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RIA RUNDOWN 2016: ARE RIAs LOSING THEIR COMPETITIVE ADVANTAGE? PLUS, RANKINGS OF TOP FIRMS. PAGE 8

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CHAMBER OF COMMERCE OF THE UNITED STATES OF AMERICA, FINANCIAL SERVICES INSTITUTE, INC., FINANCIAL SERVICES ROUNDTABLE, GREATER IRVING-LAS COLINAS CHAMBER OF COMMERCE, HUMBLE AREA CHAMBER OF COMMERCE DBA LAKE HOUSTON AREA CHAMBER OF COMMERCE, INSURED RETIREMENT INSTITUTE, LUBBOCK CHAMBER OF COMMERCE, SECURITIES INDUSTRY AND FINANCIAL MARKETS ASSOCIATION, and TEXAS ASSOCIATION OF BUSINESS,

Plaintiffs,

v.

THOMAS E. PEREZ, SECRETARY OF LABOR, and UNITED STATES DEPARTMENT OF LABOR

Defendants.

Civil Action No. 16-cv-1476

THE FINANCIAL SERVICES INDUSTRY STRIKES BACK ON DOL FIDUCIARY RULE. PAGE 3

EDITOR'S NOTE

Let the legal battle begin

Well, the other shoe has dropped — finally.

The financial services industry came out swinging last week against a Labor Department rule aimed at raising the bar on the quality of investment advice delivered to retirees or those saving for retirement. The Securities Industry and Financial Markets Association, the Financial Services Institute, the Insured Retirement Institute and others filed a lawsuit last Wednesday aimed at striking down the DOL's so-called fiduciary rule. A day later, the National Association for Fixed Annuities filed a similar suit.


Frederick P. Gabriel Jr.

RULE PROVISION

The groups are going after a provision in the rule that allows investors to file class-action lawsuits when they believe a financial adviser has given them bad, or conflicted, advice. They are also claiming, among other things, that the DOL exceeded its authority in issuing the rule.

Readers of *InvestmentNews* were not surprised. Senior reporter Mark Schoeff Jr. has been writing about the likelihood of these suits since the rule was unveiled on April 6. If anything was a surprise, it was the fact that it took them nearly two months to launch an attack.

This week's cover story by Mark looks closely at the lawsuit filed by SIFMA, FSI, IRI and others. It considers the significance of the suit being filed in Texas. It also looks at whether the lawsuit will delay implementation of the rule — if not scuttle it altogether.

I encourage you to read Mark's coverage of the legal battle brewing over the rule.

I also encourage you to read the story that would have dominated our cover if not for the filing of the lawsuits: "Losing the fiduciary card" by Christine Idzelis. The story, which begins on Page 8 and is part of our annual RIA Rundown, examines whether registered investment advisers are losing their competitive edge now that brokers also will be acting as fiduciaries when dealing with retirement accounts. The report also includes several RIA rankings, including the nation's top fee-only RIAs.

InvestmentNews will continue to stay on top of the DOL's fiduciary rule. You can follow all our coverage at InvestmentNews.com/fiduciary.

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Fidelity sued over Delta 401(k)

Record keeper gets part of fees the plan pays Financial Engines, suit claims

By Robert Steyer

Participants in a Delta Air Lines Inc. 401(k) plan have sued units of Fidelity Investments, alleging fiduciary breaches in Fidelity's record-keeping role.

The case, Fleming et al. vs. Fidelity Management Trust Co. et al., was filed May 20 in the U.S. District Court in Boston. Delta isn't a party to the lawsuit.

The participants, who are seeking class-action status, allege that Fidelity "wanted a piece of the action" when Financial Engines was hired to provide investment advice for the Delta Family-Care Savings Plan, according to the complaint.

The plan had $7.84 billion in assets as of Dec. 31, 2014, according to its latest Form 5500.

"In order to be included as the investment advice service provider on Fidelity's [record-keeping] platform, Financial Engines agreed to pay — and is paying — Fidelity a significant percentage of the fees it collects from 401(k) plan investors," the complaint alleged.

Financial Engines isn't a party to the lawsuit.

INFLATED PRICE

This arrangement "inflated the price of investment advice services that are critical to the successful management of workers' retirement savings and violates [Fidelity's] fiduciary responsibility," the complaint said.

Participants also allege that Fidelity's management of a self-directed brokerage account, called BrokerageLink, "acquires share classes that have higher expense ratios," the complaint said. These share classes "will pay Fidelity significant amounts in revenue-sharing payments, effectively using the plans' assets for its own benefit and its own account."

Vincent Loporchio, a Fidelity spokesman, wrote in an email May 27 that "the allegations in this complaint are without merit, and we intend to defend against them vigorously."

Robert Steyer is a reporter at sister publication Pensions & Investments.

Tool helps advisers judge target-date funds

By Jeff Benjamin

American Funds is offering financial advisers a tool for evaluating target-date funds that adheres to the guidance from the Department of Labor.

The Target Date ProView platform uses Morningstar data to assess all 57 target-date fund series.

According to American Funds, the interactive tool is designed to help advisers evaluate such funds in line with the DOL's 2013 guidance, which included a focus on asset allocation glide path, returns, risks and expenses, as well as manager and fund profiles.

POPULARITY OF TDFS

The DOL's 2013 tips for evaluating target-date funds were inspired in part by the growth and popularity of target-date products inside retirement accounts.

According to the Employee Benefit Research Institute, 62% of 401(k) plan participants had target-date funds in 2013. Casey Quirk & Associates projects that by 2019 there will be $3.7 trillion invested in target-date funds, up from $760 billion in 2015. And Cerulli Associates is forecasting that by 2019, 88% of new retirement plan contributions will flow into target-date funds.

Rich Lang, vice president of retirement plan series at American Funds, attributes much of the growth in target-date funds to the Pension Protection Act of 2006, which led to the creation of qualified default options in company-sponsored retirement savings plans.

$3.7T
Assets expected to be held in target-date funds by 2019

EASY OPTION

Target-date funds became an easy option for plan sponsors and consultants, he said.

The next step is to take a closer look at the target-date options, he added.

"We came out with this tool because we felt there was a need for thoughtful evaluation of target-date funds," Mr. Lang said. "It's designed to be an objective tool that advisers can use to evaluate the funds in a straightforward way."

The platform, which is free for financial intermediaries, is set up to default to American Funds, but that feature can be disabled.

As part of the evaluation process, advisers and plan sponsors can compare and contrast the various target-date funds and series.

The message that comes through in the evaluations is that all target-date funds are not created equal.

"There is market risk and there is longevity risk," Mr. Lang said. "If a fund isn't taking on enough equity risk, it might not be helping a participant save enough for retirement."

The general theme of the DOL's 2013 tips for evaluating target-date funds was to introduce deeper and more frequent due diligence of the funds.

DUE DILIGENCE SURVEY

An American Funds' survey of plan sponsors and consultants found that two-thirds of nearly 700 respondents would expect to complete due diligence of the target-date funds in their retirement plans every two years.

But 35% of respondents admitted that the due diligence is less frequent because it "takes too much time" or "is too complex."

In addition to streamlining the due diligence process for the entire universe of target-date funds, ProView enables advisers to produce personalized reports for their clients that can be customized to represent the advisory firm.

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FIDUCIARY FOCUS

MORE INSIDE


Latent bias:
Survey finds wealthy Americans trust older, white male advisers most.
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INDUSTRY MAKES MOVE

After laying low for weeks, broker and insurance groups go to court to block the DOL rule

BY MARK SCHOEFF JR.

Professional groups representing the brokerage and insurance industries last week finally broke their silence on the Labor Department's regulation to raise investment advice standards for retirement accounts by filing a lawsuit that could put the rule in limbo.

"We will ask the court to proceed quickly in the case given how burdensome and disruptive the rule is and given the deadlines next year, which require preparation in the near future," said Eugene Scalia, a partner at Gibson Dunn & Crutcher and the lead attorney in the case. The lawsuit aims to vacate the rule and prevent the DOL from implementing and enforcing it.

PLAYING TO WIN

Mr. Scalia, son of the late Supreme Court Justice Antonin Scalia, has succeeded with several cases that halted financial rules. His hiring shows that the industry is playing to win.

"What seemed like a lull in activity really wasn't," said Steve Hall, legal director and securities specialist at Better Markets, an investor watchdog that supports the DOL rule. "What they were doing was furiously preparing the lawsuit."

> "WHAT SEEMED LIKE A LULL IN ACTIVITY REALLY WASN'T."
>
> STEVE HALL
> LEGAL DIRECTOR
> BETTER MARKETS

The move amounts to a resounding rejection by the plaintiffs of the DOL efforts to modify the initial proposal — which requires financial advisers to act in the best interests of their clients — to address a torrent of criticism during an extensive comment period last year.

Five industry trade groups and four Texas business associations are party to the suit, filed in a Dallas federal court last Wednesday. The co-plaintiffs include the Securities Industry and Financial Markets Association, the Financial Services Institute, the Insured Retirement Institute, the Financial Services Roundtable and the U.S. Chamber of Commerce.

The National Association of Fixed Annuities also filed a claim against the rule last week, seeking a preliminary injunction to halt it. Other suits may also be filed before Tuesday, when the rule becomes effective.

MOUNTING CONCERNS

FSI president and chief executive Dale Brown said it has taken the group's members — primarily independent broker-dealers — some time to read through the 1,023-page rule.

"Every day, we hear more and more concerns from our member firms, as they dig further and further into the rule," Mr. Brown said.

But the suit contained many of the same arguments the industry has made since the rule was proposed in April 2015, namely that it would make advice significantly more expensive to give and receive and price people with modest assets out of the advice market.

Among the charges in the eight-count claim are that the DOL: exceeded its statutory authority, violated regulatory requirements, unlawfully created a private right of action for clients to sue advisers, failed to properly assess costs and benefits, and violated advisers' speech rights.

"The DOL has very much overreached in developing this costly, complex and very prescriptive rule," said Ken Bentsen Jr., SIFMA president and chief executive.

The industry has made that argument many times, and now they've selected a venue — the northern Texas court — that may be sympathetic to it.

Last year, the court granted an

Continued on Page 33

Lawsuit will likely delay — if not kill — controversial rule

The lawsuit designed to stop the Department of Labor's fiduciary rule will delay implementation and, depending on the winner of the presidential election, could equal the death of the rule.

This is particularly interesting given the Supreme Court's split, which could result in their making no decision and leaving the appeals court ruling as the final word. But first the DOL will have to survive a three-judge panel and then possibly an en banc hearing and decision. The industry plaintiffs will make a compelling argument that they should not have to spend the resources to implement the rule until the courts have reached a decision on it, and may argue that they should not have to do so until the next administration is in place. But this rule has had a lot of exposure and the DOL can argue, as it has, that the rule is lawsuit-proof (but that's not delay-proof).

The industry wants to be able to tell its members that it has saved the immediate cost of implementation, which will cause much anxiety within the law firms depending upon many billable hours for implementation.

The most vulnerable part of the rule is the data upon which the White House paper made its estimate that conflicts of interest are costing investors enormous sums. The conflicts are there, but whether they cause provable damages is debatable.

The industry has been successful in challenging the cost-benefit analysis of certain rule-making. It's not a bad idea to have a stronger duty for retirement money than for speculation money. But the rule arguably eliminates the investor's choice of adviser fees or buying a couple of funds and holding them for 10 years. This lack of choice was the main line of attack against the Affordable Care Act.

It's unfortunate the rule does not have a trial period to see how it will work in practice. But if the court delays implementation for six months and the Republicans win the presidential election, a new secretary of labor will find a way to kill or delay it further.

Peter Chepucavage, an independent regulatory consultant, previously worked at the National Association of Securities Dealers and the Securities and Exchange Commission.

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BICE basics you need to know

By Greg Iacurci

The best interest contract exemption is one of the main pillars of the Labor Department's fiduciary rule.

Without it, many brokers and advisers wouldn't be able to continue doing business in retirement accounts under their current business practices and compensation arrangements. With it, there is a way forward (albeit one with more compliance requirements and litigation risk).

However, there is a sort of duality to the exemption that will dictate how firms can forge ahead: what has become known generally in the industry as BICE versus BICE Lite, each with its own specific requirements and trade-offs.

BICE LITE

Generally, BICE Lite is thought to expose advisers to less risk and disclosure requirements, but it is fairly narrow in its application compared to BICE.

"There's a huge difference between BICE Lite and BICE," said David Levine, principal at Groom Law Group. "If ever possible, you'd almost always want to be in BICE Lite."

Here's why the iterations of BICE are so important: Any adviser providing retirement account investment advice for a fee is a fiduciary under the DOL's regulation. Fiduciaries giving advice resulting in any sort of variable compensation — an adviser getting paid via a commission or receiving higher fees because of a rollover recommendation, for example — would be engaging in a "prohibited transaction" under ERISA and IRS rules, and assessed penalties.

The BICE is an exemption that allows for variable compensation without triggering penalties, as long as advisers and financial institutions follow certain requirements.

The BICE Lite is a specific exemption under BICE rules for "level-fee fiduciaries." The DOL made BICE Lite more streamlined than BICE, because it sees the

Continued on Page 31

Rule a boon to robo-advice

Asset managers eye digital platforms as answer to fee pressure

The Department of Labor's fiduciary rule is going to force asset managers to turn to digital advice by buying or partnering with a robo-adviser or finding ways to get on their investment product line-up.

Because the fiduciary rule forces financial advisers to act in their clients' best interests in retirement accounts and there's a heightened focus on commission levels, these companies need to find innovative ways to keep their products front and center with advisers and their clients, said Rob Foregger, co-founder of NextCapital, a digital platform that provides advice to defined-contribution plans.

Alessandra Malito
On DOL Fiduciary

Asset managers "believe they have a good product but need to wrap their product in a solution," Mr. Foregger said. "They have to do fee-leveling but are moving away from the manufacturing of products to advice."

