what clients want to hear, and then use their preferred methods of communication to deliver that information, said Julie Littlechild, an FPA board member.

For example, a client may enjoy her adviser sharing relevant articles on Twitter, but if her adviser is sending along pieces unrelated to her circumstances, that client won't be engaged. An adviser's best bet is to figure out what would be relevant to the client first and then send along this information through the client's preferred communication vehicle.

"[FOR] CLIENT engagement … [go] deep to understand their needs and fears."

Julie Littlechild
Board member
Financial Planning Association

WHAT INFO ENGAGES

"When we talk about client engagement, the fundamental issue is understanding what kind of information will be engaging, and going deep to understand their needs and fears," Ms. Littlechild said. "How you communicate that then becomes a matter of preference."

The study, "Financial Professionals and the Future of Thought Leadership and Social Media," underlines clients' desire for education, on or off social media, Ms. Littlechild said.

"When you look at what engages clients, education is one of the main things," she said.

Jonathan Swanburg, a financial adviser with Tri-Star Advisors, said he often hears the stereotype that younger clients spend all of their time on social media, but he doesn't see that. The study also found that only 23% of clients ages 18 to 44 prefer communication shared through professional networks, such as LinkedIn.

"That's not the source of official news [for them] and not the way I build up my brand," he said.

Mr. Swanburg said he meshes the human quality and the online experience by offering his clients, who prefer to do their own research online, screen-sharing options. This allows his clients to speak to him from wherever they are while looking over important information.

At the end of the day, however, it's the building of relationships that makes or breaks client engagement, he said.

"As much as technology improves and as much as you try to replace different activities with technology, the in-person meeting for a client, 18 or 80, is still the most important part of the business," he said.

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SEC details Aug. 24 market slide

Continued from Page 2
stocks opened on schedule.

Although 1,058 of the halts were in 327 exchange-traded products and 220 halts were in non-ETPs, the report stressed that "80% of ETPs did not experience a single halt." That was of little comfort to Mr. Feight, who saw prices blow past his stop-loss orders to turn 15% stops into 30% stops before he was able to get out.

Adding insult to injury, much of the market carnage was over after the first few minutes of trading, and prices mostly reverted to their pre-opening levels by midday. That raises more questions about safeguards that are supposed to be in place to re-adjust limit orders that are executed during sudden and extreme market disruptions.

"What should really make you nervous is that they still don't know what the hell happened," said Bob Rice, chief investment strategist at Tangent Capital.

The report did not propose any changes to current exchange systems nor provide clear answers as to why the markets opened so fitfully on Aug. 24. It described the volatility among ETFs as idiosyncratic, with some large-cap ETFs trading at discounts to net asset values while similar large-cap ETFs were trading at premiums, and with ETFs across various strategies impacted.

'LITTLE IN COMMON'

"This was a product-spectrum problem, and I genuinely believe this is a tremor before the earthquake," Mr. Rice said. "One of the most interesting takeaways is that most of the ETFs impacted had very little in common with each other."

Like Mr. Feight, Paul Schatz, president of Heritage Capital, recalls the madness of that morning, but Mr. Schatz was frustrated about not being able to buy in on the pullbacks.

"I had an entire portfolio of ETFs, and some were down 40% in the first 10 minutes of trading," he said. "I thought it was a flash crash, and tried to get in there and start buying, but I couldn't get my orders typed up quick enough before the prices bounced back. The SEC needs to figure out what happened and then put in some structural reforms to prevent it from happening again."

The absence of any conclusions as to why the slide occurred or any strategies for preventing it from happening again is likely to be most unsettling to advisers and investors. That may help explain why the report was released during the typically quiet week before New Year's.

"This report is a record of what happened, and it can happen again unless something changes," said Todd Rosenbluth, director of mutual fund and ETF research at S&P Capital IQ. "The lesson is really that ETFs can trade like stocks and can be impacted in the same way as stocks."

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Will IBDs get their mojo back?

Continued from Page 3
many small to midsized firms.

Large insurance companies, which snapped up IBDs in the late 1990s, continued to flee the business because of low margins and high risk. American International Group Inc., for example, is looking to sell its network of nearly 5,000 advisers and four broker-dealers.

