BREXIT: ADVISERS CALM CLIENT FEARS. PLUS, WHAT'S NEXT FOR THE MARKETS? PAGE 3

June 27-July 1, 2016

InvestmentNews®

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The Leading Information Source for Financial Advisers

40 UNDER 40

THE POWER OF PERSONALITY

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EDITOR'S NOTE

List of young leaders serves as crystal ball

Frederick P. Gabriel Jr.

I've always looked at our annual 40 Under 40 feature as a crystal ball into the future of the financial advice industry. If you look hard enough at any group of honorees, you can find commonalities that shed light on what's to come for the business of providing financial advice. So, what can we divine from this year's list?

Well, based on the personality test we asked all of our 40s to take, we know that 13 of them speak the language of power, meaning they project confidence and like to take charge of a conversation. Ten come from a place of prestige, which means they are motivated by excellence and hold themselves (and probably those around them) to high standards. Our group also scored high on innovation, passion and trust.

WELL-EDUCATED

Of course, those attributes serve the individuals well. But they also bode well for the financial advice industry as a whole.

Our winners are also a pretty well-educated group. Fifteen percent hold a master's degree in business and another 5% hold some other master's degree. Meanwhile, 2.5% hold doctorates.

Interestingly, a third of our 40s say they get their news from Twitter. That, of course, speaks to the growing prominence of social media in all our lives.

In the perennial dogs versus cats debate, our honorees clearly favor dogs. Fourteen people own dogs, compared with four who own cats. Our list also suggests that succulent plants could soon become a "thing." One of our winners, Vanare's Alexy Sokolin, listed his succulent plant — which he affectionately calls "Platypus"— as a pet. Hey, why not?

A lot of work goes into finding our honorees. This year, for example, we vetted more than 800 nominations. That doesn't include the dozens of candidates we identified on our own and vetted.

MOST ENGAGING ASPECTS

In producing this year's list, we collaborated with Sally Hogshead, the developer of the Fascination Advantage, which is a unique personality assessment that identifies the aspects of someone's personality that makes them most engaging to others.

To take the Fascination Advantage test yourself for free, or to read more about our honorees, visit our special microsite for the project at InvestmentNews.com/40. There, you can also see many of our honorees for yourself on videos we produced for this feature.

You can also engage with many of our 40s on Twitter by using the hashtag #IN40.

fgabriel@investmentnews.com
Twitter: @fredpgabriel

FIDUCIARY FOCUS

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To read more fiduciary stories, including "Eight ways to comply with DOL fiduciary," go to InvestmentNews.com/fiduciary.

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We'll be back.

InvestmentNews won't publish a print edition July 4. Print publication resumes July 11.

Cover photo and page 8:
Brad Trent

Sabotage: Finra continues to crack down on brokers changing jobs who try to disrupt their old employers by altering client contact information. Page 26

A 'fine' day for Merrill Lynch

Agrees to pay $415M to SEC and is fined $15M for other offense

By Christine Idzelis

Last Thursday was not a good day for Merrill Lynch.

The wirehouse, owned by Bank of America, admitted to wrongdoing in a record $415 million settlement with the Securities and Exchange Commission, which charged that it misused customers' cash and failed to safeguard their securities. Separately, Merrill was fined an additional $15 million in another action by the SEC and a third brought by the Financial Industry Regulatory Authority Inc.

The $415 million settlement is "by far the largest" relating to a customer protection violation in the SEC's history, Andrew Ceresney, director of the agency's division of enforcement, said during a media call last Thursday.

While most cases settle with firms neither admitting nor denying the SEC's charges, the SEC thought it was important to obtain an admission from Merrill regarding its customer protection violations because of their severity, according to Mr. Ceresney. Mary Jo White, chairwoman of the SEC, has made obtaining admissions of guilt from defendants in settlements a priority during her tenure.

BILLIONS IN CUSTOMER CASH

According to the SEC, Merrill maneuvered to free up billions of dollars of customer cash each week from 2009 to 2012, using the funds to finance its own trading activities. And from 2009 to 2015, the firm held

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Boomers start required distributions

Those turning 70½ must begin withdrawing from retirement accounts

Mary Beth Franklin
On Retirement

The first wave of baby boomers will hit an important milestone beginning Friday. Those earliest boomers born at the start of 1946 will start to turn 70½ as of that day, and will be followed at the rate of 10,000 people per day for the next 18 years.

Uncle Sam will have his hand out — not to applaud the generation's half-birthday but to collect income taxes from their retirement account distributions that have finally come due. It seems like a good time to review some basic distribution rules for IRAs, 401(k)s and other types of retirement savings plans.

FIRST-YEAR RULE

Clients who were born between Jan. 1 and June 30, 1946 — who turn 70½ this year — can choose to take their first required minimum distribution from their traditional IRAs (including SEPs and SIMPLE IRAs) by Dec. 31 or delay until April 1, 2017. But if they decide to take advantage of the April 1 deadline that is available only for first-year distributions, they will have to take their second RMD by Dec. 31 of that same year. That could substantially boost their taxable income for 2017 and possibly boost their Medicare premiums, too. Going forward, they must take an annual distribution by Dec. 31 each year or face a 50% penalty on the amount they failed to withdraw.

Clients born between July 1 and Dec. 31, 1946, are not required to begin mandatory distributions from their retirement accounts until 2017, when they turn 70½ (or 2018, if they select the first-year delay option). Roth IRAs do not require mandatory distributions.

CALCULATING RMDs

Take the account balance of each IRA as of Dec. 31 of the previous year and divide that amount by the distribution period from the IRS's life-expectancy table in IRS Publication 590-B. Most people use Table III (Unified Lifetime) which has a life expectancy of 26.5 for age 71.

But if the sole beneficiary of your IRA is your spouse who is more than 10 years younger than you, you can use a different IRS table, Table II (Joint Life and Last Survivor Expectancy).

If you have more than one IRA, you must add up all of the required minimum distributions from each account, but you can choose to take

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Firms fined for Realty Capital proxy fraud

By Bruce Kelly

In a follow-up to last year's investigation that found the now-defunct Realty Capital Securities had committed proxy fraud, the secretary of the Commonwealth of Massachusetts, William Galvin, has fined seven broker-dealers a total of $238,000 for their role in the fraud.

IN CAHOOTS WITH RCS

The seven broker-dealers fined were: Voya Financial Advisors Inc.; FMN Capital Corp.; Invest Financial Corp.; Newbridge Securities Corp.; Pariter Securities; Platinum Wealth Partners Inc.; and TKG Financial. The firms also were hit with cease-and-desist orders and ordered to change their supervisory procedures with respect to proxy voting.