ADVICE LAYER

As asset managers see more fee compression, due in part to the changing regulatory environment and more passive products, they will rely on technology to gain back lost fees at the expense of wealth management firms, a Cerulli Associates report stated. At the same time, these companies will move toward providing, and monetizing, an advice layer, Mr. Foregger said.

A few asset managers have gotten a leg up on this trend. BlackRock, for example, acquired San Francisco-based robo-adviser FutureAdvisor last summer, and has gone on a spree of partnerships with

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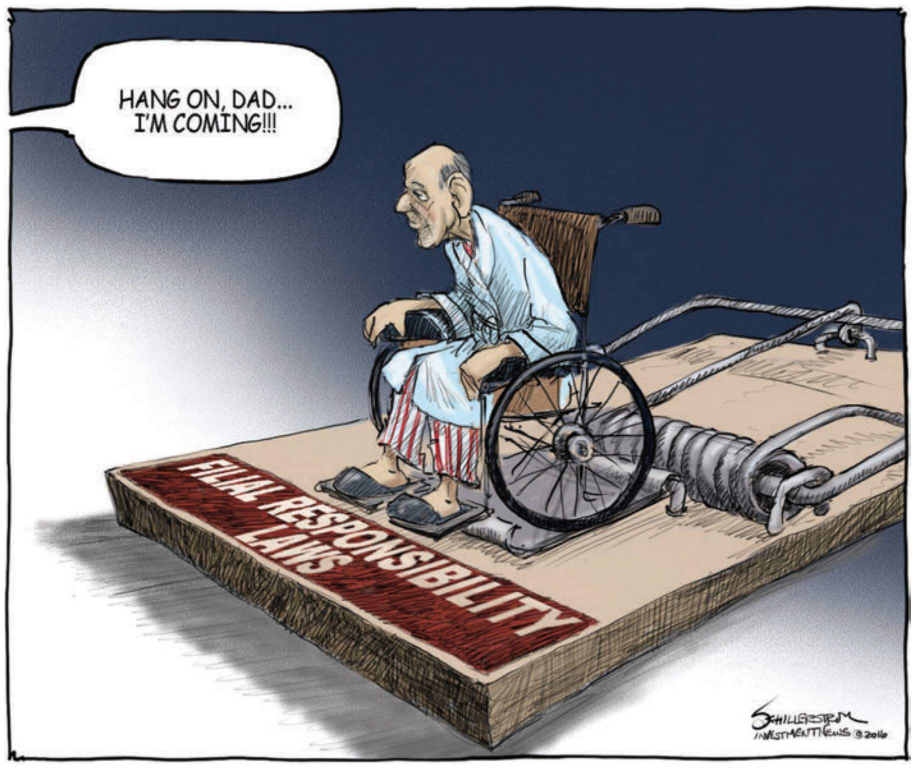
VIEWPOINT

EDITORIAL

Paying for parents' care

LONGER LIFE EXPECTANCIES, coupled with skyrocketing nursing home costs, mean more retirees face the prospect of outliving their savings.



The situation also jeopardizes the retirement security of their children, many of whom are members of the "sandwich generation," who are supporting not only their children but their parents as well. Going forward, some of these adult children could find themselves forced to dip into their own retirement nest eggs to pay for their parents' long-term care.

That's because more than half of U.S. states have so-called filial responsibility laws, which require adult children to provide financial support to their indigent parents.

MEDICAID OUTLAYS

While the laws are rarely enforced, experts predict that the growth in the population of older people and increased Medicaid outlays will lead more nursing homes to rely on filial laws to get adult children to pay for their parents' care.

In 2012, the Superior Court of Pennsylvania upheld a lower court ruling requiring a man to pay nearly $93,000 for his mother's nursing home bill. Other states that enforce filial laws include North and South Dakota.

"It could be a sleeping giant," Charlie Douglas, a board member of the National Association of Estate Planners & Councils, was quoted as saying about the enforcement of filial laws in a recent *InvestmentNews* story (See Page 28). "Most people aren't even aware of filial responsibility laws."

If awakened, that sleeping giant may wreak havoc on the financial security of millions. A semi-private room in a nursing home averaged $6,235 per month in 2010, while a private room cost $6,965; and care in an assisted-living facility averaged $3,293 per month, according to the U.S. Department of Health and Human Services.

THINKING AHEAD

Financial advisers owe it to their clients to make them aware of these filial laws. They should encourage them to think ahead about how much financial responsibility they're willing to assume for their aging parents. Many likely will say they'll do whatever it takes to ensure their parents are well cared for. They'll take out second mortgages, empty their children's college accounts or, worse, their 401(k)s. But for many, especially those with modest savings, such moves would put their own financial security in peril. That, in turn, likely would saddle their own children with the responsibility of paying for their retirement.

ADULT CHILDREN have a financial obligation to their children — not their parents.

EMOTIONAL MINEFIELD

Encouraging clients to balance their parents' financial needs with their own won't be easy. Even under the best of circumstances, the parent-child relationship is an emotional minefield. It is a financial adviser's job to help clients navigate that minefield.

Meanwhile, advisers and groups representing advisers should encourage state legislators to repeal or scale back filial laws. They are an anachronism, a vestige of English rule that addressed the widespread poverty of the 1600s. Today, with the advent of government programs such as welfare and Medicaid, filial laws are no longer needed.

What's more, such laws do not address the main problem: too many retirees are unprepared for decades of retirement.

If anything, adult children have a financial obligation to their children — not their parents. While taking care of ones' parents into old age may be the right and moral thing to do, it is not something that can — or should — be legislated.

Tweets of the week

The DOL fiduciary rule was a key topic of conversation on Twitter last week as a lawsuit against the measure was filed and a congressional resolution to kill it was sent to the president's desk.

"The Senate voted for my resolution to stop @USDOL #fiduciary rule that would prevent access to retirement planning."
— Johnny Isakson, @SenatorIsakson

"Honest financial advisers should embrace new Labor Dept. fiduciary standard."
— Ron Carson, @rchusker

"Fiduciary rule is Obamacare for your retirement. New lawsuit will block rule."
— Grover Norquist, @GroverNorquist

"And here comes the litigation. BIC exemption not enough for conflicted industry players."
— Mark Ivcevich, @QPRetirement

"Chamber helps Wall Street burn down Main Street retirement plans, and now sues DOL fire department for water damage."
— Bartlett Naylor, @BartNaylor

"If I'm willing to go to court to fight being defined as a fiduciary, it would be wise of you to take any of my advice with a grain of salt."
— Gubb, @gubbmintcheese

"Advisers beware. This DOL law has teeth."
— Michael Mainardi, @SellingTech

ADD YOUR VOICE to the mix. Readers: Keep letters brief. Include your name, title, company, address and a telephone number for verification purposes. Email Frederick P. Gabriel Jr. at fgabriel@investmentnews.com. All mail may be edited.

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Audit Bureau of Circulations

Rankings for top fee-only RIAs, biggest gainers and states with most assets.
Pages 10-16

By Christine Idzelis

Thanks to the DOL's new 'best interest' rule, RIAs may no longer have a competitive advantage over brokers. Some are seeking scale through mergers and acquisitions.

LOSING THE 'FIDUCIARY CARD'

Registered investment advisers need a new card up their sleeve.

For years, RIAs have marketed themselves as being a cut above their counterparts in the brokerage industry. While they followed a fiduciary standard, requiring them to act in their clients' best interests at all times, brokers were merely required to make sure their advice was suitable to the financial circumstances of their clients.

Now the world is changing. Thanks to the Labor Department's fiduciary rule, everyone giving retirement advice will be required to act in their clients' best interests. Put another way, RIAs are losing their competitive advantage. Simply playing the fiduciary card to win over investors may not work the way it did in the past.

Big brokerage firms already are shifting toward a more RIA-like, fee-based compensation model in place of their old commission-based one. And despite two lawsuits filed last week to strike down the new regulation — one by a group including the Securities Industry and Financial Markets Association — it's still on the books, and firms must be ready to comply as soon as next year.

"You're going to see a lot of people move toward a fee-based model," said Peter Mallouk, president and chief investment officer for Creative Planning, an RIA based in Leawood, Kan.

Brokerages also are offering more goals-based financial planning similar to the services delivered by

Continued on Page 18

Largest fee-only RIAs

Ranked by total assets under management

Rank 2016	Firm	Phone/website	2016 Total assets ($M)	2016 Total accounts	Discretionary assets ($M)	Discretionary accounts	Nondiscretionary assets ($M)	Nondiscretionary accounts	Employees
1	**Financial Engines Advisors** 1050 Enterprise Way, 3rd Floor Sunnyvale, CA 94089	408-498-6000 financialengines.com	**$113,423.8**	932,089	$113,423.8	932,089	$0.0	0	531
2	**Fisher Investments** 5525 NW Fisher Creek Drive Camas, WA 98607-9911	800-851-8845 fisherinvestments.com	**$65,441.6**	57,982	$65,441.6	57,982	$0.0	0	1,110
3	**Hall Capital Partners** One Maritime Plaza, Suite 500 San Francisco, CA 94111	415-288-0544 hallcapital.com	**$31,899.2**	167	$7,183.6	44	$24,715.7	123	133
4	**Silvercrest Asset Management Group** 1330 Avenue of the Americas, 38th Floor New York, NY 10019-5400	212-649-0600 silvercrestgroup.com	**$31,199.2**	1,068	$12,062.9	1,039	$19,136.2	29	117
5	**Chevy Chase Trust Co.** 7501 Wisconsin Avenue, 15th Floor Bethesda, MD 20814	240-497-5000 chevychasetrust.com	**$23,172.7**	3,615	$23,172.7	3,615	$0.0	0	84
6	**Edelman Financial Services** 4000 Legato Road, 9th Floor Fairfax, VA 22033-2892	703-818-0800 edelmanfinancial.com	**$14,880.0**	69,807	$14,880.0	69,807	$0.0	0	397
7	**Veritable** 6022 West Chester Pike Newtown Square, PA 19073	610-640-9551 veritablelp.com	**$13,588.5**	2,999	$13,094.4	2,830	$494.1	169	85
8	**Oxford Financial Group** 11711 N Meridian Street, Suite 600 Carmel, IN 46032	317-843-5678 ofgltd.com	**$13,577.0**	8,468	$2,719.2	2,353	$10,857.7	6,115	145
9	**Jasper Ridge Partners** 201 Main Street, Suite 1000 Fort Worth, TX 76102	817-333-0027 jasperridge.com	**$13,317.7**	2,743	$13,317.7	2,743	$0.0	0	68
10	**Aperio Group** Three Harbor Drive, Suite 315 Sausalito, CA 94965	415-339-4300 aperiogroup.com	**$13,243.1**	2,512	$13,243.1	2,512	$0.0	0	50
11	**Comprehensive Financial Management** 720 University Avenue, Suite 200 Los Gatos, CA 95032	408-358-3316	**$11,295.0**	29	$11,295.0	29	$0.0	0	26
12	**BBR Partners** Two Grand Central Tower, 140 East 45th Street, 26th Floor New York, NY 10017	212-313-9870 bbrpartners.com	**$10,858.4**	2,552	$9,038.2	2,384	$1,820.2	168	95
13	**Summit Rock Advisors** 9 West 57th Street, 12th Floor New York, NY 10019	212-993-7150 summit-rock.com	**$10,735.0**	100	$4,904.0	68	$5,831.0	32	51
14	**Rockefeller & Co.** 10 Rockefeller Plaza New York, NY 10020	212-549-5100 rockefellerfinancial.com	**$10,439.2**	2,731	$10,271.3	2,590	$167.9	141	154
15	**Brownson Rehmus & Foxworth Inc.** 200 S. Wacker Drive, Suite 2300 Chicago, IL 60606-5864	312-346-5850 brfinc.com	**$9,989.8**	532	$0.0	0	$9,989.8	532	57
16	**The Mutual Fund Store** 7301 College Boulevard, Suite 220 Overland Park, KS 66210	913-319-8100 mutualfundstore.com	**$9,866.9**	84,573	$9,866.9	84,573	$0.0	0	359
17	**Kayne Anderson Rudnick Investment Management** 1800 Avenue of the Stars, 2nd Floor Los Angeles, CA 90067	310-556-2721 kayne.com	**$9,629.3**	14,629	$8,095.2	8,276	$1,534.1	6,353	81
18	**Aspiriant** 50 California Street, Suite 2600 San Francisco, CA 94111	415-371-7800 aspiriant.com	**$9,306.1**	7,041	$6,868.2	5,340	$2,437.9	1,701	154
19	**Johnson Investment Counsel Inc.** 3777 West Fork Road Cincinnati, OH 45247	513-661-3100 johnsoninv.com	**$8,347.4**	8,650	$8,347.4	8,650	$0.0	0	109
20	**TAG Associates** 810 Seventh Avenue, 7th Floor New York, NY 10019-5890	212-275-1500 tagassoc.com	**$8,125.4**	1,186	$313.9	45	$7,811.5	1,141	67
21	**Anchor Capital Advisors** One Post Office Square Boston, MA 02109-2103	617-338-3800 anchorcapital.com	**$8,104.7**	24,359	$4,999.2	11,106	$3,105.5	13,253	49
22	**Bahl & Gaynor Inc.** 212 East Third Street, Suite 200 Cincinnati, OH 45202	513-287-6100 bahl-gaynor.com	**$7,689.0**	1,953	$7,225.6	1,904	$463.4	49	17
23	**Boston Private Wealth** One Federal Street, 30th Floor Boston, MA 02110	800-422-6172 bostonprivatewm.com	**$7,108.5**	7,280	$6,269.1	6,977	$839.4	303	140
24	**Ronald Blue & Co.** 300 Colonial Center Parkway, Suite 300 Roswell, GA 30076-8843	770-280-6000 rbis.ronblue.com	**$6,636.5**	16,436	$5,540.4	15,773	$1,096.1	663	275
25	**FCI Advisors** 442 West 47th Street Kansas City, MO 64112-1903	816-329-1500 fciadvisors.com	**$6,291.5**	10,129	$5,396.6	8,706	$894.9	1,423	58