And reputations were scorched. Nicholas Schorsch, who paid a record price for the Cetera Financial Group just 20 months ago, is no longer the controlling partner at RCAP. Another firm he controlled, Realty Capital Securities, in December settled charges by the Massachusetts Securities Division that RCS had fraudulently rounded up proxy votes to support real estate deals sponsored by Mr. Schorsch's AR Capital, the company that managed his REITs.

A FOOT IN EACH REGULATOR

The question for 2016 is whether independent broker-dealers can regain the momentum they enjoyed in 2009 and 2010.

That's when many wirehouse advisers were running away from Wall Street financial institutions and their damage to advisers' reputations to join independent broker-dealers and establish a "hybrid" business, meaning they had one foot in a broker-dealer, registered with the Financial Industry Regulatory Authority Inc., and the other in the registered investment adviser world, which is regulated by the states and the Securities and Exchange Commission.

> "WE'VE ... BEEN able to adjust in the past, but the fiduciary rule is a big unknown."
>
> **Larry Papike**
> President
> Cross-Search

"The Department of Labor fiduciary rule will compound the problem. It will just get worse," said Jonathan Henschen, an industry recruiter. "Our world is becoming all about compliance rather than the adviser and the client. 2015 was a depressing year."

"Can the mojo return to the IBD world the way it was a few years ago, when we enjoyed steady growth?" asked Larry Papike, president of Cross-Search, a recruiting firm that specializes in independent reps and employees who work at IBDs. "With everything so up in the air with the DOL and the fiduciary rule, I don't see it. The questions are, how will the rule look and how will the IBD industry deal with it? We've always been able to adjust in the past, but the fiduciary rule is a big unknown."

The recent turmoil, including RCAP's persistent problems and the impending sale of AIG Advisor Group, could turn 2016 into a strong recruiting year, at least in the first quarter, said Mr. Papike. "This year was horrible for recruiting, with the exception of the last quarter and last two months," he said. "Everyone I've spoken to in the last two months has pointed to the recent disruption in the market as being positive for recruiting. AIG and RCAP are so fluid and up in the air. There will be recruiting momentum in the first quarter."

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Finra proposes pay-to-play restrictions

Continued from Page 3
finalized, the regulation could affect brokers' political contributions in the 2016 election cycle.

The SEC rule changed how adviser advocacy organizations raised and donated money in the 2012 election year.

"I think it's not a coincidence [Finra] finally got the rule out and [this] year is an election year," Ms. Lynch said.

Brokerages will need to ensure they have adequate record-keeping systems in place to address the rules, according to Susan Grafton, partner at Dechert.

"Brokers will need procedures for tracking their associated persons' contributions," she said.

"The rule imposes additional record-keeping requirements and there will be a need for additional training of personnel, because a lot of pay-to-play violations happen inadvertently," Ms. Grafton said.

> "BROKERS WILL NEED procedures for tracking their associated persons' contributions."
>
> **Susan Grafton**
> Partner
> Dechert

Because Finra's pay-to-play proposal is stipulated by the SEC's rule-making endeavor, many brokerage firms are likely already in compliance with the proposed regulation, according to Ms. Lynch.

"Many firms have already gone ahead and adopted their own guidelines that already meet their requirement because they knew this was coming," Ms. Lynch said.

Where firms could fall short is the maintenance of a prospect list identifying parties being solicited in order to flag when solicitation of a government entity is taking place, Ms. Lynch said.

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THE BOTTOM LINE ON FEES / DEC. 8

Based on data collected through the InvestmentNews Financial Performance Study of Advisory Firms and Adviser Compensation & Staffing Study, this webcast will examine the impact of fee structure and pricing on overall revenues, profitability, and more.

HOW TO ENSURE MARRIED CLIENTS GET THE MOST OUT OF RETIREMENT / NOV. 18

Clients often have to trade off flexibility in order to generate the income they need in retirement. This is especially true for married clients who must make difficult decisions today that may limit their ability to adapt to their needs in the future. But, what if you could offer a solution that would provide married clients with guaranteed lifetime income, but also provide them with fewer compromises?

THE RETIREMENT PLAN ADVISER OUTLOOK / NOV. 17

A constantly evolving regulatory environment and investment landscape are re-defining the rules for advising defined contribution plans. With the delivery of financial advice to retirement plans and accounts at the center of intensified discussions surrounding a universal fiduciary standard, even more change is on the horizon for financial advisers in 2016.