Brokers at the seven firms worked in cahoots with RCS in casting fake or unauthorized proxy votes, according to Mr. Galvin. The proxy authorization forms were each identical and were prepared for the firms to submit by RCS. The firms failed to have adequate policies and procedures with respect to proxy voting, according to Mr. Galvin.

The proxy votes in question occurred last year and involved two nontraded REITs, American Realty Capital Trust V Inc. and American Realty Capital Healthcare Trust II, and a nontraded business development company, Business Development Corp. of America.

The Massachusetts Securities Division said last year that its investigation had uncovered a pattern of RCS employees masquerading as shareholders to cast proxy votes in favor of management proposals that were instrumental in completing the merger between Apollo Global Management and American Realty Capital, an affiliated company of RCS.

William Galvin: Says brokers worked with RCS to cast fake or unauthorized proxy votes.

RCS was the wholesaling broker-dealer of American Realty Capital. Former nontraded REIT czar Nicholas Schorsch is the majority owner of ARC, which is now called AR Global.

Mr. Galvin's orders against the

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British decision felt in U.S.

Sell-off could herald an extended period of market uncertainty

By Jeff Benjamin

The global stock market sell-off Friday following the United Kingdom's vote to leave the European Union proved that the financial markets largely believed Britain was going to vote for the status quo.

While many financial advisers and analysts saw the initial market pullback as a keen buying opportunity, the fallout from the historic Brexit vote could linger for a couple of years as the details get sorted out.

"For U.S. investors, this means uncertainty for European investments in general and U.K. investments in particular," said Chris Chen, wealth strategist at Insight Financial Strategists.

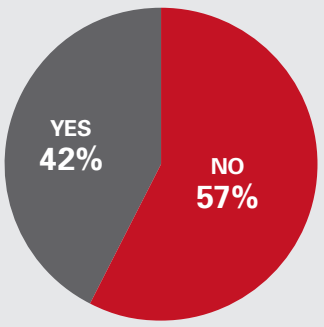
As Mr. Chen pointed out, the U.K. will have two years to fully depart from the European Union that it has been a part of since 1973, and the transition should generally favor the rest of Europe over the U.K.

"Europe comes out a little bit ahead because more jobs will flow from Britain to the rest of Europe," he said. "Leading up to the vote, the markets were priced assuming they would stay in the EU, but because I'm a long-term investor my clients are going to be OK, because I think everything will right itself in the long term."

Doug Cote, chief investment strategist at Voya Financial, said the volatility in the wake of the vote might have been compounded by the news coming out on a Friday, which meant more investors would want to head for safety prior to a weekend full of meetings and hand-wringing over what comes next.

READER POLL

InvestmentNews asked readers if the Brexit decision will still be impacting markets three months from now.



Source: InvestmentNews *poll*

NO WORRIES

"Investors don't want to have to worry about it all weekend, because a lot of fear can build," he said. "Of course, it could be a good thing too, because maybe investors can use the weekend to calm down."

The S&P 500 plunged 75.91 points Friday, off 3.59%, while the Dow Jones Industrial Average dropped 610.32, a decline of 3.39%.

"I'm counseling investors to stick

Continued on Page 25

Advisers reassure clients in wake of U.K. shocker

By Liz Skinner

Financial advisers pressed the "keep calm and carry on" message to clients last Friday as the global markets reacted wildly to the United Kingdom's surprising vote to leave the European Union after 43 years.

"We are explaining to clients that we were prepared in advance with an investment strategy that did not depend on us guessing correctly one way or the other for Brexit, or any of the other big events upcoming this year," said Ted Halpern, president of Halpern Financial.

Without trying to make light of the Brexit vote that caused sell-offs in U.S. and other markets on Friday, Mr. Halpern suggested clients consider a leisure trip across the pond.

"After all, your dollar will go much farther now with declines in the British pound," he wrote in an email to clients last Friday.

Advisers said clients seemed interested in the events occurring overseas and appreciated the communications. Some were resigned to the hit their investments may take, and others asked about buying opportunities.

'STAYING THE COURSE'

"I agree, of course, with staying the course," one client responded to an email sent early last Friday morning by Dave Yeske, managing director of Yeske Buie. "In fact, I would be interested in your take on when it would be appropriate to buy a bit more, and if so, how we do that?"

Mr. Yeske said he responded to the first incoming client email about the Brexit vote at 2:20 a.m. ET, calming someone nervous about the impact on her 401(k) investments.

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U.S. wealth unit is not up for sale, UBS says

By Christine Idzelis

UBS Group AG is once again denying that its U.S. wealth management unit may be up for sale.

The New York Post reported on June 18 that the Zurich-based bank could soon sell its American wealth management business. UBS announced earlier this month that it's restructuring the unit.

UBS Wealth Management Americas is not for sale, Gregg Rosenberg, a spokesman for the firm in New York, said last Monday.

"Our wealth management franchise is at the core of our strategy and we are uniquely positioned in the U.S. to succeed," he said, adding that the unit makes up more than half of the invested assets of its global wealth management business and continues to have "the most productive adviser force in the industry in the largest market in the world."

PERSISTENT RUMORS

UBS Wealth Management Americas, which focuses on ultra-high-net-worth and high-net-worth clients, had $1.05 trillion of invested assets and 7,145 financial advisers at the end of the first quarter. Its advisers produced an average $1.06 million of annualized revenue each in the first quarter, according to Mr. Rosenberg.

Rumors that the business is up for sale have been popping up since 2010, according to Ron Edde, president and CEO of recruitment firm Millennium Career Advisors. He said it would be a lot less expensive for a firm to pick up its advisers with an acquisition rather than recruit them individually.

RESTRUCTURING PLAN

Mr. Edde also called UBS Wealth Management's restructuring plan "ballsy." The plan includes cutting recruitment by 40% while boosting compensation for advisers with the largest books of business.

Last summer, UBS CEO Sergio Ermotti also tried to squash the notion that the bank would be willing to give up the unit. "It's not so hard to see why this strong business with its strategic and financial importance looks attractive to our competitors, but it's worth even more to UBS and its shareholders, and that's why it's not for sale," Mr. Ermotti said during a July 2015 earnings call.

He reminded investors and analysts that "almost every dollar we earn in pretax profit across our businesses in the U.S. is available to distribute to shareholders."

cidzelis@investmentnews.com
Twitter: @cidzelis

Product points to future of annuities

Jackson National is developing a fee-based VA in response to Labor's rule

Annuity behemoth Jackson National Life Insurance Co. is developing its first-ever fee-based variable annuity product, offering a hint as to where the annuity market could be headed as a result of the market shake-up caused by a new Labor Department regulation affecting retirement accounts.