Continued on Page 12

Largest fee-only RIAs

Ranked by total assets under management

Continued from Page 10

Rank 2016	Firm	Phone/website	2016 Total assets ($M)	2016 Total accounts	Discretionary assets ($M)	Discretionary accounts	Nondiscretionary assets ($M)	Nondiscretionary accounts	Employees
26	**Litman Gregory Asset Management** 4 Orinda Way, Suite 200-D Orinda, CA 94563-2518	925-254-8999 lgam.com	**$6,148.7**	1,194	$1,341.1	1,189	$4,807.6	5	68
27	**Mercer Global Advisors Inc.** 1801 East Cabrillo Boulevard Santa Barbara, CA 93108	800-258-1559 merceradvisors.com	**$6,073.6**	18,595	$5,906.8	17,350	$166.8	1,245	143
28	**Pinnacle Associates** 335 Madison Avenue, Suite 1100 New York, NY 10017	212-652-3200 pinnacleinsights.org	**$6,020.8**	3,735	$6,020.8	3,735	$0.0	0	50
29	**Athena Capital Advisors** 55 Old Bedford Road, Suite 302 Lincoln, MA 01773	781-274-9300 athenacapital.com	**$5,998.7**	446	$5,212.2	388	$786.5	58	47
30	**Ballentine Partners** 230 Third Avenue, Suite 6 Waltham, MA 02451	781-341-1300 ballentinepartners.com	**$5,989.7**	3,376	$3,135.9	1,606	$2,853.8	1,770	55
31	**Global Financial Private Capital** 501 North Cattlemen Road, Suite 106 Sarasota, FL 34232	866-641-2186 gf-pc.com	**$5,864.3**	66,671	$5,864.3	66,671	$0.0	0	350
32	**Gresham Partners** 333 W. Wacker Drive, Suite 700 Chicago, IL 60606	312-960-0200 greshampartners.com	**$5,522.3**	1,457	$3,073.5	91	$2,448.8	1,366	31
33	**KLS Professional Advisors Group** 1325 Avenue of the Americas, 14th Floor New York, NY 10019	212-355-0346 klsadvisors.com	**$5,515.7**	8,991	$4,961.8	5,954	$553.9	3,037	49
34	**Scharf Investments** 5619 Scotts Valley Drive, Suite 140 Scotts Valley, CA 95066-3453	831-429-6513 scharfinvestments.com	**$5,118.0**	2,640	$5,118.0	2,640	$0.0	0	21
35	**East End Advisors** 610 Fifth Avenue, 5th Floor New York, NY 10020	212-218-8137 N.A.	**$4,998.1**	22	$490.4	10	$4,507.7	12	15
36	**Tiedemann Wealth Management** 520 Madison Avenue, 26th Floor New York, NY 10022	212-396-5900 tiedemannwealth.com	**$4,906.2**	1,490	$3,831.6	489	$1,074.6	1,001	34
37	**The Colony Group** Two Atlantic Avenue Boston, MA 02110	617-723-8200 thecolonygroup.com	**$4,862.8**	6,766	$3,653.6	5,560	$1,209.2	1,206	90
38	**Mill Creek Capital Advisors** 161 Washington Street, Suite 1500 Conshohocken, PA 19428	610-941-7700 millcreekcap.com	**$4,706.1**	307	$4,160.1	298	$546.0	9	25
39	**Convergent Wealth Advisors** 12505 Park Potomac Ave., Suite 400 Potomac, MD 20854	301-770-6300 convergentwealth.com	**$4,693.4**	2,961	$3,148.1	2,534	$1,545.3	427	56
40	**Fiduciary Counselling Inc.** 2000 Wells Fargo Place, 30 East 7th Street St Paul, MN 55101-4930	651-228-0935 fidcouns.com	**$4,603.8**	1,361	$2,369.4	1,147	$2,234.4	214	72
41	**RGT Wealth Advisors** 5950 Sherry Lane, Suite 600 Dallas, TX 75225	214-360-7000 rgtadvisors.com	**$4,361.6**	4,930	$3,723.6	4,830	$638.0	100	72
42	**Ferguson Wellman Capital Management Inc.** 888 SW 5th Ave, Suite 1200 Portland, OR 97204	503-226-1444 fergusonwellman.com	**$4,311.9**	2,414	$4,311.9	2,414	$0.0	0	44
43	**WE Family Offices** 701 Brickell Avenue, Suite 2100 Miami, FL 33131	305-825-2225 wefamilyoffices.com	**$4,237.3**	70	$0.0	0	$4,237.3	70	43
44	**CV Advisors** 19495 Biscayne Boulevard, Suite 808 Aventura, FL 33180	305-358-5990 cv-advisors.com	**$4,231.8**	103	$284.3	24	$3,947.5	79	27
45	**Savant Capital Management** 190 Buckley Drive Rockford, IL 61107	815-227-0300 savantcapital.com	**$4,224.4**	3,946	$4,224.4	3,946	$0.0	0	136
46	**Seven Post Investment Office** One Montgomery Street, Suite 3150 San Francisco, CA 94104	415-341-9300 sevenpost.com	**$4,178.9**	372	$3,812.3	259	$366.5	113	14
47	**Chilton Investment Services** 1290 East Main Street, 1st Floor Stamford, CT 06902	203-352-4000 chiltontrustcompany.com	**$4,011.1**	1,084	$3,977.9	999	$33.2	85	45
48	**Welch & Forbes** 45 School Street Boston, MA 02108	617-523-1635 welchforbes.com	**$3,948.0**	2,548	$3,661.2	2,441	$286.8	107	56
49	**Seven Bridges Advisors** 767 Fifth Avenue, 24th Floor New York, NY 10153	212-490-6320 sevenbridgesadvisors.com	**$3,892.0**	126	$1,842.2	20	$2,049.8	106	22
50	**Churchill Management Group** 5900 Wilshire Boulevard, Suite 400 Los Angeles, CA 90036	323-937-7110 churchillmanagement.com	**$3,875.5**	12,617	$3,762.6	12,279	$112.9	338	55

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Biggest gainers

$1B+ fee-only RIAs ranked by year-over-year growth in total assets

Rank 2016	Firm	Phone/website	% change	2015 Total assets ($M)	2015 Total accounts	Discretionary assets ($M)	Discretionary accounts	Nondiscretionary assets ($M)	Nondiscretionary accounts	Employees
1	**Sawtooth Solutions** 3500 American Boulevard West, Suite 150 Minneapolis, MN 55431	952-831-0039 sawtootham.com	**546.3%**	$2,776.6	9,771	$2,776.6	9,771	$0.0	0	16
2	**Wealthplan Advisors** 7272 E. Indian School Rd., Suite 103 Scottsdale, AZ 85251	480-505-0234 wealthplanadvisor.com	**404.2%**	$1,124.5	922	$206.8	810	$917.7	112	17
3	**Columbia Pacific Wealth Management** 1910 Fairview Ave E, Suite 200 Seattle, WA 98102-3620	206-257-3577 columbiapacificwm.com	**269.6%**	$2,020.2	595	$915.0	154	$1,105.2	441	20
4	**Rocky Mountain Advisers** 2344 Spruce Street, Suite A Boulder, CO 80302	303-444-5483 boulderfunds.net	**191.2%**	$1,126.0	166	$1,126.0	166	$0.0	0	11
5	**The Mosaic Financial Group** 330 North Wabash, Suite 1650 Chicago, IL 60611	312-255-5490 themosaicgroupllc.com	**116.7%**	$1,082.5	560	$735.9	172	$346.6	388	28
6	**Silvercrest Asset Management Group** 1330 Avenue of the Americas, 38th Floor New York, NY 10019-5400	212-649-0600 silvercrestgroup.com	**91.5%**	$31,199.2	1,068	$12,062.9	1,039	$19,136.2	29	117
7	**True North Management Group** 10 Bank Street, 12th Floor White Plains, NY 10606	914-304-8760 tninvestors.com	**78.7%**	$1,258.4	8	$1,258.4	8	$0.0	0	20
8	**Lake Street Advisors** 25 Chestnut Street, Suite 200 North Portsmouth, NH 03801	603-610-4100 lakestreetadvisors.com	**75.9%**	$1,817.5	1,079	$565.6	385	$1,251.9	694	31
9	**Personal Capital Advisors Corp.** 500 Howard Street, Suite 400 San Francisco, CA 94105	415-800-5922 personalcapital.com	**70.5%**	$2,128.5	16,906	$2,128.5	16,906	$0.0	0	122
10	**Beacon Pointe Wealth Advisors** 24 Corporate Plaza Drive, Suite 150 Newport Beach, CA 92660	949-718-1600 bpwealthadvisors.com	**60.9%**	$1,414.4	4,909	$1,408.5	4,895	$5.9	14	40
11	**Parallel Advisors** 150 Spear Street, Suite 950 San Francisco, CA 94105	866-627-6984 paralleladvisors.com	**45.0%**	$1,037.2	4,214	$1,030.6	4,202	$6.5	12	31
12	**Aperio Group** Three Harbor Drive, Suite 315 Sausalito, CA 94965	415-339-4300 aperiogroup.com	**31.8%**	$13,243.1	2,512	$13,243.1	2,512	$0.0	0	50
13	**Colony Family Offices** 6805 Morrison Boulevard, Suite 310 Charlotte, NC 28211	704-285-7300 colonyfamilyoffices.com	**28.2%**	$1,105.0	322	$1,075.0	302	$30.0	20	9
14	**WE Family Offices** 701 Brickell Avenue, Suite 2100 Miami, FL 33131	305-825-2225 wefamilyoffices.com	**27.9%**	$4,237.3	70	$0.0	0	$4,237.3	70	43
15	**The Pacific Financial Group Inc.** 777 108th Avenue NE, Suite 2100 Bellevue, WA 98004	425 451-7722 tpfg.com	**26.3%**	$1,420.4	11,396	$1,366.5	11,221	$53.9	175	39
16	**Scharf Investments** 5619 Scotts Valley Drive, Suite 140 Scotts Valley, CA 95066-3453	831-429-6513 scharfinvestments.com	**26.3%**	$5,118.0	2,640	$5,118.0	2,640	$0.0	0	21
17	**Twin Focus Capital Partners** 75 Park Plaza, Second Floor Boston, MA 2116	617-720-4500 twinfocuscapital.com	**25.7%**	$1,741.9	82	$1,583.3	80	$158.6	2	20
18	**LBI Wealth Management** 177 East Saddle River Drive #413 Saddle River, NJ 07458	201-638-5256	**24.2%**	$1,709.8	200	$1,709.8	200	$0.0	0	3
19	**Gupta Wealth Management** 12760 High Bluff Drive, Suite 120 San Diego, CA 92130	858-764-7120 guptawealthmanagement.com	**22.7%**	$1,058.7	1,521	$967.0	1,488	$91.8	33	18
20	**Mill Creek Capital Advisors** 161 Washington Street, Suite 1500 Conshohocken, PA 19428	610-941-7700 millcreekcap.com	**22.6%**	$4,706.1	307	$4,160.1	298	$546.0	9	25
21	**BBR Partners** Two Grand Central Tower, 140 E. 45th St., 26th Fl New York, NY 10017	212-313-9870 bbrpartners.com	**22.2%**	$10,858.4	2,552	$9,038.2	2,384	$1,820.2	168	95
22	**Frontier Wealth Management** 4435 Main Street, Suite 1100 Kansas City, MO 64111	816-753-5100 frontierwealth.com	**21.0%**	$1,460.9	4,928	$1,345.4	4,525	$115.4	403	45
23	**TCI Wealth Advisors Inc.** 4011 East Sunrise Drive Tucson, AZ 85718	520-733-1477 tciwealth.com	**18.8%**	$1,980.9	6,466	$1,972.7	6,428	$8.2	38	51
24	**Green Square Capital** 6075 Poplar Avenue, Suite 221 Memphis, TN 38119	901-259-6300 greensquarecap.com	**18.1%**	$1,841.7	1,855	$1,387.5	1,571	$454.3	284	23
25	**Carnegie Investment Counsel** 30300 Chagrin Boulevard Pepper Pike, OH 44124	216-367-4114 carnegieinvest.com	**17.5%**	$1,207.1	2,550	$1,126.6	2,513	$80.5	37	21

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Source: *InvestmentNews* Data