TAX PLANNING IN 2015: MORE IMPORTANT THAN EVER / NOV. 10

With 2015 shaping up to be a down — at best flat — year for stocks and another year of low interest rates, tax planning is more important than ever. Opportunities to harvest losses and lay the groundwork for 2016 are at hand. On this webcast, the panel discusses what steps advisers should be taking now to prepare clients — and their portfolios — for tax season. From stocks to mutual funds to ETFs, both in traditional asset classes and alternatives, it's all covered.

HOW TO GET MORE FROM YOUR VARIABLE ANNUITIES / NOV. 3

Many financial professionals, and the investors they serve, are already using annuities for accumulating and distributing retirement assets, but are you getting the most out of these annuities? The truth is, many advisers miss out on some of the biggest tax benefits of these investment products (and some advisers aren't familiar with annuities at all.) So, what are these benefits and how can you leverage them? Join InvestmentNews for a conversation on this critical issue.

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Advisers in demand on the Street

Continued from Page 2

"When an industry blows up, you usually get a couple of really good years," said Brian Foran, a partner at Autonomous Research. "It's similar to banks in 2008 and 2009, when you had some of the biggest acquisitions ever and it was phenomenal for financial institutions bankers."

RESTRUCTURING BANKERS

Rising defaults, widening spreads on high-yield debt and climbing U.S. interest rates mean restructuring desks have a big year ahead, according to Vincent Hung of Autonomous Research. Those bankers advise debtors or creditors when companies need restructuring through asset sales or bankruptcy. Boutiques including Houlihan Lokey Inc. and Lazard Ltd. dominate the field (megabanks are often conflicted as creditors or underwriters), and the firms could see a 24% jump in restructuring revenue next year, Mr. Hung said in a Dec. 18 note.

RATES TRADERS

Rates traders already are poised for some of this year's biggest raises, with those handling options due for a 15% increase on average, according to recruiting firm Options Group Inc. Trading government bonds and related instruments should remain strong in 2016 as the Fed tightens monetary policy while the European Central Bank loosens it, JPMorgan Chase & Co. Chief Financial Officer Marianne Lake said last month.

"You finally have an outlook where major central banks are going in different directions," Mr. Foran said. "That just creates a lot of activity."

ELECTRONIC TRADING

Banks need traders and quants to improve platforms that help clients make and manage bets across multiple assets and markets, said Jessica Lee, an Options Group director.

"A lot of hedge funds have done a better job than banks at integrating electronic platforms to trade cross-asset," Ms. Lee said. "You have people at high-frequency trading platforms who've never worked at a bank who are actually going to banks now."

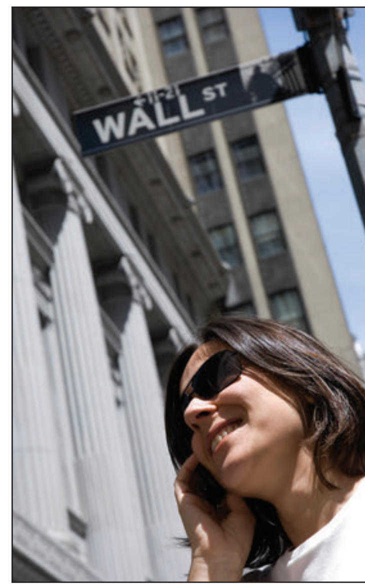
Those who jump from hedge funds typically can expect a 25% pay raise when joining a bank, she said.

CORPORATE FINANCE

While investors showed heightened skittishness in December about holding risky corporate debt such as leveraged loans, some areas of corporate financing are expected to flourish this year. Continued merger activity will drive investment-grade debt issuance, even with rates rising, Jim Amine, head of Credit Suisse Group's investment bank, said in October. He and others have predicted a pickup in private placements, and banks are increasing their efforts to market derivatives to corporations as they raise capital.

JUNIOR EMPLOYEES

Unless you're the star of the desk, it's good to be junior, according to recruiters. In the wake of the financial crisis, many departments slowed hiring and shrank, and workers who survived the cuts then stuck around longer to make up for lost earnings. That's left many desks with a dearth of employees with five to seven years of experience, warping the typical shape of organizations' ladders so that they're thin in the middle, said Paul Sorbera, president of search firm Alliance Consulting.



ISTOCK

Demand for analysts, associates and vice presidents "is as strong as I've seen it," Mr. Sorbera said. By contrast, "there is an overwhelming amount of senior people in the barbell at the top."