The Department of Labor's fiduciary regulation, which raises investment advice standards for retirement savings vehicles such as 401(k)s and IRAs, is expected to negatively impact sales of variable annuities sold on a commission basis in qualified plans because of the additional compliance and litigation risk associated with such transactions.

MORE DEMAND

Experts have said fee-based annuity contracts, in which an adviser charges a level "wrap" fee on assets under management, will become more popular as a result, because these products wouldn't share the same burden as commission products.

"Based on Jackson's ongoing conversations with our broker-dealer partners, we think the legal/compliance costs of managing a commission-based platform under the U.S. Department of Labor proposal will result in more demand for fee-based variable annuity products," spokeswoman Elizabeth Kosar said in an emailed statement.

Jackson National was the U.S. leader in variable annuities last year, bringing in more than $23 billion in individual annuity sales, almost double the sales of No. 2 player TIAA-CREF, according to LIMRA. The insurer's new product, Perspective Advisory, is expected to launch Sept. 19.

In addition to the fact that producer compensation is fee-based, the annuity has low contract charges (30 basis points for mortality, expense and administration costs), a range of optional living and death benefit riders, and a relatively short surrender-charge period (three years).

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Some big banks opposed suing DOL

Debate over joining suit against fiduciary rule roiled SIFMA

Bloomberg News

Some of the biggest Wall Street banks opposed an industry decision to sue the U.S. Labor Department over its new broker rules, exposing a fissure between the companies and their smaller competitors, people familiar with the matter said.

Debate over the high-profile litigation has roiled the Securities Industry and Financial Markets Association, one of several trade groups that sought to overturn the regulation in federal court in Dallas earlier this month. In a sign of the discontent, the association's board held a vote on whether to join the case, a rare occurrence because it usually operates by consensus on such matters, the people said.

While the suit was ultimately approved with the strong backing of regional brokerage firms, tensions flared during conference calls and meetings leading up to the court filing, the people said. At one point, Wells Fargo & Co. threatened to quit SIFMA if it joined the suit, the people said.

TIME TO MOVE ON

The dissenters, which also included Morgan Stanley, Bank of America Corp. and JPMorgan Chase & Co., argued that it was time to move on after a bruising six-year lobbying battle that the Obama administration won by portraying brokers as riven with conflicts that drive up costs for retirement savers. Rather than take another reputational hit by trying to overturn a rule billed as pro-consumer, the big firms said they preferred putting the effort into complying with it.

MASSIVE CHANGES

The Labor requirements, adopted in April, call for brokers to put clients' interest first, an obligation known as fiduciary duty. The policy affects trillions of dollars held in individual retirement accounts and 401(k) plans, and is likely to spur massive changes in how bro-

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Advisers, don't be fooled by the ETF liquidity mirage

Wall Street has not come up with a magic product wrapper

Bob Rice
The Rice Reveal

This headline recently appeared on Bloomberg's news site: "Wall Street Turns to ETFs to Sidestep Illiquidity in Bond Market." Because the ability to trade individual bonds is degrading, the story reported, investors are piling record dollars into global bond exchange-traded funds.

Hmm. So Wall Street, in its wonderful way, has invented a magic product wrapper that makes bond illiquidity problems disappear. Sort of like a financial version of Harry Potter's invisibility cloak, I guess. But investors should probably keep in mind that Harry was still there, even though you couldn't see him.

Meanwhile, the Federal Reserve is worried that thus-hidden bond market problems will reappear to haunt bond ETF investors: "As ETFs may appear to offer greater liquidity than the markets in which they transact, their growth heightens the potential for a forced sale in the underlying markets," said a Fed monetary policy report released in February.

UNDER THE HOOD

Well-known investor Howard Marks agreed: "The ETF can't be more liquid than the underlying." So does activist investor Carl Icahn: "Phantom liquidity," he said, is "a keg of dynamite."

So what explains this mismatch of blasé and fear? How can huge investment flows be predicated on exactly the feature that many say is the product's Achilles' heel? I think it's that one side understands how ETFs really work, and one side doesn't.

So let's do a quick review.

Shares in an ETF are created when an "authorized participant" or "AP" — a financial institution in a contractual relationship with an ETF — delivers a basket of securities to the ETF in the proportions specified by the index or formula that the ETF tracks. For example, an AP working with the SPDR S&P 500 ETF (SPY) could deliver all the stocks in the S&P 500, in the current proportions of that index today, to that ETF in exchange for a new SPY share. That AP then can sell that share into the market via an exchange, hold it in inventory, or perhaps sell to an existing client who has placed an order.

TURNING IN SHARES

Crucially, APs also can do the reverse: Turn an ETF share into the fund in exchange for the basket of securities it holds. We'll see why that's so important in a moment, but for now just note that individual

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Camardas still fighting

Adviser couple gets OK for oral arguments in CFP Board suit

By Liz Skinner

The D.C. Circuit Court of Appeals will hear oral arguments on Sept. 7 to decide whether a Florida couple will be granted an appeal in their case against the Certified Financial Planner Board of Standards Inc. over how they describe their compensation.

Kimberly and Jeffrey Camarda

Financial advisers Jeffrey and Kimberly Camarda filed an appeal for a public trial in their case after U.S. District Judge Richard Leon dismissed it in July 2015. The judge ruled that a court cannot "second guess" the CFP Board about the way it enforces rules related to the investment advice credential it grants.

The Camardas have said a trial would demonstrate the "substantial legal merit" of their case, filed in 2013.

The CFP Board's CEO, Kevin Keller, said in an interview last Tuesday that the board was pleased the district court had "affirmed the integrity of the process by which we enforce our standards."

The CFP Board brought a disciplinary case against the Camardas in December 2011, holding that they represented themselves as fee-only advisers despite the fact that an arm of their firm, Camarda Consultants, sells insurance for commissions.

Mark Schoeff Jr. contributed reporting to this story.

lskinner@investmentnews.com
Twitter: @skinnerliz

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VIEWPOINT

EDITORIALS

Unreal expectations

HOPE AND CONFIDENCE are good attributes to have, especially when one is young — but there is such a thing as wild optimism.

A recent survey by the British asset management company Schroders, which has $467 billion in assets under management, found that most investors have extremely unrealistic investment expectations; and U.S. investors, and millennials in particular, have the most inflated expectations of anyone in the world.

The average stock market yield globally is about 4%, and benchmark interest rates in major developed markets are at 0.5% or lower, or even negative.

What do Americans expect to generate in annual income? A whopping 11.1%. U.S. millennials, aged 18 to 35, are nearly as optimistic, with expectations of 10.2% returns, the study found. Compare that with the only slightly more sober expectations of their investing peers in Europe and Asia, who seek 7.9% and 9.7% returns, respectively.