Top fee-only RIAs by state

States where fee-only RIAs are headquartered, ranked by total assets

	State/top 3 firms	# of fee-only RIAs	Total assets ($M)/ market share	Discretionary assets ($M)/ market share	Nondiscretionary assets ($M)/ market share
1	**California**	265	**$336,144.7**	$285,649.2	$50,495.5
1	Financial Engines Advisors		33.7%	39.7%	0.0%
2	Hall Capital Partners		9.5%	2.5%	48.9%
3	Aperio Group		3.9%	4.6%	0.0%
2	**New York**	104	**$153,463.0**	$97,655.5	$55,807.6
1	Silvercrest Asset Management Group		20.3%	12.4%	34.3%
2	BBR Partners		7.1%	9.3%	3.3%
3	Summit Rock Advisors		7.0%	5.0%	10.4%
3	**Washington**	61	**$103,897.8**	$95,084.1	$8,813.8
1	Fisher Investments		63.0%	68.8%	0.0%
2	Brighton Jones		3.2%	3.4%	0.9%
3	Cornerstone Advisors		3.0%	3.3%	0.0%
4	**Massachusetts**	94	**$87,387.8**	$71,592.8	$15,795.0
1	Anchor Capital Advisors		9.3%	7.0%	19.7%
2	Boston Private Wealth		8.1%	8.8%	5.3%
3	Athena Capital Advisors		6.9%	7.3%	5.0%
5	**Illinois**	72	**$62,913.6**	$40,963.4	$21,950.2
1	Brownson, Rehmus & Foxworth Inc.		15.9%	0.0%	45.5%
2	Gresham Partners		8.8%	7.5%	11.2%
3	Savant Capital Management		6.7%	10.3%	0.0%
6	**Texas**	98	**$59,663.8**	$51,631.8	$8,032.0
1	Jasper Ridge Partners		22.3%	25.8%	0.0%
2	RGT Wealth Advisors		7.3%	7.2%	7.9%
3	South Texas Money Management		4.6%	5.3%	0.2%
7	**Virginia**	71	**$52,665.5**	$47,197.5	$5,468.1
1	Edelman Financial Services		28.3%	31.5%	0.0%
2	Signature Family Wealth Advisors		6.3%	7.0%	0.0%
3	Sullivan Bruyette Speros & Blayney		5.1%	5.7%	0.0%
8	**Pennsylvania**	68	**$52,135.6**	$43,716.0	$8,419.6
1	Veritable		26.1%	30.0%	5.9%
2	Mill Creek Capital Advisors		9.0%	9.5%	6.5%
3	Miller Investment Management		4.8%	3.6%	11.1%
9	**Ohio**	68	**$51,857.4**	$45,400.9	$6,456.5
1	Johnson Investment Counsel Inc.		16.1%	18.4%	0.0%
2	Bahl & Gaynor Inc.		14.8%	15.9%	7.2%
3	Bartlett & Co.		6.5%	7.2%	1.6%
10	**Maryland**	42	**$46,810.9**	$42,657.5	$4,153.4
1	Chevy Chase Trust Co.		49.5%	54.3%	0.0%
2	Convergent Wealth Advisors		10.0%	7.4%	37.2%
3	WMS Partners		6.2%	4.8%	20.6%
11	**Florida**	63	**$35,904.4**	$22,404.8	$13,499.6
1	Global Financial Private Capital		16.3%	26.2%	0.0%
2	WE Family Offices		11.8%	0.0%	31.4%
3	CV Advisors		11.8%	1.3%	29.2%
12	**Georgia**	52	**$32,022.5**	$27,599.1	$4,423.4
1	Ronald Blue & Co.		20.7%	20.1%	24.8%
2	SignatureFD		7.2%	7.1%	7.9%
3	Capital Directions		5.2%	4.3%	10.6%
13	**Indiana**	35	**$26,434.3**	$12,929.1	$13,505.2
1	Oxford Financial Group		51.4%	21.0%	80.4%
2	Valeo Financial Advisors		7.6%	0.5%	14.4%
3	Sheaff Brock Investment Advisors		4.2%	8.5%	0.0%
14	**Connecticut**	35	**$25,867.4**	$22,986.9	$2,880.5
1	Chilton Investment Services		15.5%	17.3%	1.2%
2	Symmetry Partners		14.5%	16.3%	0.0%
3	Bradley Foster & Sargent Inc.		10.8%	12.0%	1.1%
15	**New Jersey**	52	**$23,920.8**	$19,680.5	$4,240.3
1	RegentAtlantic		12.7%	15.1%	1.3%
2	Massey Quick & Co.		8.4%	4.4%	26.9%
3	LBI Wealth Management		7.1%	8.7%	0.0%
16	**North Carolina**	43	**$20,378.4**	$16,789.7	$3,588.7
1	Parsec Financial Management Inc.		8.5%	9.6%	3.3%
2	Biltmore Family Office		7.8%	2.8%	31.6%
3	Eton Advisors		6.5%	7.2%	3.6%
17	**Michigan**	41	**$19,775.5**	$16,691.8	$3,083.7
1	Brick Capital Management Inc.		11.3%	0.0%	72.2%
2	Mainstay Capital Management		9.8%	11.6%	0.0%
3	Retirement Income Solutions Inc.		7.2%	8.5%	0.0%
18	**Minnesota**	36	**$19,692.2**	$16,578.8	$3,113.4
1	Fiduciary Counselling Inc.		23.4%	14.3%	71.8%
2	Sawtooth Solutions		14.1%	16.7%	0.0%
3	Accredited Investors Wealth Management		7.3%	8.5%	1.0%
19	**Colorado**	52	**$19,219.9**	$15,233.9	$3,986.0
1	Obermeyer Wood Investment Counsel		8.3%	10.1%	1.1%
2	IWP Wealth Management		7.7%	0.6%	34.7%
3	Rocky Mountain Advisers		5.9%	7.4%	0.0%
20	**Missouri**	19	**$18,798.7**	$13,367.5	$5,431.2
1	FCI Advisors		33.5%	40.4%	16.5%
2	Plancorp		16.1%	22.6%	0.1%
3	Matter Family Office		11.6%	0.0%	40.1%

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'Fiduciary card'

Continued from Page 8

RIAs, a move that is seen working well within the new regulatory framework laid out by the DOL.

As a result, RIAs will need to come up with a counterstrategy and develop a stronger pitch than "we're fiduciaries and they're not" to attract and retain clients.

The regulation makes it "harder for an RIA to use this as part of the value proposition," Mr. Mallouk acknowledged.

WINNING STREAK

For the past several years, RIAs have been on a clear winning streak. They were the fastest growing part of the $19.2 trillion wealth management industry for a fourth straight year in 2015, increasing client assets 4.5% to $2.8 trillion, according to research and consulting firm Aite Group. They've more than doubled assets since the end of 2007 and now oversee almost 15% of the industry's total. Meanwhile, the wirehouses saw clients' assets shrink 1.8% last year to about $6.4 trillion, the Aite Group estimated in a report last month.

> "DIFFERENTIATING YOURSELF HAS BECOME MORE CHALLENGING THAN IT HAS BEEN HISTORICALLY."
> DAVID DEVOE, FOUNDER, DEVOE & CO.

While the DOL rule applies to advisers only when they are giving retirement advice, there's a lot at stake. Individual retirement accounts totaled $7.3 trillion of assets at the end of last year, while 401(k) plans held $4.7 trillion, according to the Investment Company Institute.

And there are signs that the fiduciary standard could be spreading beyond the retirement advice market. Under the 2010 Dodd-Frank financial reform law, the Securities and Exchange Commission has the authority to impose a uniform fiduciary standard for all types of financial advice. SEC Chairwoman Mary Jo White has said she is in favor of the idea, and the agency has it listed on its agenda for next spring.

One way RIAs are reacting to the loss of their competitive advantage is through mergers. Some in the industry believe it might help them gain economies of scale and compete more efficiently for assets.

RECORD MERGER ACTIVITY

The RIA sector saw record merger activity last year as megadeals involving more than $5 billion of assets surged, according to consulting firm DeVoe & Co.

The pace of deal making slowed slightly during the first three months of this year, but remained strong as sales of firms with $1 billion to $5 billion of assets soared, a May research report from DeVoe showed.

"It's a marketplace where differentiating yourself has become more challenging than it has been historically," said David DeVoe, the firm's founder. "RIAs are seeking to gain scale and additional capabilities through mergers that will enable them to better compete."

Bronfman E.L. Rothschild, a Rockville, Md.-based RIA with about $4 billion of assets, is currently considering potential acquisitions to boost business with ultra-high-net-worth clients who have at least $20 million to invest, according to its chief executive, Neal Simon.

"We're looking at a big deal in New York," he said, which could increase assets to about $5 billion.

Bronfman E.L. Rothschild, whose average client has about $4 million, wants to increase its assets to about $10 billion in the next four years, according to Mr. Simon.

For all the debate and disruption the Labor Department's new regulation has created in the financial advice industry, most consumers aren't aware of it, said Scott Hanson, co-founder of Hanson McClain Advisors, an independent advisory firm based in Sacramento, Calif.

For that reason, he said he doesn't see the competitive landscape changing all that quickly.

Mr. Simon doesn't expect the fiduciary rule to have that much of an impact on his business, and he said there still will be a number of differences between brokerages and RIAs. Despite the move toward a fee model at some of the big brokerages, many still focus on investment products and hand out bonuses and other incentives for hitting sales targets, he said.

"I bonus people on client retention," Mr. Simon said. "It's just a different mentality."

The thousands of independent RIAs across the U.S. oversee less than half the combined assets at the four wirehouses: Bank of America Merrill Lynch, Morgan Stanley, Wells Fargo Advisors and UBS Wealth Management Americas. But the RIAs' pool of assets last year was 15% larger than the fee-based portion overseen by the wirehouses, according to the Aite Group.

At the end of the day, Mr. Mallouk of Creative Planning said the fiduciary rule will test everyone in the financial advice business.

"The better firms will end up stronger," he said.

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Schorsch proposal a 'danger'

Stanger report raises red flag on AR Global consolidation strategy

By Bruce Kelly

Changes proposed at seven real estate investment trusts controlled by Nicholas Schorsch's AR Global, formerly known as AR Capital, present a "clear and present danger" to their investors by eliminating investor protections, according to a report issued last Tuesday by Robert A. Stanger & Co. Inc., an investment bank that focuses on nontraded REITs.

Serious changes are afoot at AR Global. In April, *InvestmentNews* reported that AR Global was attempting to consolidate more than a half-dozen REITs with almost $10.5 billion in assets. Weeks later, a former independent director of two nontraded REITs controlled by AR Global claimed "a manifest conflict of interest" in the potential merger of one of those REITs into a related company.

The flurry of mergers, if successful, would put more assets under control of two REITs, American Finance Trust and Global Net Lease, which have unusual, difficult-to-break 20-year advisory contracts with AR Global. AR Global does not have the 20-year advisory agreements with the other REITs it manages.

That means AR Global, as the manager of the two larger REITS, would create a favorable source of fee revenue over a long period of time, benefiting Mr. Schorsch and his partners.

On the other hand, a long-term source of revenue also could ultimately benefit investors by making American Finance Trust and Global Net Lease more attractive takeover targets and potentially gaining the attention of other REIT managers looking to buy such a revenue stream.

The three-page Stanger report focuses on concerns raised by a series of recent proxy statements from AR Global-sponsored REITs.

The report is critical of AR Global for proposing in the proxies several changes in the charters of the REITs at a time when the mergers are on the table. Why is AR Global seeking changes in the charters of the REITs without disclosing fully what the future holds for those companies?

"Through these proxies, certain of the ARC-sponsored REITs would remove many important protections built into their respective charters at the very time when each of these REITs is reportedly reviewing strategic alternatives but has not yet informed investors of the strategic path which will be taken," according to the report.

The charter changes proposed in certain proxies of the AR Global REITs that would remove, limit or alter investor protections include: reduction of shareholder information rights; potential to enable entrenchment of board members; and expansion of the types of investments, and therefore risks, the REIT can expose investors to, according to the report.

"Reducing investor protection at any time is a cause for careful scrutiny and potential concern," the report notes. "But asking investors to abridge their own protections and rights at a time when there is an ongoing review of strategic alternatives is virtually unprecedented based on our experience as investment bankers in the nontraded-REIT industry."

> "REDUCING investor protections at any time is a cause for careful scrutiny."
>
> **Robert A. Stanger & Co.**
> Report on AR Global's REIT consolidation plans

A spokesman for AR Global, Matthew Furbish, declined to comment. But a source said it is common for nontraded REITs to make charter amendments, including removing guidelines of regulators, when they are finished raising money.

Stanger has worked with AR Global REITs in the past. In fact, it was one of two advisers that worked with Global Net Lease when the company last year announced the unusual 20-year management agreement.

Speaking directly to the boards of the AR Global REITs, the report concludes: "Eliminate the clear and present 'danger' by withdrawing the proxy until the strategic direction of each REIT has been determined and disclosed to investors. Then, ask investors to approve alteration of only those charter provisions which clearly inhibit the ability of the REIT to pursue the best interests of its investors."

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(((IN VOICES)))

InvestmentNews readers react to top stories

Favoritism, by the numbers

A recent *InvestmentNews* story on subconscious biases informing people's choice of a financial adviser caused a stir among readers. Many comments to reporter Liz Skinner's story — on a Spectrem Group survey which found that wealthy Americans were most likely to choose the older, white male when selecting from a photo of eight potential advisers — dismissed the findings rather than acknowledge what they could mean for advisers who don't "fit the mold."

"Uh-oh. What we have here is 'appearance inequality.' The government will definitely have to pass a law mandating plastic surgery for anyone who wants to look like an old, white male."
— Chris

"The article seems to subtly insinuate a prejudice, but it may be nothing more than an older, white, affluent investor having more in common with an older, white, male adviser … An adviser who has more in common with the client can relate more to the client's issues."
— Long-Term

"You are funny; you complained that the article 'seemed to subtly insinuate a prejudice' then went on to describe one. However, you did correctly point out that everyone has biases. However, if you don't identify them you cannot overcome them."
— Skylo

"Where does older, white robo-adviser fit in? I don't see his picture anywhere?"
— pmer1

"Where do minority advisers fall into this mix? The fact that the article doesn't even make mention of us only shines a light into how much of a greater disadvantage we start off with!"
— UIG, LLC

"I think you missed the point with all the talk about minorities. Clients want advisers with experience; that looks like age to me. It is not the fault of old, white men that they fit the model."
— PHILIP_NISONGER

"My experience from when I was a wholesaler was having a sales manager tell me that his managers did not want a black person in certain geographies representing the firm. It was incredibly demoralizing, but after several years of promotional disappointments even after exceeding numerical goals and being well-liked, I left for another opportunity … I love the work, the markets and helping people; I don't like the prejudiced attitudes, so I always tune them out."
— _ (alias is an underscore)

Read the story on pg. 24. To see all the comments and leave your own, visit www.InvestmentNews.com/bias.


Bridge Club

Named in client's will? No way should you accept the bequest

Disclaim such a gift, regardless of the size; have assets returned

By Dan Candura

The following question appeared on an adviser forum during the past month. I found the question interesting, so I made it the focus of this month's column.

An adviser from Colorado asked for help on the following situation:

Q "Recently, I was told of an adviser who was named as a beneficiary in a client's will. The dollar amount wasn't significant, and it was a cash gift. It came as a surprise to the adviser. I know many of us form very close relationships with our clients, and I'm sure this has happened to others. I've discussed the occurrence with a few advisers already, and their responses have varied but include that the adviser should disclaim it, donate it to charity or accept it. I'd love to hear how anyone else handled it."