World's richest lost $19B last year

Continued from Page 5

His 20% rise was still $19 billion short of the increase for the year's top gainer, Amazon.com Inc. founder Jeff Bezos. The billionaire more than doubled his fortune to $59 billion as investors cheered profits at the world's largest online retailer. Mr. Bezos added $31 billion in 2015, undoing the $7.4 billion decline he saw in 2014 and propelling him up 16 positions to No. 4 on the index.

The shifts at the top came as global stock markets swung from early-year increases to sharp declines in the later months, with the MSCI ACWI Index falling 3.8% by the end of trading last Monday.

The world's 400 richest people control a combined $3.9 trillion according to the index, more than the GDP of every country on Earth except for the U.S., China and Japan. At last year's peak on May 18, the billionaires had almost $4.3 trillion, a $267 billion increase from Jan. 1. In August they lost those gains and more as a global sell-off claimed as much as $182 billion in a week.

Mr. Bezos and Mr. Ortega dominated the upside of last year's gyrations, adding $43 billion between them. Their performance contrasted with that of the family that owns about half of Wal-Mart Stores Inc. Five members of the Walton family lost a combined $35 billion in 2015.

49 EXIT INDEX

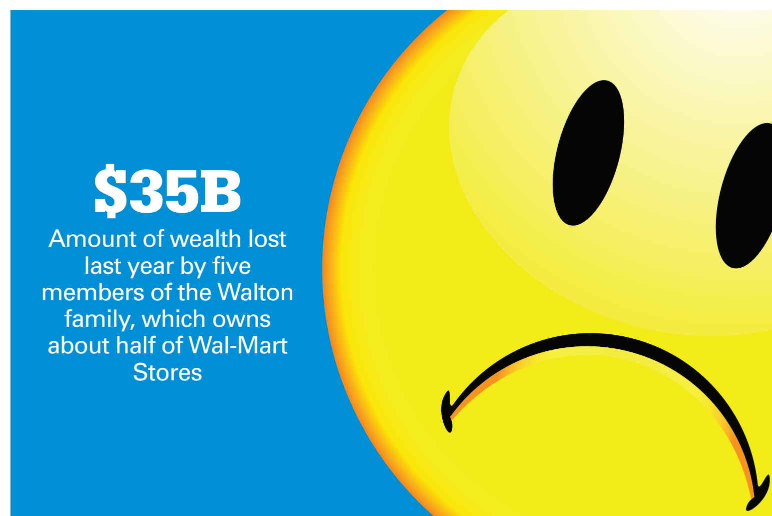
The market declines knocked 49 billionaires off the ranking this year, including Glencore chief executive Ivan Glasenberg and Wang Jing, a Chinese telecom entrepreneur who personally invested $500 million to help Nicaragua build an alternative to the Panama Canal. Mr. Glasenberg lost two-thirds of his fortune as he raced to slash debt at the Swiss commodities company, and Mr. Wang's wealth fell by about 86% last year.

Brazilian banking billionaire Andre Esteves, who was last ranked by the index in 2014, fell even further last year when his fortune declined by $1.5 billion. Mr. Esteves was hauled off to jail by police in November for allegedly trying to interfere in a corruption investigation. He was released after the country's supreme court ended his imprisonment after three weeks but he remains under house arrest.

China's billionaires had the wildest ride last year. On Jan. 1, 2015, there were 23 Chinese billionaires on the index with a combined net worth of $205 billion. At their May 27 peak, there were 31 with a combined $348 billion. Last Monday, there were 28 Chinese billionaires with $256 billion.

Russia's wealthiest continued to experience their own tumult. The country's richest people lost $55 billion in 2014 after the West imposed sanctions in the wake of President Vladimir Putin's annexation of eastern Ukraine. In 2015, plunging oil prices and the enduring chill of sanctions contributed to the country's first economic contraction in six years. There were 19 Russians among the 400 last Monday who had lost $8 billion during 2015. The group was on track to claw back their 2014 losses until June, when the price of oil — Russia's biggest export — began to dive.

Technology was the best-performing industry for billionaires in 2015. The 44 technology billionaires added $81 billion to their total net worth, led by Mr. Bezos' $31 billion rise. Facebook Inc. CEO Mark Zuckerberg became $12 billion wealthier as the social network embarked on a mobile advertising push and its audience grew even bigger. Strong ad sales also boosted the fortunes of Sergey Brin and Larry Page, cofounders of Google parent Alphabet Inc. They gained a combined $20 billion.