For financial advisers, the disconnect between such high expectations and stark economic reality represents a chance to get real. Advisers should set more realistic expectations with clients, starting with a conversation on what reasonable returns really look like. As investors perpetually search for yield, it is important for advisers to ascertain what their clients' appetite for risk is and devise investment plans to achieve goals that are within clients' comfort zones.

U.S. INVESTORS are more optimistic on returns than anyone in the world.

ADVISERS' HIGH HOPES

The gap between expectation and reality also isn't a uniquely American problem — or limited to investors. The expectations of financial advisers globally also appear high overall. The Schroders study, which surveyed 20,000 investors across 28 countries, found that advisers worldwide wanted to generate a minimum of 7.9% a year for clients, which is still high given low interest rates.

U.S advisers cited 5% as their target for annual investment income and recommend holding investments for an average of 5.3 years. Meanwhile, U.S. and global investors hang on to their investments for an average that is barely more than three years.

COUNTERING VOLATILITY

This short-term investing bias is fine for cash and certain types of bonds, but the strategy will more than likely prove too short a time period to counter stock market volatility, as investors saw at the start of this year. The study also found that less than 18% of investors heed their advisers' advice to hold on to their investments for at least five years — the minimum realistic holding period for equity investments. Almost a third, or 31%, have an extremely short-term strategy, and invest for less than a year. That trend is most pronounced among millennials, who tend to hold on to their investments for over a year and a half less than investors over the age of 36, the study found.

There was one silver lining to the study. When it comes to saving and investing, financial advisers remain an important player in the decision-making process. Half of the respondents said they would consult a financial adviser for their next investment decision, and that held true for millennials and baby boomers alike.

"Investing is seen as an important contributor to meeting current and future financial goals. This is evident in the high demand for income," said Gavin Ralston, head of thought leadership at Schroders. "The survey showed that getting back the money invested and getting a return higher than inflation are what is most important to investors. However, investors' short-term outlook and unrealistically high-return expectations raise concerns that investors could be left disappointed."

Indeed, managing expectations and making sure clients consider long-term investing, especially investments of more than 5 years, should be key goals for financial advisers to help bridge the knowledge gap that still exists.

"We encourage investors to think long term when investing, as our fund managers do," Mr. Ralston concluded. "Speaking to a financial adviser can help investors align their investment portfolio with their needs and their financial goals."

LETTERS

Why pile more paperwork on honest advisers?

I was reading the Tweets of the Week [in the June 6 issue of *InvestmentNews*] and felt compelled to write you as it pertains to the DOL rule. I am a 24-year veteran of the financial services industry.

It's unfortunate and irrational for advisers (or politicians) to make claims like "Honest financial advisers should embrace the new Labor Department fiduciary standard."

That is illogical and very dangerous.

Here's why:

1. If I am honest (which I am), like 95%+ of advisers, then why do I need more scrutiny or more rules and regulations that are already strangling our industry like never before? The key word is "honest," and therefore I can be trusted until I prove otherwise. It's an oxymoron and irrational logic to make the statement above like I hear regularly. That statement basically says that because I am honest I should want more scrutiny for already not lying or cheating my customer. This premise and these statements are highly irrational and dangerous. Shouldn't we honest advisers be rewarded for our good behavior? What am I missing?

2. The more we allow the politicians and "off the wall" government agencies (like the DOL) into our businesses, the more they will continue to take advantage of our industry — only handcuffing us more and pushing honest advisers out of the industry because we won't be able to manage our clients' accounts without having to jump through more paperwork and bureaucracy. We honest advisers should be rewarded as a result of our good and honest behavior … not the opposite. I am smarter than to assume any government agency (look around you) has performed adequately and efficiently, and more importantly, fairly, in all industries with which they are involved.

MORE POTENTIAL FINES

More rules and regulations mean more potential fines and money for the governing bodies and their henchmen. Also, more government employees and red tape [are] at the expense of honest advisers, potentially leaving a highly dysfunctional and unfair industry, instead of focusing on the true dishonest advisers who should take the brunt of all of these rules and regs.

Scott Feher
Registered principal
Scott Feher & Associates
Walnut Creek, Calif.

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VP-Publisher: Suzanne Siracuse, ssiracuse@crain.com

EDITORIAL
Editors:
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Deputy Editor: Robert Hordt
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Director of Digital Strategy: Mike Palazuk, mpalazuk@crain.com
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ADVERTISING
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New York:
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Kevin Reardon, kreardon@crain.com 212-210-0476
Chicago:
Karen Wahl, kwahl@crain.com 312-649-5226
San Francisco:
Rich Kiesel, rkiesel@crain.com 415-538-0206
Boston:
John Bubello, Jbubello@crain.com 978-534-5635
Reprint Manager: Laura Picariello, lpicariello@crain.com 732-723-0569
Inside Account Manager: Letitia Y. Buchan, lbuchan@crain.com 212-210-0451

MARKETING AND AUDIENCE DEVELOPMENT
Audience Development Director: George Ortiz, gortiz@crain.com
Creative Marketing Manager: Lorenzo John, ljohn@crain.com
Marketing Project Manager: Shannon Rosic, srosic@crain.com
Digital Marketing Coordinator: Shannon Murphy, smurphy@crain.com

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

PRODUCTION
Prepress/Production Director: Simone Pryce

INVESTMENTNEWS OFFICES
Headquarters:
685 Third Avenue, New York, NY 10017-4024
Editorial fax: 212-210-0444
Bureau office:
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Advertising main number: 212-210-0774
Fax: 212-210-0117