A There were four responses posted to the community forum within a day of the initial post. One suggested that the size of the adviser's share compared to the total estate should be considered. Others suggested involving the client's estate attorney for guidance so as to avoid even the appearance of impropriety while others believed that the preferred solution would be to donate the money to charity either in the client's name or the adviser's. One adviser told of working with the estate attorney to restructure the "gift" as a fee to help with repositioning assets at the client's death so that the adviser "earned" the sum.

All of the answers had the same, simple flaw. They attempted to justify the receipt of an inheritance from a client by a person providing professional services. It is true that advisers often form close relationships with their clients. The same can be said of attorneys, physicians and priests. Clients place their trust in us to act in their best interests. Given the nature of that relationship there are no circumstances where a professional can accept a bequest of any type. At a minimum it raises the possibility of impropriety regardless of the amount. At its worst, it could cause the other beneficiaries to challenge the provisions of the entire estate plan.

If the adviser learns of the bequest after the client's death, he or she should disclaim it immediately regardless of size and have the assets returned to the estate for distribution to the remaining beneficiaries. If the adviser learns of the client's intentions while the client is living he or she should express their gratitude at being held in such esteem but let the client know that the gift will be disclaimed. Should the client insist on "remembering" the adviser in some special way, the adviser should suggest the client name a charity to receive the funds instead. The Foundation for Financial Planning, The National Endowment for Financial Education and the Center for Financial Planning are all worthy 501C(3) organizations that would benefit from such gifts.

Simply put, acting ethically means doing the right thing and it is never the right thing to benefit from the death of a client.

Dan Candura is founder of the education and consulting firm Candura Group. Ask him a question at InvestmentNews.com/ethicist. All submissions will be treated confidentially.

SEC: Firm hid fund shift, extra fees

By Christine Idzelis

The Securities and Exchange Commission has charged advisory firm Momentum Investment Partners in Stamford, Conn., and one of its principals with fraud for failing to disclose additional fees charged to clients.

The firm, which did business as Avatar Investment Management, and principal Ronald Fernandes moved some clients into newly created mutual funds in 2013 without notifying them of the transfer and higher cost, the SEC said in a litigation announcement last Tuesday.

Avatar's clients paid almost $111,000 in additional fees from May 2013 to March 2014 for no additional advisory services, according to a complaint the agency filed the same day in federal court in Connecticut. The firm had been investing their money directly into various exchange-traded funds and the new mutual funds were designed to mirror that same strategy.

$111K
Additional fees SEC says clients of Avatar paid

FUNDS FOLDED

"The Avatar individual advisory client assets proved to be the seed capital for the Avatar mutual funds, but Avatar was not successful in raising additional assets," the agency said in the announcement. "The funds eventually folded."

Mr. Fernandes had moved about $11 million from about 20 accounts into four new mutual funds created and managed by Avatar, allowing the firm to collect the additional layer of fees, according to the complaint.

Avatar is now defunct, the SEC said.

Efforts to reach Mr. Fernandes for comment weren't immediately successful.

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Morningstar adds tech firm

Buys InvestSoft, a provider of fixed-income analytics, in its latest deal

By Alessandra Malito

Morningstar has acquired InvestSoft Technology, a fixed-income analytics software provider, it announced last Tuesday.

The purchase was made in response to clients' requests for more fixed-income capabilities, said Frannie Besztery, head of data for Morningstar. Using InvestSoft, which features BondPro Fixed-Income Calculation Engine, asset managers, advisers and their clients will experience greater transparency and have better insights into bond funds, she said.

Terms were not disclosed.

InvestSoft's services fit well with the Department of Labor's fiduciary rule, which requires all advisers act in their clients' best interests on retirement accounts.

Morningstar will integrate the technology into its systems and rebrand InvestSoft under its name.

This is the latest of a spate of tech acquisitions the firm has made in the past two years. In March, it acquired RightPond, a data analytics provider on retirement plans. Previously, the firm had acquired portfolio rebalancer Total Rebalance Expert, financial wellness services provider HelloWallet, and data aggregator ByAllAccounts.

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Affluent trust older, white men most

Survey reveals latent bias among wealthy Americans in choosing an adviser

By Liz Skinner

Who's your choice?: The actual photo Spectrem Group used in its survey.

Line up a cross-section of Americans, and wealthy individuals are most likely to pick out the older white male as their choice for a financial adviser, a new report finds.

About a third of those who have between $100,000 and $5 million to invest chose the older, white male to be their adviser when asked to decide based only on a photo of eight people, four women and four men, according to a Spectrem Group survey.

About 40% of an even wealthier group, those with $5 million or more in investible assets, chose the older white male.

The middle-aged, white man in the photo scored the second-highest percentage of fans. About a quarter of those surveyed picked him to be their adviser based solely on his appearance in the picture.

WHITE WOMEN NEXT

The young and middle-aged white women were the next most-popular picks among wealthy individuals, the Spectrem Group survey found.

"Whether you look at the responses from males versus females, or even among different age cuts, or even among various ethnicities, the older, white male was the one the greatest percentage picked," said Randy Wostratzky, a director at research firm Spectrem Group.

The report concluded that these groups "are perceived to have the most experience and to be the most trustworthy."

Financial advisers said they've seen potential clients, especially older individuals, make these snap judgments about whether they would make a good planner. Therefore, many focus on what they can control in making a strong first impression.

"Your appearance and body language speak before you even say a word," said Tish Gray, a wealth planning adviser with Sagemark Consulting, a division of Lincoln Financial Advisors. "In the first 30 seconds, someone has already made assumptions about who you are through their lens of perception."

Philip Olson, founder of The Art of Finance, said as a young adviser he's faced this kind of immediate bias his whole career from prospects who conclude he's not old enough to know enough to manage their money.

Mr. Olson has been an adviser for five years and says he has a "baby face." The last couple of years he has even sported facial hair to help with that perception issue.

WORST OFFENDERS

The worst offenders are those who are about 50 and older, Mr. Olson said.

"Baby boomers get hung up on my age and would clearly be more comfortable with someone who is a man with more gray hair," he said.

However, he points out one advantage to not looking like a stereotypical financial adviser: "It's also associated with a lot of the sins of the industry, and I'm happy to distance myself from that."

Craig Pfeiffer, president and CEO of the Money Management Institute, said participants in the survey choose the older white male in the photo because of what that demographic represents. They are viewed as wise, caring and having access to resources, he said.

"Older, white men don't do something that younger women can't, it's just that younger women apparently aren't doing it," he said.

He suggested advisers mimic those who have been successful at showing prospects and clients that they sincerely care about them.

Rita Robbins, president of Affiliated Advisors, said people who are especially expressive often appeal to prospective clients.

THINGS IN COMMON

Humans are naturally drawn to those who communicate in an open way, she said.

Animated people "tend to be liked more than difficult-to-read people," Ms. Robbins said. "This is because we are more confident in our assessment of them."

Also, advisers should try to find things in common with the prospect from the first meeting.

"The things we share create a powerful bond," she said.

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CARL RICHARDS

Clients who are hooked on headlines need detox

I'm about to ask you a really personal question. At certain moments, do you cringe when you hear a client on the phone? Oh, I don't mean that you dislike your clients or your work. But you've been paying attention to the headlines, and you know that clients who follow the news will be on the phone.

It doesn't matter that their goals haven't changed or that they have a well-designed plan. They saw or heard something on the news, and now they want to know if they should be doing something about it.

TRAINED TO FOLLOW

I get it. We all do it. In many ways, we've been trained to follow the news obsessively. Our phones seem to notify us anytime something happens, big or small. But when it comes to behaving as investors, this obsession will cause us grief. That's why I want you to take the call every time. You need to help your clients through what I've referred to as a financial-news detox.

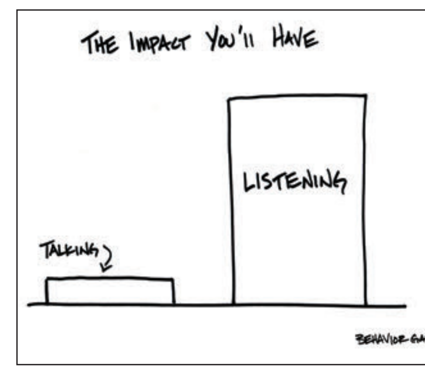
You need to help pull clients back from the edge of obsession over news that 1) they have zero control over and 2) will have little to no impact on their goals and plans. But until you listen and empathize, you can't begin to help clients avoid falling into this trap.

I recommend a simple process for dealing with these calls. When you first answer, don't dive immediately into the discussion. Ask for a minute to grab the client's file. This small pause gives you a chance to focus and slow down the conversation.

Then, when you return to the call, acknowledge the concerns.

"Yes, that event or issue is a big deal, but let's revisit your values. Have the things you said were most important changed?"

I'm betting that the answer will be "no" 99.9% of the time.



From there, move on to goals. Ask them, for instance, "Do you still plan to retire in 10 years?"

"Yes, that hasn't changed."

"Great! Based on what I'm hearing from you, we still have the best plan in place to get you there, and you don't need to worry about what you heard in the news. It's not a factor."

Please don't forget the reason clients call: They trust you. They need you to help them separate the important from the ridiculous so they can make the best money decisions possible.

Carl Richards is a certified financial planner and director of investor education for the BAM Alliance. He's also the author of the weekly "Sketch Guy" column at The New York Times. He published his second book, "The One-Page Financial Plan: A Simple Way to Be Smart About Your Money" (Portfolio), last year. Email Carl at mastercomm@behaviorgap.com.

Direct-sold 529s' lead expands

Morningstar reports direct-sold plan assets grew faster than adviser-sold in 2015

By Rob Kozlowski

College savings plan assets grew 4.3% to $227.3 billion as of Dec. 31 from a year earlier, according to a report from Morningstar.

Net flows produced all of the asset growth of the 84 U.S. 529 college plans from the previous year's total of $217.8 billion.

Direct-sold plans as of year-end had a 53.3% market share after growing faster than adviser-sold plans in 2015, up from 51.7% the previous year. Direct-sold plans' growth rate for the year was 7.5%, compared to adviser-sold plans' growth rate of 1%.

LESS EXPENSIVE

Increasing investor demand for the less-expensive direct-sold plans contributed to a decrease in fees to an asset-weighted average of 0.75% in 2015, from 0.79% in 2014. The typical direct-sold plan participant pays 20 basis points in addition to the cost of the underlying funds, compared to adviser-sold plan participants who typically pay 70 basis points.

Virginia's CollegeAmerica plan is still the largest 529 savings plan by a wide margin, with $51.8 billion in assets, a full 22.8% of the total market, as of Dec. 31. New York's 529 College Savings Program Direct Plan is second with $21.1 billion, or 9.3% of the market.

Rob Kozlowski is a reporter for sister publication Pensions & Investments.

Another potential robo-platform headache: wash sales

Though most account for them, beware nullifying outside sales

By Jeff Benjamin

As the robo-advice industry continues to expand to a broader universe of investors, financial advisers might have to start watching out for a well-worn obstacle known as wash sales.

The wash-sale rule, which prohibits investors from repurchasing the same security or fund within a 60-day window of selling it for tax-loss purposes, could trip up advisers whose clients are doing any business on robo platforms.

"Absolutely, that could become a problem," said William Trout, senior analyst at Celent's wealth management unit.

"Most robos are only personalized at the asset management level; they're not able to do any sort of tax efficiency on the security level," he added. "The only saving grace is that most people investing on the robo platforms are not worried about tax losses or wash sales because they don't have enough money to manage outside of those accounts. But it could be a problem as the robos get larger."

Betterment, the largest robo platform with $4.5 billion under management and 165,000 clients, claims to use algorithms that are "keenly aware of wash sales," said Alex Benke, director of advice products.

In fact, most robo platforms boast standard safeguards to prevent wash sales on accounts on the platforms.

WHERE THE TROUBLE LIES

The trouble starts when an investor sells something for a tax loss in an account separate from the platform, which could be nullified if the robo platform purchased the same security within 30 days before or after the tax-loss sale.

The most common way to work around the wash-sale rule, if one doesn't want to wait 30 days to repurchase the same security or fund, is to sell something for a taxable loss and then buy something that provides similar but not identical market exposure.

The advent of a diverse universe of ETFs has made it easier for advisers and investors to deftly navigate the wash-sale rule without violating any tax laws.

"We use a strategy we call parallel position management, which will avoid wash sales where possible by using a secondary set of ETFs," said Mr. Benke. "Let's say we harvest a loss for you. Our algorithm would be potentially buying back that ETF, but we would do that by buying back a secondary ETF for you so you could lock in that loss."

CONFUSION PERSISTS

The wash-sale rule is one of the oldest anti-abuse provisions in the Internal Revenue Code, but is still confusing and often misunderstood by some advisers and investors, according to Michael Kitces, director of research at Pinnacle Advisory Group.

"The leading robo advisers like Betterment and Wealthfront already monitor wash sales, and it's included in their algorithms from day one," he said. "But I don't know that every robo that's ever been created or will be created will do this correctly. Nor, frankly, is it easy for human advisers, who also routinely screw this up."

Violating the wash-sale rule isn't something that triggers a heavy penalty beyond the tax consequences, which might explain why advisers sometimes view it less seriously.

For example, a security purchased for $100 and then sold for $90, could log a $10 tax loss. But if the wash sale is violated, the only penalty is that the investor losses the loss for tax purposes, but the new purchase of the security resets the cost basis to the most recent purchase, effectively banking the loss to be harvested later.

CAN'T ALWAYS AVOID IT

"Wash sales aren't the end of the world; you just don't get to take the loss when it happens," said Mr. Benke of Betterment. "We'll do everything we can to avoid it, but there are cases when you just can't avoid wash sales."

The issue of wash-sale violations gets a little trickier once you start factoring in qualified retirement accounts, because that can trigger what is known as a permanent wash sale.

"If you harvested something for a tax loss, you can't then make a contribution into an IRA and buy that same security because in an IRA there is no such thing as a cost basis," Mr. Benke said. "A lot of people don't even realize it, but there's no way to adjust the cost basis in an IRA because everything is taxable when it's withdrawn, so you permanently lose that cost-basis adjustment."

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ADVISERS' BOOKSHELF
Bill Crager and Jay Hummel

Industry's Amazon, or next Napster?