ISTOCK

The 31 metals, mining and energy billionaires were hit hard as a collapse in prices for oil, iron ore and other natural resources shaved $32 billion from their fortunes. Australia's richest person, Gina Rinehart, lost more than a quarter of her wealth as iron ore plunged by almost half. Ms. Rinehart started shipping iron ore from her Roy Hill mine in December, boosting the global supply, which some analysts say could contribute to a further slide in prices.

In Nigeria, where tumbling oil prices caused slower growth, Africa's richest man, Aliko Dangote, suffered his second-straight year of losses. The owner of the continent's biggest cement producer, Mr. Dangote now has $14 billion, about half what he had at his peak in January 2014.

The billionaires cited either declined to comment or didn't respond to calls and emails requesting comment.

NEW ARRIVALS

The Bloomberg index uncovered 115 new or little-known billionaires in 2015. In November, Wal-Mart heiress Christy Walton lost her title as America's second-richest woman after recently unsealed court documents revealed that her late husband gave a third of his Wal-Mart shares to their son, Lukas. At 29, he's the 92nd-richest person in the world with $11 billion.

Elsewhere in the U.S., the rise of dominant investment banks Goldman Sachs Group Inc. and JPMorgan Chase & Co. made billionaires of their respective chairmen, Lloyd Blankfein and Jamie Dimon, both rare instances of hired managers accumulating extraordinary wealth.

In Hong Kong, Yeung Kin-man has amassed a $10 billion net worth through Biel Crystal Manufactory, one of the biggest makers of glass covers for iPhones and other smartphones.

As turbulent as 2015 may have been, 2016 may be even more so, according to Larry Adam, chief investment officer for Wealth Management Americas at Deutsche Bank.

"We're going to see a lot more volatility than we've seen over the past couple of years," said Mr. Adam, who sees emerging-market currencies and uncertainty around the U.S. election among the major market risks. "Much more muted performance and much more volatility. Caution is warranted."

Fiduciary timing

Continued from Page 2

financial industry will continue to resist, the rule probably will be finalized. After that, its fate could be determined by the inevitable lawsuit.

The prospects for an SEC fiduciary-duty proposal this year are dim. Although SEC Chairwoman Mary Jo White supports a rule, she needs the support of at least two commissioners.

"It would be very tough for her to get this done by October," said Karen Barr, president and chief executive of the Investment Adviser Association. "This is a really complicated and controversial issue."

Moreover, the SEC will be busy. "They have some big, meaty issues to grapple with," Ms. Barr said.

Among the regulatory developments to watch:

Third-party exams: The SEC only examines about 10% of the approximately 11,500 registered investment advisers each year. The staff is working on a proposal to augment the SEC's oversight with third-party exams. Reviewing advisers is not as controversial as raising advice standards, so this rule could move faster than a fiduciary rule.

"Politically, it's not as complicated an issue, at least for the chair,"

> "THEY HAVE some big, meaty issues to grapple with."
>
> **Karen Barr**
> President and CEO
> Investment Adviser Association

said Neil Simon, IAA vice president for government relations.

SEC nominees: With the departure of Republican member Daniel Gallagher Jr. and Democratic member Luis Aguilar, the SEC is down to three members. It's unclear when the Senate will confirm their replacements, Republican Hester Peirce and Democrat Lisa Fairfax. Until then, don't expect the SEC to propose major rules. Ms. Peirce is coming from an academic research position and Ms. Fairfax is a law professor. "It's unfortunate that there will not be a commissioner with industry experience," Ms. Barr said.

Transition rule for investment advisers: The SEC has begun to propose rules to reduce systemic risks in the asset-management industry. It has issued proposals on data gathering, liquidity and derivatives. On deck is a proposal that would require advisers to implement transition plans in the case of the loss of a firm's leader or a major disruption.

Cybersecurity: The SEC is engaged in a second round of sweep exams to assess cybersecurity at advisory firms. Although a rule in this area is not expected, it may follow up exams with enforcement. "Cybersecurity is going to be taken to a new level," Mr. Thompson said.

New leadership at Finra: Financial Industry and Regulatory Authority Inc. chairman and CEO Richard Ketchum will retire this year. He would like to leave by summer, depending on when his successor is named.

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