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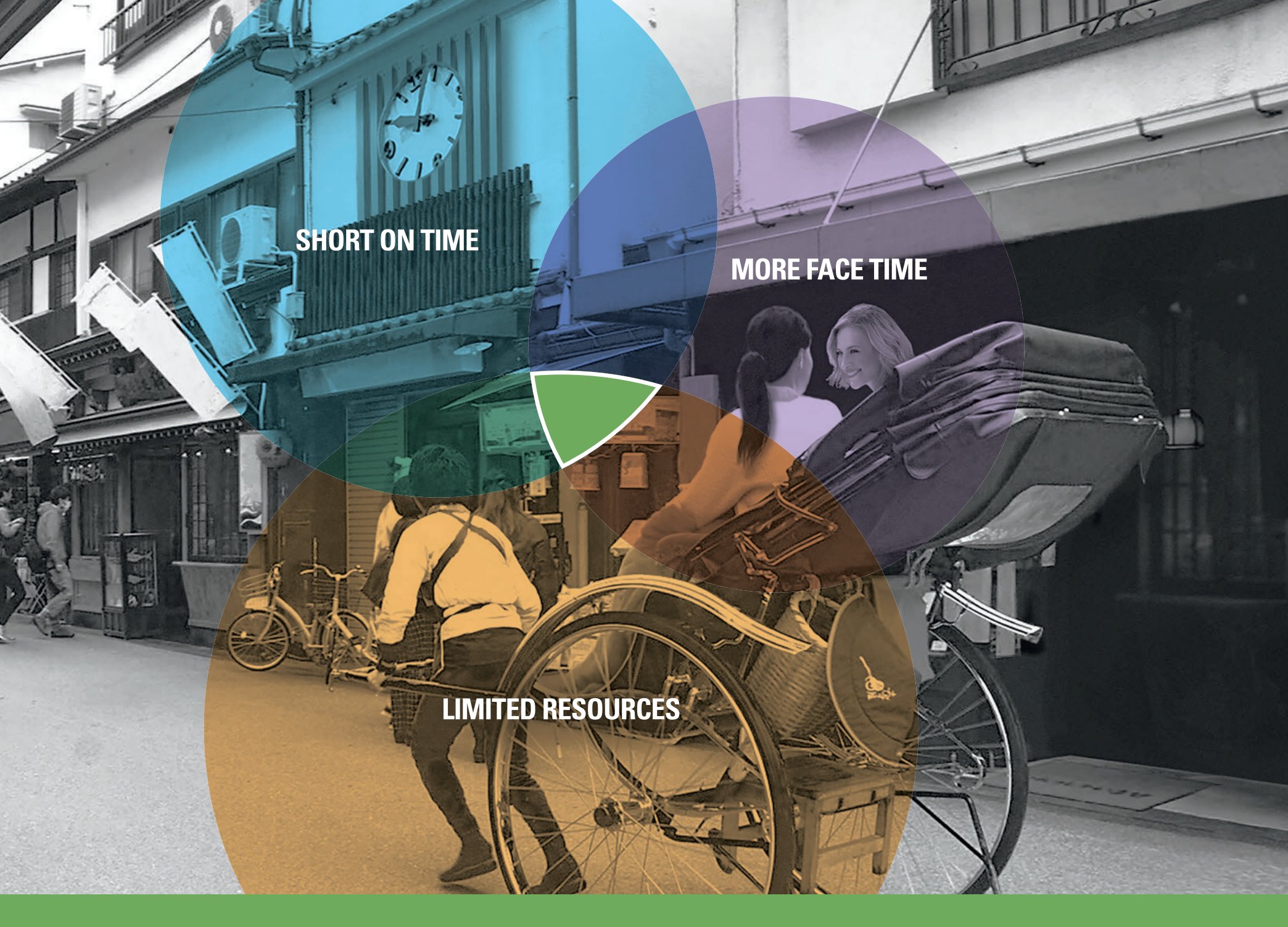

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40 UNDER 40
THE POWER OF PERSONALITY

THE EDITORIAL STAFF AT *INVESTMENTNEWS* BEGAN this year's 40 Under 40 project in February by reviewing the traits we sought most in this year's class. At weekly meetings that continued into the spring, as we combed through the profiles of this year's 800 nominees, we searched for the key attributes that have always defined our winners: accomplishments to date, contributions to the industry, leadership and promise.

But paper resumes rarely paint the full picture. In presenting this year's winners, we also wanted to focus on intangibles: those special qualities that make an individual stand out and force the world to take notice. As a result, the class of 2016 showcases the power of personality.

In collaboration with author Sally Hogshead, we created a quick and fun personality test for our honorees to reveal how they are perceived by others and what their top strengths are; you'll see their personality archetypes listed under their names. Among this year's class are young talents deemed by our quiz results as "Victors," seen by the world as respected and competitive; "Maestros," who are ambitious and confident; and genuine and sure-footed "Guardians"— all admirable traits for those who want to serve their communities as top financial advisers.

Learn more about each archetype's meaning, discover your own by taking the test, and read more-extensive profiles and view videos of our winners at **InvestmentNews.com/40**.

—Walden Siew, news editor

DIVAM MEHTA

MAESTRO

FOUNDER, MEHTA FINANCIAL GROUP

BORN IN INDIA, Divam Mehta was 5 years old when his family arrived in the United States. His focus as an adviser is on families in similar circumstances: Indian immigrants who came to the United States for a shot at a better future for their children.

One of the biggest hurdles he faces is the internet and so-called robo-advisers. The former has given license to anyone who wants to claim that they are an investment-advice expert, while the latter, said Mr. Mehta, may lure clients with the promise of the lowest fees but generate poor investment results.

AGE: 32

It's hard for clients to focus with all that noise out there, said Mr. Mehta, 32. That's where he steps in.

"It's better to work with someone who knows the family structure than to depend on an algorithm," said Mr. Mehta. "The vast majority of my clients are either first or second generation immigrants. It's important to design a plan they can execute and give them something they can actually work on step by step so they can see the progress.

"They have no idea of the U.S. tax structure, investment landscape or what they can do to progress on their financial journey," he said.

His largest outreach is through seminars to people in the Indian community.

— Bruce Kelly

BRAD BERNSTEIN

VICTOR

SENIOR VICE PRESIDENT WEALTH MANAGEMENT, UBS FINANCIAL SERVICES

BRAD BERNSTEIN WORKS in a profession at the heart of capitalism. But while representing UBS Financial Services advisers when the firm was changing compensation policies, he felt more like a union leader.

Mr. Bernstein was the youngest person to ever serve on the UBS Financial Advisor Advisory Council, where he was one of 14 members representing the 7,100 UBS advisers.

He participated on the council in 2014-15, as the firm was contemplating adjustments in anticipation of a Labor Department rule to raise advice standards for retirement accounts.

AGE: 39

The modifications would have affected bonuses in a way Mr. Bernstein said was unfair. He convinced UBS officials to make deferred bonuses a larger part of total compensation.

"It was much better for the financial adviser than it would have been, and I'm proud of that," he said.

Mr. Bernstein also helped establish an online compensation calculator that allows UBS advisers to easily track their pay.

His clients seem to be happy, too, as his revenue has grown from over $100,000 to more than $2 million in the last 10 years.

— Mark Schoeff Jr.

"IT'S BETTER TO WORK WITH SOMEONE WHO KNOWS THE FAMILY STRUCTURE THAN TO DEPEND ON AN ALGORITHM."

-DIVAM MEHTA

MICHELLE LYNCH

WISE OWL

VICE PRESIDENT OF THE ADVISER NETWORK FOR WOMEN, RAYMOND JAMES FINANCIAL INC.