Like other digital disrupters, robos may or may not have what it takes to last

The following is an excerpt from "The Essential Advisor: Building Value in the Investor-Advisor Relationship," by Bill Crager and Jay Hummel (John Wiley & Sons Inc., 2016). Mr. Crager is the president of Envestnet, which he co-founded in 1999. Mr. Hummel is the managing director of strategic initiatives and thought leadership at Envestnet.

It was 1999, and every technology leader on a college campus in America was shaking this or her head because server usage was off the charts. What was going on? Napster was going on. For readers who first listened to music on AM radios, vinyl records, eight-track tapes and cassettes, it will help to give a history of Napster. Napster was a revolutionary way for music lovers to share and listen to their favorite songs. Shawn Fanning and Sean Parker came up with the idea of an online platform where users could swap songs. Napster was launched in June 1999 and its usage quickly spread through the world. By March 2000, 20 million people used Napster. Millions more began using it in the months that followed. All they needed was a computer and a dial-up connection. The platform enabled people to share audio files and, because the Internet was so slow, it would sometimes take 15 minutes or more to download one song. The final frustration could come if a user realized he or she had downloaded the wrong version.

Napster users fell in love with the online platform. After years of going to brick-and-mortar stores to buy CDs, music lovers could have their favorite songs for free. There was no need to sit by the radio with a tape recorder and wait for a song to be played, and no one worried about buying a whole album to get the one good song that wasn't released as a single. At the time, in 1999, a top-100 album was $13.65. To put that price into perspective, a share of Apple stock cost a little over $100 at that time, and an ounce of gold was a little less than $300. The average monthly cell-phone bill was $40.24.

RIAA TAKES NOTICE

The throngs of people flocking to Napster soon attracted the attention of the Recording Industry Association of America, which represents recording artists and record labels. The RIAA and many musicians viewed folks at Napster as thieves who were undermining their business. There were, however, some musicians who felt that Napster gave them exposure they would not have received through other means. During that time period, if you were under the age of 25, you had an opinion of Napster — and you most likely thought it was changing the world for the better.

Just a few years before the start of Napster, entrepreneur Jeff Bezos founded Amazon, a retail company he ran from his garage. In 1997, Amazon went public for $18 per share. Much of this value came from how Amazon was disrupting retail sales, which happened in much the same way Napster was disrupting the music industry. In 1999, Jeff Bezos was named Time magazine's Person of the Year for making Internet shopping a household norm.

Today, Amazon is expected to reap annual revenues in excess of $60 billion, and Napster is out of business. You might ask, what happened and what in the world does this have to do with financial services? Those are two very important questions, and the answers give us the road map to the future in financial services.

According to History.com, Napster's downfall began on March 6, 2001, the date on which it began complying with a federal court order blocking the transfer of copyrighted material over its peer-to-peer network.

QUESTIONS REMAIN [about] whether the robo-movement will prove to be like Napster, which didn't have staying power, or like Amazon, which permanently disrupted an entire business model.

A Metallica lawsuit was followed by a copyright infringement case brought by hip-hop artist Dr. Dre. The kiss of death, however, was the RIAA's $20 billion lawsuit.

Despite its end in 2002, Napster is still ingrained in our culture. The Napster brand and logos were acquired following the company's bankruptcy, and its founders have been portrayed in movies ranging from "The Social Network" to the remake of "The Italian Job." Currently, Napster is part of Rhapsody's music streaming service, but it will be most remembered as a tech upstart that changed the way people think about music.

THE FATE OF ROBO-ADVISERS

Both Napster and Amazon were disruptive — they changed the game in their respective industries. By way of comparison, we are still in the initial stages of a financial digital revolution. Questions remain [about] whether the robo-movement will prove to be like Napster, which didn't have staying power, or like Amazon, which permanently disrupted an entire business model.

If you talk with the early adopters of Napster, you will find many of the industry experts back then missed the point. They believed that the early success of Napster stemmed from the fact that the music was free. Jay [Hummel, one of this book's authors] was an early adopter of Napster and believes this opinion misses the mark. Price was only a small part of the value equation. The distribution model changes were what made the use of Napster attractive. Being able to get any song you wanted on your computer in 15 minutes was unbelievable. In the end, Apple took the Napster concept onto a real business platform, charging for downloads, which shows it wasn't all about price. While Amazon took many years to make money, it exists today and dominates retail shopping. Not only is it disruptive but, more importantly, it is a real business.

The new disrupters of the financial industry are robo-advisors, investment platforms that use algorithms to automate portfolio management. For all the fanfare these services have received in the past few years, the reality is they are more like Napster than Amazon.

We have believed this for years. As we were finishing the final draft of this book, our predictions began coming to fruition. The robo-advisers that came on the scene early in the digital movement will likely not continue as stand-alone companies because their business models are broken.

CAN'T BREAK EVEN

Morningstar and other research organizations have estimated the robo-advisers would need to service somewhere between $30 billion and $40 billion in assets to break even when charging 25 basis points for services. Even the top stand-alone robo-advisers have not reached $10 billion, so the proposition of getting to $30 billion is daunting.

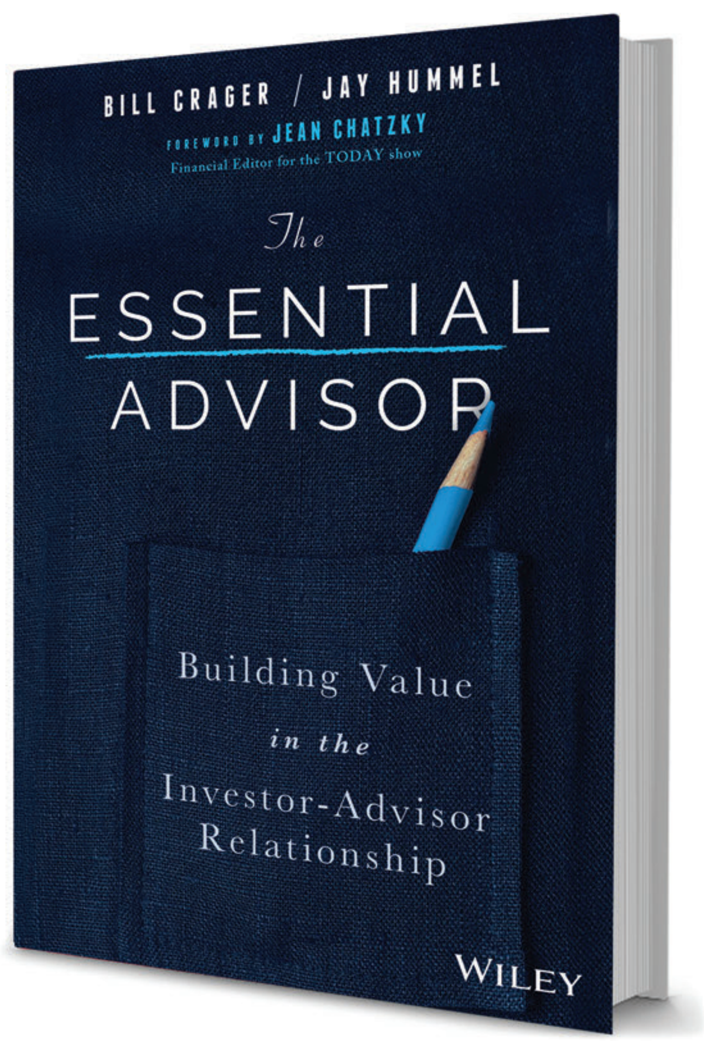
We believe these break-even amounts also do not take into account the growing expenditures these organizations will need to make to offer more services than they currently provide. The digital experience isn't holding up on its own.

The investments these early robo-advisers are now making in call centers and virtual planning will make providing these services for 25 basis points impossible. These companies have been built on the large investments from venture and private-equity firms. How long will these investors continue to invest?

NOT A STAND-ALONE FIRM

The acquisition of many of the early adopting robo-advisers by traditional financial services firms shows the robo-movement is not a stand-alone company concept. Just look at the number of transactions that occurred in 2015 alone: Blackrock acquired Future Advisor; Northwestern Mutual Insurance Company bought Learnvest; and we at Envestnet purchased Upside. In December of 2015, it was reported by *InvestmentNews* and other media outlets that Personal Capital had hired an investment banker to find a buyer. Personal Capital is a hybrid digital adviser, which has spent $112 million to attract $1.5 billion in assets under management. There's a lot of capital in the market and someone will buy them, but the ability to sustain those economics over the long term as a stand-alone firm is likely impossible.

In the early stages of the robo-adviser movement, the financial services media and industry veterans didn't know what category to put these new business models in, so many of them considered categorizing these new robo-organizations in a separate channel. Wealthfront came on the scene and focused on attracting affluent Silicon Valley millennials. Consequently, Wealthfront was put into the category to compete against traditional financial and wealth management advice. As such, this had to be a new channel, right? Over time, you would then put banks, broker-dealers, registered investment advisers and robo-advisers in separate categories that were all competing for the same prospects.



However, as the industry stands today, other than Wealthfront, which is still a stand-alone robo-adviser focused solely on the retail market, the robo-movement has changed from a channel to a supporting tool for traditional advice models. The robo-movement and its technology, much like Napster, have shown there is a new way for traditional service models to morph into new distribution patterns better positioned to meet end-client needs. …

NEW BUSINESS MODEL

One of the most significant impacts [of the robo-adviser movement] is the new business model the movement has brought to the industry. As an industry, one of our greatest challenges has been our inability to effectively serve a wider and smaller client base. The robo-movement may provide a road map to resolving this issue. As the robo-adviser movement morphs into a digital movement combined with traditional business models, digital technology is helping us overcome the challenge of providing financial advice to a wider client base that has less money to invest.

Digital technology platforms combined with traditional models are going to help banks and wirehouses serve smaller accounts. Hopefully, a wider subset of the population will be able to receive intelligent financial advice, allowing for better financial decisions. Many RIAs are focused on planning, and doing sophisticated planning for higher-end clients. The data aggregation capabilities of the new digital platforms will allow advisers to provide better planning advice as information and transparency is easier to reach.

Regulators have the potential to drastically change the asset management community, especially directly held mutual fund companies and asset managers. The digital platforms of today and into the future will allow asset managers and mutual fund companies to efficiently serve their clients as the burden of regulation rises. As the robo-movement began, some advisers were singing along to that R.E.M. song "It's the End of the World As We Know It." However, in an ironic twist, the robo-advisers have created technologies and focused our industry on the way forward to bring better service and outcomes to consumers.

THE TECHNOLOGY underlying those platforms, which was feared by so many people in the financial services industry, has actually brought us the solutions we were searching for to help investors with smaller portfolios.

SURPRISE ENDING

We believe there will be a surprise ending to the robo-adviser movement that is every bit as shocking as the final moments of the movie "The Usual Suspects." (We won't spoil it for you here.) The technology underlying those platforms, which was feared by so many people in the financial services industry, has actually brought us the solutions we were searching for to help investors with smaller portfolios. Furthermore, robo-advisers will help bring investment advice to individuals who do not have enough assets to warrant the hiring of a traditional adviser. In many ways, this group needs financial advice far more than wealthier investors.

When we speak at client and industry events, someone in the crowd almost always asks something like: "Do you think the robo-advisers are going to be disruptive to the industry and to human advisers?" Everyone has a different answer. We'll try to give you our thoughts and the thoughts of those collaborating with us on this project. The goal is not to be too academic in this book, but humor us for a second, because we think the definition of "disruption" is important to the answer.

The relevant Dictionary.com definition for this conversation is: "A radical change in an industry, business strategy, etc., especially involving the introduction of a new product or service that creates a new market." Even when you look at this definition, it is unclear if the robo-advisers created a new market. It is also difficult to determine whether they are truly replacing a current model.

Michael Kitces [partner and director of research for Pinnacle Advisory Group, and author of the financial planning industry blog Nerd's Eye View] doesn't believe the robo-movement is disruptive.

"One or two robos surviving as stand-alone entities, just by definition, isn't disruptive," he says. Mr. Kitces' point is that disruption is defined by the survival of the actual robo-entities. His beliefs are in line with ours.

The argument about whether the robos are disruptive is really an academic exercise that is unimportant and poses the wrong question. The right question to ask is: Has the robo-movement changed how advisers need to operate, and will it leave a lasting legacy? The answer is a resounding yes. Based on what robo-advisers have brought so far, we believe there will be many ways the trend will leave its legacy.

Children on hook for long-term care

Growing enforcement of filial laws could be a 'sleeping giant'

By Greg Iacurci

For those clients stubbornly objecting to engaging in long-term-care planning, here's a point that could drive home its importance: They could inadvertently stick their kids with a huge medical bill down the road.

That's because of something known as filial responsibility laws, on the books in about 30 states. These laws could hold children legally responsible for long-term-care expenses such as nursing home bills should a parent requiring care not be able to pay.

While enforcement of filial laws has been rare to date, some feel it's only a matter of time before states start enforcing them more regularly.

"It could be a sleeping giant," according to Charlie Douglas, board member of the National Association of Estate Planners and Councils and an Atlanta-based wealth adviser. "Most people aren't even aware of filial responsibility laws."

One fairly recent case, Health Care & Retirement Corp. of America v. Pittas, highlights just how substantial the financial burden can be on children. Enforcing Pennsylvania's filial support laws, the defendant was found responsible for his mother's long-term-care bill from a skilled nursing facility, to the tune of $93,000.

Pointing out to clients that their children could be on the hook for bills down the road for failure to address long-term-care planning is one way to potentially nudge them to do so, said Jamie Hopkins, the Larry R. Pike chair in insurance and investments and an associate professor of taxation at The American College.

A FAMILY DECISION

"In planning, fear could be a good thing as long as it drives people to action. A little bit of concern is OK," Mr. Hopkins said. Filial laws help clients notice long-term-care planning is a family decision, he added.

Such financial responsibility could also work the other way, prompting clients to bring up long-term-care planning with their parents, according to Carolyn McClanahan, the director of financial planning at Life Planning Partners Inc.

> "FEAR COULD be a good thing as long as it drives people to action."
>
> **Jamie Hopkins**
> Associate professor of taxation
> The American College

If a client has parents living in a state that has such laws, for example, it would be good practice for advisers to mention that the client could be held financially liable for taking care of them in the future, Ms. McClanahan said.

"To me, this is one part of a bigger issue of how families altogether need to have a conversation about long-term care for parents and themselves," Ms. McClanahan said.

Those conversations could focus on helping families understand what long-term care would look like under various scenarios. For example, what would be involved in keeping a house age-friendly so a parent could continue to live at home and who would be responsible for helping that parent pay the bills and maintain the home, Ms. McClanahan said.

Since the Pittas decision in 2012, more nursing homes have begun sending letters as a sort of "call to action," notifying children of past-due bills for parents and threatening to enforce filial law if the individual needing treatment doesn't enroll in Medicaid or if the bill isn't paid, Mr. Hopkins said.

As health care costs continue to grow at a rapid clip and state deficits become more of an issue due to Medicaid outlays, states will likely begin enforcing their filial laws more regularly, advisers said.

"They haven't been heavily enforced yet, but I think we'll see more of it with Medicaid being overstretched," Ms. McClanahan said.

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If you can't predict a Fed rate hike, prepare for one

John Waggoner
On Investments

When clients ask Mark Bass, a financial planner in Lubbock, Texas, when he thinks the Federal Reserve will raise interest rates, he has a ready answer. "Most often, our response is that we've been saying that for five years," Mr. Bass said. "Our credibility is pretty well shot when it comes to that particular topic."

In fact, you could have made a decent argument for the Fed raising its key short-term rate pretty much any time in the past five years. While the miserable May jobs report would seem to preclude a June rate hike, the Fed could move any time in the next few months.

As it stands, inflation is not particularly hot at the moment. The GDP price deflator for personal consumption expenditures, the Fed's favored inflation indicator, has gained 1.6% in the past 12 months. The Fed is aiming for about 2% inflation.

THE ECONOMIC statistic most likely to push the Fed toward raising rates is average weekly wages.

The economic statistic most likely to push the Fed toward raising rates is average weekly wages, which have gained about 2.5% in the 12 months ended in April. The movement to increase the minimum wage to $15 an hour increases the upward pressure on wages. Typically, when unemployment falls and wages rise, inflation rises as well. You can't have a wage-price spiral without rising wages.

'ARROWS IN THE QUIVER'

The Fed might have another, unspoken reason for raising interest rates. It needs some ammunition if the nation slips back into recession. Lowering the fed funds rate to zero from its current 0.25% to 0.50% isn't going to provide much stimulus. If they raise interest rates now, "at least they would have a couple arrows in the quiver," Mr. Bass said.

Most clients realize that rising interest rates aren't good for their investments. When rates rise, companies have to pay more interest on their debt, and prospective homebuyers have to shell out more for a mortgage. Furthermore, risk-free investments, such as money funds and bank CDs, become more attractive versus stocks and bonds. What should you tell them?

1. It's not a lock. The fed funds futures market put the odds of a Fed hike this month at 21% before last Friday's jobs report, said John Lonski, chief economist for Moody's Capital Markets Research Group. "Since 1994, the Fed has never raised rates unless the fed funds futures market puts the odds at 60% or more," he said. If the Fed passes on the June interest rate hike, it faces the prospect of raising rates at the July 27 meeting, which is during the Democratic convention.

2. It's not the end of the world. A quarter-point hike would lift the fed funds target to 0.50% to 0.75%. Those are still extraordinarily low rates. Your clients might see a modest increase in their credit-card rates, but that's all the more reason for them to pay down consumer debt. On the plus side, they could see a modest increase in the return on their cash. The average money market fund now yields 0.1%, up from 0.03% at the start of the year. High-yielding bank rates have moved from about 1% to 1.25%, according to Bankrate.com.

STOCKS LIKE HIKES

3. It isn't necessarily bad for stocks. Normally, the stock market views rising rates as a confirmation the economy is growing and the demand for loans is rising. The Fed last raised rates on Dec. 17; since then, the Standard & Poor's 500 stock index has gained 2.19%, including dividends. And the last major round of rate hikes began in 2004; the stock market didn't tumble until late 2007.

4. It can be remedied. You can reduce (but not eliminate) any untoward effects of interest rate hikes by reducing investments that are highly sensitive to higher rates, such as long-term government bonds. Bear in mind that higher short-term rates may also hurt other investments that aren't fixed income.

5. It can't be downplayed. The best thing for a financial adviser to do is to make sure your clients know you are thinking about the effects of a rate hike and what they should be doing, said Gary Fullam, chief investment officer at Globalt. "You need to be having conversations with them and they need to know where you stand," he said. "They know our thinking about it, and we've talked a lot about it."

Clearly, no one knows what the Fed will do or when it will raise interest rates. The case for a rate hike certainly isn't a lock. But if you stay in touch with your clients and let them know your thinking, a rate hike will be easier on everyone.

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INVESTMENT STRATEGIES

Monique France

A tale of two Chinas: one old, one new

Scrutiny of the country's market volatility reveals an economy that is moving in opposite directions

To the casual observer, headlines about China over the past year suggest doom and gloom. Those who take a deeper look, however, will find a divergent storyline comes to light: China's economy is moving in two different directions.

Earnings releases from Chinese companies for 2015 suggest that, broadly speaking, companies in the energy and materials sectors had negative earnings growth for the year, while companies in the information technology and consumer discretionary sectors registered strong, positive earnings growth during the same period.

SECULAR CHANGE

We believe the earnings disparity between sectors is evidence of the secular change that China's economy is undergoing: New China, with its innovative companies and focus on middle-class consumption, has been prospering in spite of decelerating GDP growth. Old China, dominated by state-owned, heavy industries, has been slowing down.

One result of the negative outlook on China has been high stock-market volatility. We believe that volatility will remain a feature of the Chinese market through 2016 and beyond. Nonetheless, we have a high level of conviction that amid continued market volatility, further opportunities for value creation can continue to emerge in China's new economy, especially from companies that are innovative, have sustainable competitive advantages and operate in a relatively underpenetrated industry.

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We are of the view that the new economy in China, driven by the increasing consumption of a growing middle class, will continue on its path of transformational growth, and this evolution will have far-reaching implications for investors with a risk appetite that can withstand the aforementioned market volatility and who understand the value of having a meaningful allocation to emerging markets over the long term.

An expanding and wealthier middle-class population embodies New China. The middle class in China now makes up more than 40% of China's population, up from 27% in 2010.

HIGHER WAGES

Rising incomes support the growth of China's middle class. The average annual wage of an urban household grew at a compounded annual rate of 13% from 2005 to 2014. My firm expects the upward wage trend to continue as the economy shifts from low-wage manufacturing and export-oriented industries to higher value-added service and high-tech industries.

Personal income shapes the individual consumer's spending decisions. The Chinese consumer's spending patterns are fueling enormous opportunities in certain sectors and markets. Importantly, with the advent of the internet and mobile devices, many consumer trends are not only accelerating but experiencing vast changes.

One such change is the rising allocation of consumer purchases to discretionary items. Within discretionary spending, there is an increasing shift from luxury goods toward spending on "experiences" and a better quality of life through purchases in technology, health care, recreation and travel.

EARNINGS DISPARITY between sectors is evidence of the secular change.

Nearly two-thirds of the growth in Chinese consumption is attributable to consumers under age 35, who are tech-savvy and highly educated.

UNTAPPED SECTOR

E-commerce is a prime example of a flourishing and relatively untapped New China sector. China already has surpassed the U.S. as the world's largest e-commerce market, and accounts for over 40% of global retail e-commerce sales, even though online retail in China is still in the early stages of secular growth.

As China continues to rebalance its economy from fixed-asset investment to services and consumption — from Old China to New China — these newer industries should increasingly drive economic growth. Although the path may be bumpy at times, we believe this significant transition will continue to present enduring and rewarding investment opportunities in New China.

Monique France is a client portfolio manager at Mirae Asset Global Investments in New York.

BICE basics to know

Continued from Page 4

interests of the investor and adviser as aligned in a level-fee arrangement.

Level-fee fiduciaries are subject to a few requirements to receive an exemption under BICE Lite, including:

- A written statement of fiduciary status;
- Compliance with standards of impartial conduct (providing advice in an investor's best interest, receiving reasonable compensation for transactions and not making materially misleading statements to investors about recommendations);
- Written documentation of the reasons for the recommendation.

BICE Lite likely will have the biggest impact on rollover recommendations because they're most likely to fit into the conditions of the exemption, said Joan Neri, counsel at Drinker Biddle & Reath.

The most significant difference

> "NOW THE REMEDY [for investors] is breach of contract in state court."
>
> **Jason Roberts**
> CEO
> Pension Resource Institute

is that BICE calls for a contract between the financial institution and investor. The contract must, among other things, acknowledge fiduciary status and that advice is in a client's best interest.

"That has firms very nervous, because now the remedy [for investors] is breach of contract in state court," exposing firms to class-action lawsuits, said Jason Roberts, CEO of the Pension Resource Institute, an ERISA compliance consulting firm.

The contract doesn't apply to ERISA plans such as 401(k)s, only to IRAs and non-ERISA retirement plans.

WARRANTY REQUIREMENTS

There are warranty requirements built into the contract: for example, financial institutions must have policies and procedures in place to ensure advisers comply with impartial-conduct standards, they can't rely on sales quotas that could lead to recommendations that aren't in the investor's best interest, and they must identify material conflicts of interest, Mr. Levine said.

These are obligations that would need to be carried out from a contractual standpoint, and they expose firms to more liability, Ms. Neri said.

BICE also includes "a mountain of disclosure requirements," Mr. Levine said.

Those include contract disclosures, point-of-sale disclosures, website disclosures with requirements for quarterly updates and disclosures necessary for proprietary products and third-party payments.

"That's why BICE Lite is so great, because it avoids the contract, the disclosures, all these additional pieces," Ms. Neri said.

Ultimately, hybrid firms with both RIA and brokerage operations can use both BICE and BICE Lite with the same client, through complementary commission and fee portfolios, if it's deemed to be in a client's best interest, Mr. Roberts said.

Although the provisions of the BICE may appear more onerous for stakeholders, there is an advantage — it can accommodate a wide range of compensation arrangements. That's not true of BICE Lite, which has "zero flexibility," Mr. Roberts said.

To be considered a level-fee fiduciary under BICE Lite, the fee must be level not just for the adviser, but the supervising firm and its affiliates as well. Receiving third-party payments of any kind through recommendations disqualifies advisers from using BICE Lite, according to Mr. Roberts.

And the types of third-party payments are numerous — 12b-1 fees; revenue-sharing payments; gross dealer concessions; distribution, solicitation or referral fees; volume-based fees; and fees for seminars and educational programs, for example.

BICE allows for this sort of compensation.

STILL NO WALK IN THE PARK

That said, it's not as if BICE Lite will be a walk in the park for level-fee fiduciaries. Documenting why a recommendation such as a rollover is in a client's best interest is the most challenging part of the exemption requirements, attorneys said.

"With this best-interest standard, you really have to establish why it's prudent and investigate all the relevant factors for that investor," Ms. Neri said.

Collecting that information is likely going to be more involved under the best-interest standard than is currently the case for RIAs, Mr. Roberts said.

The DOL spells out an example in its rule with respect to rollovers from an ERISA plan, such as a 401(k). The DOL says advisers must document their consideration of the alternatives to rolling over, including leaving money in the plan if that's permitted.

"Specifically, the documentation must take into account the fees and expenses associated with both the plan and the IRA; whether the employer pays for some or all of the plan's administrative expenses; and the different levels of services and different investments available under each option," according to the rule's text.

"If they can't handle the analysis on the client's current situation, then they won't be able to recommend a rollover," said Daniel Bernstein, chief compliance counsel at MarketCounsel, a regulatory compliance consulting firm.

It will probably be tougher for retail advisers than retirement plan advisers to perform these sorts of analyses, because they may not have the experience to easily decipher a plan document for nuanced fee information, Mr. Roberts said.

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Industry makes move

Continued from Page 3

injunction against a DOL workplace regulation that defined as a spouse a partner in a same-sex marriage.

"The court has been hostile to the Department of Labor," said Erin Sweeney, counsel at Miller & Chevalier. "If you're a plaintiff, it's the right court to bring the complaint in."

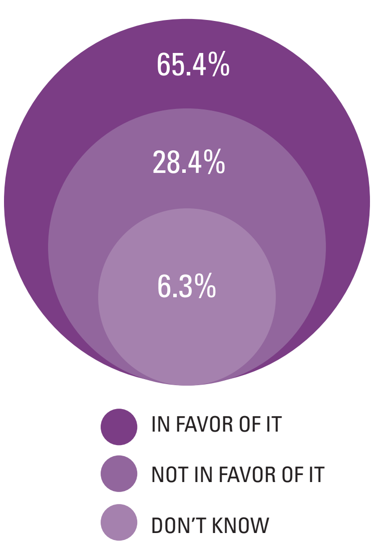
'FORUM-SHOPPING'

The fact that Texas judges will be deciding, when most of the parties involved in the suit are based in Washington, is controversial.

"It's an obvious case of forum-shopping," Mr. Hall said. "The idea that Texas is an appropriate venue is not credible."

Mr. Bentsen, who once served as a member of Congress from Texas, said the state is home to 27,000 brokers registered with the Financial Industry Regulatory Authority Inc. and has the third-most financial advisers in the country.

WHAT IS YOUR STANCE ON THE NINE-PARTY LAWSUIT FILED AGAINST THE DOL FIDUCIARY RULE?



Based on online survey of 303 readers

Total adds up to greater than 100% due to rounding

Source: *InvestmentNews*

"This is a national, Main Street issue, so we think Texas is a good venue," he said.

How fast the court will act is anyone's guess. And it's always difficult to predict just how the case will shake out. But the odds that implementation will be delayed – one of the aims of the plaitiffs — are good, according to experts.