MICHELLE LYNCH IS a "Wise Owl," observant and assured. That's the image that surfaced from the Fascination Advantage assessment taken along with others in the 40 Under 40 class selected this year by *InvestmentNews*, and Ms. Lynch agrees with the outcome. It's also fitting for someone focused on supporting the nearly 1,000 female advisers at Raymond James Financial Inc. and seeking to recruit more.

AGE: 38

"Being a financial adviser is a great profession for women," she said, citing a special ability to empathize and build relationships, which is important to clients who entrust advisers with their life savings.

Yet women represent just 15% of the industry, a stat she's working hard to change in part by targeting those in engineering, teaching and law who may be looking for a second career. Ms. Lynch is helping to create coaching programs for women at St. Petersburg, Fla.-based Raymond James, including one designed to attract high-net worth clients.

She's also planning a group trip in August to the MIT AgeLab in Cambridge, Mass., to help advisers better understand the challenges faced by aging clients, and is evaluating ways women can forge relationships inside Raymond James to advance their careers. "We're going to be instituting a mentoring program over the next year," she said.

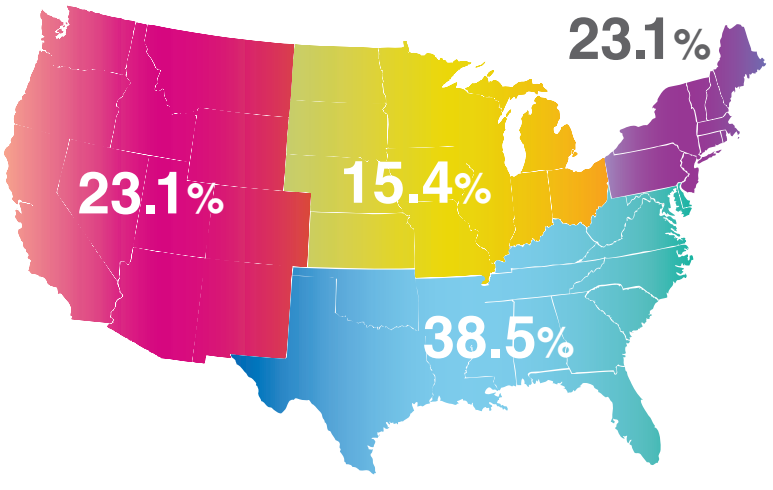
Ms. Lynch, who got her black belt in Taekwondo as a kid, isn't easily ruffled, preferring to quietly take in what's being said and done around her before delving in and taking action.

"I'm a listener," she said. "People tell me I have a poker face."

— Christine Idzelis

A NATIONAL PRESENCE

Our 40s hail from all corners of the U.S., with a particularly strong showing in the South.



TAYLOR SCHULTE

ARCHITECT

FOUNDER, DEFINE FINANCIAL

TAYLOR SCHULTE CREATED his own wealth management firm, Define Financial, about two years ago, building on seeds planted long before he knew a thing about advice.

Fearful of flying, Mr. Schulte didn't follow his father into a career as a commercial pilot, embarking instead on an entrepreneurial path inspired by his grandfather, who with no money migrated to the U.S. by boat from Germany. "He's a big reason I'm in this business," he said.

Mr. Schulte volunteers at the San Diego Financial Literacy Center, offering educational workshops for the area's youth, military and low-to-moderate income individuals. He's also part of an advisory panel at San Diego State University that's seeking to make financial planning a possible major for students.

AGE: 31

At Define Financial, Mr. Schulte oversees about $35 million in assets, a portion of which is tied to clients he gained in his first job as an adviser at Morgan Stanley, which he joined right after graduating from the University of Arizona. It was while working on Wall Street that he witnessed the wild effects of the financial crisis on markets and got yet another lesson on staying the course — although this time by watching other investors panic.

"Because I was so inexperienced, I was probably more numb to it than other financial advisers," Mr. Schulte said. "I didn't lose any clients. I stayed calm, and I helped clients stay calm."

— Christine Idzelis

COVENTRY EDWARDS-PITT

CHANGE AGENT

CHIEF WEALTH ADVISORY OFFICER, BALLENTINE PARTNERS

COVENTRY EDWARDS-PITT, chief wealth advisory officer at Ballentine Partners, doesn't wither in the face of a tough choice.

To persevere in the face of adversity, "that's the best fight we can do," she said.

AGE: 39

Her finance career began at Goldman Sachs Group Inc., where she stayed for a few years before deciding to become a registered investment adviser as a way to work more closely with individual investors.

Her motivation in becoming an RIA was the same that fueled her desire to study pre-med at Harvard University. There's a similar, intimate human connection, maybe closer to that of a country doctor making a house call, according to Ms. Edwards-Pitt.

"I decided I wanted to help people," she said. "It came full circle to this."

— Christine Idzelis

GREG SMITH

TRENDSETTER

PRESIDENT, BLOOOM

EMAILS POURED IN by the thousands after Greg Smith, president of Blooom Inc., wrote a 2012 op-ed in The New York Times explaining why he left Goldman Sachs.

Mr. Smith wanted to shed light on how the industry had changed in the run-up to the financial crisis and what young people starting careers in the industry should expect.

Mr. Smith is now bridging the gap between the finance industry and transparency for 401(k) plans as president of Blooom, an automated online service that manages employer-sponsored retirement accounts.

AGE: 37

His goal is to give everyone a fair shake at saving for retirement.

"The great irony of our industry is that everyone is lining up around the block for those with the most assets and wealth, but the people who need the help are those who do not have the most wealth," Mr. Smith said.

— Alessandra Malito

NINA O'NEAL

TRENDSETTER

PARTNER, ARCHER INVESTMENT MANAGEMENT

NINA O'NEAL LEARNED a lot quickly in 2006 when she decided to leave Merrill Lynch and go out on her own.

She learned the importance of taking the emotion out of investing for clients and being their level head. It's a strategy that was critical during the financial crisis that soon hit.

AGE: 35

In 2009, Ms. O'Neal joined Matt Archer as a partner at Archer Investment Management in Raleigh, N.C. Since she became a co-owner, the firm has more than doubled its assets under management, and revenue has grown by more than 25%.

She also mentors young female advisers and provides internships for local college students.

"My philosophy is to keep a very structured day," Ms. O'Neal said. "The only thing I can control is my time and how I use it."

— Liz Skinner

"I DECIDED I WANTED TO HELP PEOPLE. IT CAME FULL CIRCLE TO THIS."