By April 2017, the rule is scheduled to be implemented. By that time, advisers must begin acting as fiduciaries for their clients. Full implementation of all provisions is slated for January 2018.

EXTENDED DATE?

"I think there's a good chance [the suit] will extend the implementation period and spur discussion about how broker-dealers can implement requirements without having to overhaul their entire business model," said Brendan McGarry, a senior associate at Kaufman Dolowich & Voluck.

"My sense is the court will freeze the rule," said Tamar Frankel, professor of law at Boston University and a fiduciary advocate. "The court may say, 'We've had the status quo for the last 50 years. Let's keep it for the next few years until we decide where the rule goes.'"

Mr. Hall said the plaitiffs will have to prove that irreparable harm is being done by the rule. "They have a heavy burden," he said.

Ms. Frankel sees the struggle against the rule continuing to the nation's top court.

"One way or another the Supreme Court will have to make the decision," Ms. Frankel said. "Both sides are going to fight very hard."

It was immediately evident last week that the battle will be brutal. Labor Secretary Thomas Perez fiercely defended the regulation, saying it will protect workers and retirees from high-fee investments that erode savings.

PEREZ FIGHTS BACK

"Today, a handful of industry groups and lobbyists are suing for the right to put their own financial self-interests ahead of the best interests of their customers," Mr. Perez said in a statement last Thursday. "The rule-making was one of the most deliberate, open regulatory processes in recent memory. The department's Conflict of Interest Rule is built upon solid statutory and legal foundations, and we will defend it vigorously."

Ms. Sweeney said the DOL may find itself in the same situation as the Department of Health and Human Services when it had to respond to the many claims against the health care reform law.

"It requires the DOL to fight a multifront battle," said Ms. Sweeney, a former DOL senior benefits law specialist.

For the past several weeks, many broker-dealers have accepted that the final rule is in place and have been preparing for implementation. Now, many of the industry groups that represent them are trying to eliminate the regulation. The best response may be to forge ahead with preparation while keeping an eye on the courts.

"We're taking all of those actions: this necessary next step to seek relief and very actively supporting getting ready to comply," FSI's Mr. Brown said.

SIFMA also is traveling down both tracks.

"The rule is here until it's not," Mr. Bentsen said. "While the court hears this case, we'll continue dealing with our members on the implementation at hand."

Ms. Sweeney cautions financial firms against waiting for the courts to act before addressing compliance, because next April will get here sooner than they think.

Brokers have the most changes to make in complying with the rule and are "going to have to move full-speed ahead," she said.

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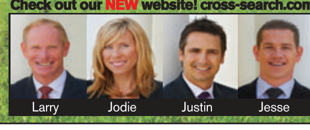

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Raymond James tied to fraud

Lawsuit alleges firm involved in misuse of investor funds

By Bruce Kelly

Legal problems for Raymond James Financial Inc. are mounting in the fallout over the financing of a failed ski resort and real estate project in Vermont.

In April, the Securities and Exchange Commission filed a complaint claiming fraud against Ariel Quiros and William Stenger, alleging that they and their companies made false statements and omitted key information while raising more than $350 million from investors to construct ski resort facilities and a biomedical research facility in Vermont. The SEC also froze the assets of the resort and related businesses.

2008 Year Raymond James began receiving wire transfers from Vermont bank

PONZI-LIKE MANNER

While neither Raymond James nor any of its employees were named as a defendant in the SEC complaint, the firm was named in a lawsuit filed May 20 by the SEC-appointed receiver.

Investors were told they were investing in one of several projects connected to Jay Peak Inc., a ski resort operated by Mr. Quiros and Mr. Stenger, and that their money would only be used to finance that specific project, according to the SEC. Instead, in the manner of a Ponzi scheme, money from investors in later projects was misappropriated to fund deficits in earlier projects, according to the SEC.

Raymond James & Associates was mentioned throughout the SEC's lawsuit as the firm that received wire transfers beginning in 2008 from a bank in Vermont to brokerage accounts controlled by Mr. Quiros. Those wire transfers were investors' money slated for the Jay Peak resort. Mr. Quiros later borrowed against the money in the Raymond James accounts with high-interest margin loans, according to the SEC's complaint.

In its lawsuit, the SEC-appointed receiver for Jay Peak, Michael Goldberg, named as defendants Raymond James, Mr. Quiros and Joel Burstein, a Raymond James branch manager for the firm in South Florida. Mr. Burstein is the former son-in-law of Mr. Quiros. The receiver's complaint alleges that Raymond James was involved in the misuse of Jay Peak investor funds.

"Raymond James assisted [Mr.] Quiros and [Jay Peak CEO Mr.] Stenger in stealing and misusing funds of various receivership entities by actively enabling [Mr.] Quiros and [Mr.] Stenger's intricate web of transfer and margin loans to defraud many" of the investors in the limited partnerships used to raise money for Jay Peak, according to the receiver's complaint.

"Raymond James denies the allegations and intends to defend itself vigorously," said company spokeswoman Anthea Penrose in an email.

A call to Mr. Quiros' attorney, David Gordon, was not returned. Mr. Burstein also did not return a call. Stephanie Anne Casey, a lawyer for Mr. Stenger, did not return a call to comment.

Jay Peak Inc.: Failed ski resort at the center of SEC lawsuit.

CLASS ACTION CLAIM?

At the start of May, a potential class action claim was filed against Raymond James making similar allegations to the receiver's complaint.

"Investors who invested in these limited partnerships thought they were investing their funds in hotels, cottages, a biomedical research facility and other projects," according to the receiver's complaint. "In reality, while some of the funds were used for the projects, the majority of the funds were comingled, misused, and diverted to pay for other projects and to cover [Mr.] Quiros' personal expenses."

Using investor funds, Mr. Quiros paid nearly $2.5 million in margin interest on loans to Raymond James, according to the complaint.

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Boon for robo-advice

Continued from Page 4

other large financial firms and institutions since. Vanguard rolled out hybrid-robo Vanguard Personal Advisor Services last spring. Fidelity is working on its own robo, currently in beta. And earlier this year Invesco acquired Jemstep, a business-to-business digital advice company, that's also now sparking partnerships of its own.

GROWTH EXPECTED

Robo-advice platforms are expected to reach $489 billion in assets under management by 2020, an increase from the $18.7 billion in AUM today, according to another Cerulli Associates report from last fall.

Having a digital advice platform — or working closely with one — doesn't guarantee these firms' products will be top of mind. But as more investors flock to online services, these institutions should have a better chance of getting their funds seen and chosen.

"You may not be able to use their service to place your fund at the exclusion of other funds, but you can get your funds on the menu," said Sean McDermott, an analyst at research firm Corporate Insight.

Robo-advisers are attractive to asset managers for other reasons as well: investors with small and large amounts of assets to invest will be using these platforms, and digital advice will continue to become cheaper to use, experts said.

VALUE FOR YOUNG CLIENTS

Another value add: younger clients will expect more technology-friendly services from their advisers and financial firms, and robos are perfectly in line with handling small balances.

Matthew Fronczke, senior executive consultant and head of consulting at kasina, said competition for these companies will be tight since there is only so much space in the industry.

"There are a number of high-profile players in the marketplace already competing in the business-to-business tech space," Mr. Fronczke said. "One of the things about digital advice is it is a scale-based business."

MAY BE TOO LATE

So for those institutions not yet in the game, it may be a little too late, he said. In that case, asset managers will have to make sure they're offering extremely competitive low-cost funds, Mr. McDermott said.

"It is going to be difficult," he said. "They can no longer rely on compensation to advisers to get agreements for preference for their funds."

In order to gain attention on robo-adviser systems, these firms will have to reassess their products and make necessary changes to fit in line with what is best for the investor.

Although asset managers with robo-advisers are working primarily in the business-to-business realm, in a way, they are also inching closer to investors themselves.

"It's almost a direct relationship without the intermediary," Mr. McDermott said. "It creates a lot of questions and interesting dynamics in the industry."

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TECH CONNECT

The mobile edge: Adapting your business to the digital divide

Portable technology has revolutionized the way we do business

Guest Blog

Joe Duran

Uber is killing the taxi cab, Amazon is overtaking retail and Netflix is dominating entertainment, but it is the cell phone that makes this all possible. The threat from digital disruptors only became pervasive when technology took the huge leap of becoming portable. The biggest danger to your business is the cell phone resting in your client's pocket.

We consume almost every imaginable service via our mobile devices — we shop for everything from shoes to cars to vacations, we assess our home values, read, research and entertain ourselves. We share our lives and interact with the world on a daily basis through our portable computers. The structural change this brings to all commercial ventures cannot be overstated.

Phones and tablets are changing how we consume products and services in three key ways:

1. We educate ourselves and form opinions before we buy. A referral from a friend used to be enough for most consumers. But today we trust Google as much as we do our friends. I recently had to replace some windows in my house. I asked friends for recommendations, but I used the internet to validate what they'd suggested. I learned about different products, compared different vendors, and negotiated the pricing and installation. When was the last time you made a major purchase without researching the alternatives and educating yourself online?

2. We have answers at our fingertips instantaneously. We used to rely on the print newspaper to tell us today what happened yesterday. Now we're notified instantly by multiple sources in audio, video or written form. We have grown accustomed to instant answers and instant consumption. Uber tells us exactly where our driver is and airlines alert us via text the moment there's a delay in our flight. No one has to wait for information anymore.

POTENTIAL NEW clients will reach a decision before they even have a chance to meet you.

3. We expect easy, interactive solutions. We are all programmers. When we create a playlist, use Google maps or schedule a vacation on Expedia, we are using highly interactive software that guides us through the process of programming a solution for ourselves.

There are three imperatives to building the mobile-friendly advisory firm of the future:

1. Manage your online reputation. Your online image is as important as what your physical office looks like. Googling yourself and your firm, assessing the impression your firm leaves and ensuring your deliverables are consistent with what consumers expect are crucial steps to success. Clearly articulated services, carefully aligned brand positioning, and meticulous and immediate responses to online commentary are imperative to competing in a mobile world. Potential new clients will reach a decision before they even have a chance to meet you.

2. Meet people where they live. Many advisers still force in-office client meetings. That's not how most people interact with the world anymore. Social media, instant messaging and video conferencing offer a plethora of convenient ways to stay in touch and keep informed. Perhaps the first couple of client meetings require in-person interaction, but ongoing advice must be more dynamic. Consumers want answers the moment they have questions. And they need to be able to see all of the components of their financial lives — not just investments — whenever they want. We are an on-demand economy. Your systems must support that.

3. Give your clients the controls. The world has become one of collaboration and personal involvement. It is incumbent on the adviser of tomorrow to use technology to simplify clients' financial lives and help them design their own voyage. Could your clients tell you all the components of their financial plan without asking you? Can they change the assumptions and evaluate what happens without your help? Can they easily find information on their phone whenever they want? Ensuring the final mile to the consumer is easy to use and simple to adjust will not only empower your clients, it will make you indispensable to them.

It's easy to gauge whether you will fall into the digital abyss or soar over it. Are your clients' phones connected to you even when they aren't talking to you? In the next few years, they'd better be or you could become tomorrow's video store owner: providing content everyone wants, but in the wrong format.

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

Here's my technology wish list

Guest Blog

Sheryl Rowling

Technology should come to our rescue when we are faced with repetitive tasks we'd rather not take on. Addressing repetition with technology can provide greater efficiency, fewer errors, more profit and less stress. With that in mind, I've come up with several ideas for programs. Perhaps I'm about to give away a great idea (or more than one). If that's the case, I'm OK with it as long as I get to use the final product. Or, if one (or more) of these tools already exists, I'm hoping readers will point this out. Here are my ideas:

Task organizer: We have CRMs to manage workflows and assign tasks. I'd like to see this concept taken a step further. When I have several projects to complete, with varying time estimates and deadlines, I would value software that could automatically tell me when to work on what project. Let's say I have a financial plan due in two weeks that will take me 15 hours, a tax-research project that will take four hours and is due in one week, a weekly blog to write that takes three hours, and employee reviews to write and deliver that will take 25 hours and must be done within two weeks. By inputting these items and the meetings already in my calendar, my handy task organizer will tell me which project to work on at any given time so I'll meet every deadline.

Meeting scheduler: Between Outlook calendar and online programs like Doodle, groups of people enter their availability to find meeting times that work for all involved. I want something more automatic. For example, in my organization, we record all appointments in our Outlook calendars. If I want to meet for 30 minutes at the earliest possible time with Steve and Nick, Outlook should automatically find the next 30-minute slot that works for all three of us and schedule the appointment.

Voicemail options: Our phone systems let us record a multitude of greetings, including options for vacations, lunchtime, evenings, weekends, etc. Why not have options based on who is calling? Our CRM has phone numbers and names of all of our clients. When a call comes in from a client, they would hear a special greeting. There could also be separate greetings for family members, friends, employees and, of course, a general greeting. How cool would it be for the greeting to be personalized, such as, "Hi, Chris. I'm in a meeting right now, but I'll get back to you as soon as I get out. Please let me know what you'd like to talk about."

Delete and unsubscribe: No matter how many filters I have or how many times I spend hours replying "unsubscribe" to unwanted emails, they always creep up and flood my inbox. As I go through my inbox, I may or may not respond to particular emails, then I either save the read email to a folder or delete the item. It would be nice to have a "delete and unsubscribe" button that would automatically remove me from email lists.

PERHAPS I'M about to give away a great idea. If that's the case, I'm OK with it as long as I get to use the final product.

That's it for my wish list. I'm hoping there are some bright, entrepreneurial programmers out there. Any volunteers?

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

Advisor Services

My Independence Day

October 4, 2013

Ajay Gupta
Gupta Wealth Management

For me, independence means being able to offer my clients the same investment strategies I use for my own family. So when I became an independent advisor, I chose Schwab. They understand my practice and they understand the way I like to do things. From day one, they've put me at the center—just like I do with my own clients. Before I went independent, I felt boxed in. Now, with the leading RIA custodian in the country on my side, I feel I can offer my clients the world. I am Ajay Gupta, and this is my Independence Day.

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