— COVENTRY EDWARDS-PITT

MICHAEL LIANG

TRENDSETTER

CO-FOUNDER, LIANG & QUINLEY WEALTH MANAGEMENT

WHEN HE WAS A BOY, Michael Liang adopted his first name from his favorite television show, "Knight Rider," starring David Hasselhoff. His family immigrated to the United States from Taiwan when he was 3 years old.

AGE: 33

Mr. Liang initially pursued a teaching career, but switched to financial planning.

Mr. Liang and his business partner, Christopher Quinley, started their firm in 2011. About half their clients are from China or Taiwan. A large part of his business is teaching how the transfer of wealth works in the United States.

"Many of our Asian clients are small-business owners," Mr. Liang said. "A big question for many families is, how will they transfer money from this generation to their kids? Our clients don't understand what a trust is."

— Bruce Kelly

FAVORITE HANGOUTS

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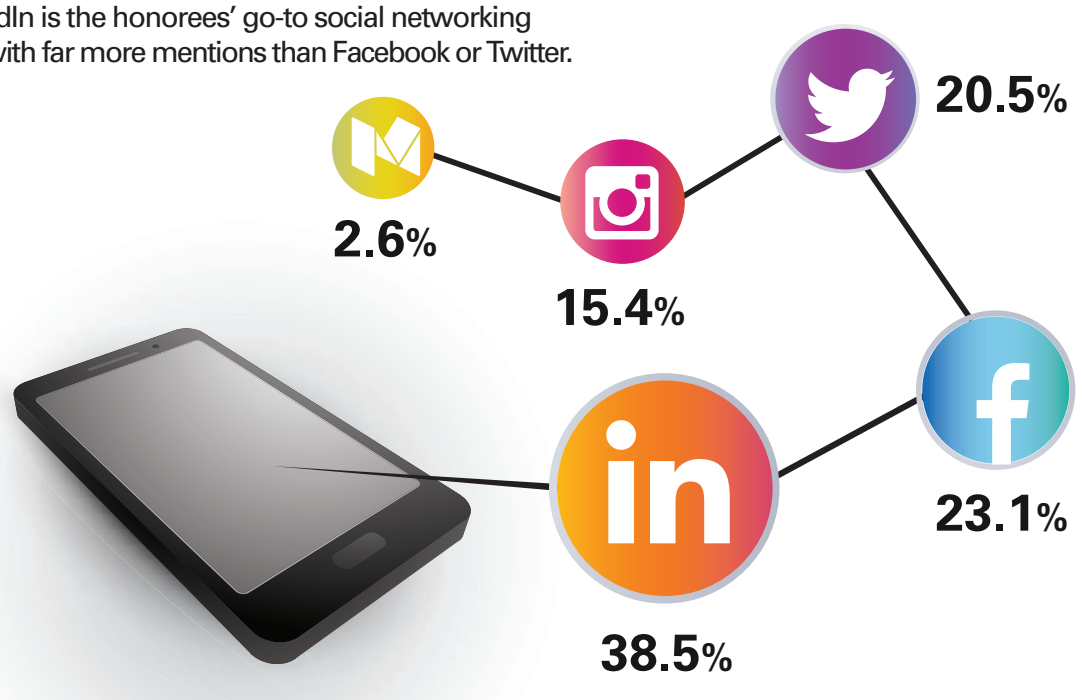
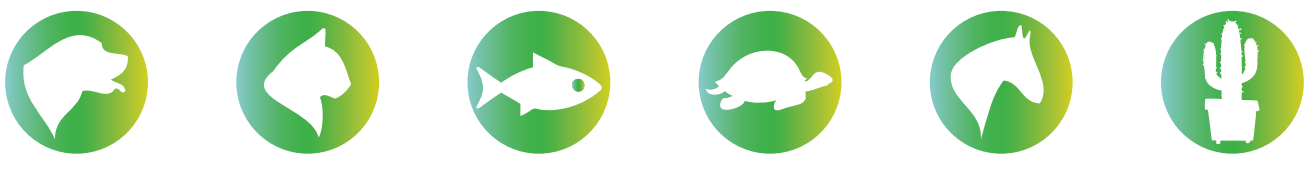


THE GREAT DIVIDE

The majority of our 40s are men, reflecting the fact that male advisers still outnumber women.

ADVISER'S BEST FRIEND

When it comes to pets, advisers love their doggies. Dogs lead cats 14 to 4.



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ANDREW SIVERTSEN

MAESTRO

PARTNER, THE PLANNING CENTER

IF YOU'RE LOOKING for a planner for the next generation, stop looking.

Mr. Sivertsen is past president of the Financial Planning Association's NextGen, which aims to encourage young planners.

AGE: 33

At The Planning Center, in Moline, Ill., Mr. Sivertsen has pioneered his firm's efforts to work with younger clients. "We've all been bringing on a lot of clients who are our age, and the average age of our client list has been dropping quite a bit," he said.

As a result, The Planning Center is seeing a lot of small-business owners and professionals who need a third party to talk to about life and money.

When he's not encouraging young planners, Mr. Sivertsen is a Missions Board Member for St. Paul Lutheran in Davenport, Iowa. He's also an avid traveler, and busy parent, along with his wife, Amy, with whom he has two children, Lillian, 4, and Graham, 2. (The couple is expecting their third child in August.)

— John Waggoner

NORA YOUSIF

CONNOISSEUR

ASSOCIATE VICE PRESIDENT, RBC WEALTH MANAGEMENT

NORA YOUSIF IS A third-generation financial adviser, who, as a young graduate from Providence College, abandoned her pre-med track and got a start in business consulting. But seeing firsthand what her grandfather and stepdad did day-to-day sparked her interest in being a financial adviser. Today she works alongside them.

Ms. Yousif runs a popular monthly speaker series called "Women, Wine and Wall Street" in Boston, designed as a fun way to broach personal-finance topics such as college financial aid and Social Security. Further, she created and hosts a local TV segment called "Five-Minute Financial News Flash" that airs once a week. Ms. Yousif attributes much of her drive to succeed to her mother, an immigrant who fled the Lebanese Civil War when she was 18 years old and ultimately started a business in the U.S. "She was an incredible role model and demonstration of what hard work and strong character can do," Ms. Yousif said.

AGE: 28

— Greg Iacurci

ANDY SWAN

MAVERICK LEADER

CO-FOUNDER, LIKEFOLIO

EVERY NIGHT AS a 10-year-old, Andy Swan sat at the kitchen table with his dad and graphed the day's stock prices printed in the local newspaper.

That's how he learned about the business — and it stuck.

AGE: 38

"Even when I was in college and studying and on the basketball team, I was studying stock markets," he said. He opened an online brokerage account and traded his own money, too. "It's something that's always been a part of my life."

Now Mr. Swan is a technologist and serial entrepreneur in the financial services industry. He co-founded LikeFolio, a software provider that analyzes stock sentiment by scanning social media for mentions of publicly traded companies and their products.

With LikeFolio, he's just scratching the surface, he said. There is value in providing a treasure trove of data for investors to act on, especially the underdogs, he added.

— Alessandra Malito

AMY HUBBLE

VICTOR

PRINCIPAL INVESTMENT ADVISER, RADIX FINANCIAL

AMY HUBBLE IS often up in the air — quite literally. Radix Financial, which she founded in January 2015, is in Oklahoma City. But Ms. Hubble's also pursuing a doctorate in consumer economics at the University of Georgia.

Ms. Hubble said starting her own practice wasn't as difficult as she had imagined. But teaching and getting a Ph.D. at the same time "made it even more crazy," she said. Currently, Radix — the name comes from a mathematical term meaning "beginning" — has $25 million in assets.

Ms. Hubble's interest in charity and charitable giving are fueling her University of Georgia studies. She and a friend started Heartbeat for Hope, which works to help impoverished African women. The charity provides small amounts of capital, often in the form of microloans, and also maintains education centers to help women learn craft skills. "After graduating, they have the skills to provide for their children to attend school," Ms. Hubble said.

AGE: 31

Overcoming cultural differences is a challenge: In Ghana, it's considered morally wrong to save money if anyone in your extended family is in need. And the weather conspires against technology, she said. "Computers, cars, all break down immediately. The climate is horrible for technology."

Ms. Hubble's clients are comfortable with her frequent travel: She tries to spend a few days a month during the school year in Oklahoma City to meet with clients.

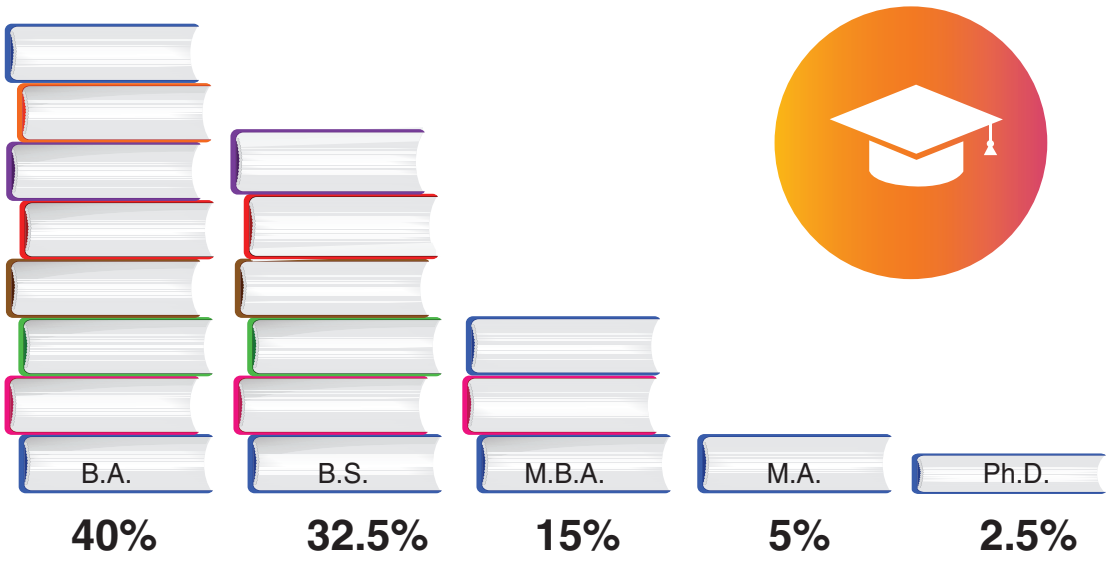
And while the oil meltdown has been trying, it's all part of living in Oklahoma, she said.

"Energy stock performance has been horrible, but Oklahomans are also personally affected by company layoffs and budget shortfalls, so they understand," Ms. Hubble said. "It's the cyclical nature of oil and gas."

— John Waggoner

HIGHER EDUCATION

Knowledge is power for our 40 Under 40s. Here are the highest university degrees attained by this year's class of honorees.



DOUGLAS BONEPARTH

VICTOR

PARTNER, LONGWAVE FINANCIAL

DOUGLAS BONEPARTH believes if the financial services industry doesn't radically alter its old-school model of recruitment and training, it will come dangerously close to missing an entire generation of future financial advisers.

"This industry hasn't done a good job of setting up for younger advisers," he said. It begins with what he describes as a "failed recruitment model" that might have worked for past generations, but isn't working today.

AGE: 31

The industry's tired model of recruiting green advisers, and grinding them through the rigors of cold-calling, with a mandate to raise a few million dollars in a hurry, is broken, he said.

"You don't hire college grads to raise assets off the bat. Wean them off duties of an office administrator, and teach them the operations of the business."

Learning a business from the inside out, he said, is how you build knowledgeable and loyal employees who care about the larger advice business.

Mr. Boneparth is working on a book along with his wife, about "how my generation became so financially illiterate." He is one of 50 CFP Board Ambassadors charged with educating both the public and the media about financial planning. As an advocate for financial literacy, Mr. Boneparth also volunteers with both the FPA's New York chapter and the New York Public Library to provide financial education seminars.

— Jeff Benjamin

MATT BUCHANAN

GUARDIAN

FOUNDER, BUCHANAN WEALTH MANAGEMENT

PLAYING FOUR YEARS of college baseball prepared Matt Buchanan for the grind of first becoming a financial adviser and then establishing his own practice, Buchanan Wealth Management, in Herndon, Va.

"I learned from baseball that putting the time in has a huge impact on what you are able to deliver," said Mr. Buchanan, who briefly played semi-pro baseball before becoming an adviser.

AGE: 36

A large focus of his practice is pro bono financial planning.

"One pro bono client is a family who just lost their dad," Mr. Buchanan said. "The mother doesn't know the family finances because the father handled it."

Relieving that family's financial worries during a time of grief allowed them to focus on "all the crazy things," he said.

It's all part of Mr. Buchanan's overarching goal to deliver benefits to his clients. "Service is almost becoming something you are surprised by these days. We are focused on good service being something our clients can completely count on and not be surprised by."

— Bruce Kelly

LANCE SCOTT

QUICK-START

FOUNDER AND PRESIDENT, BAY HARBOR WEALTH MANAGEMENT

LANCE SCOTT GOT his first taste of entrepreneurship from his father — for 25 years, Mr. Scott's father ran a Baltimore-based company offering yacht financing throughout the U.S.

AGE: 35

Mr. Scott worked as a liaison in the company's "super-yacht financing" group, working with clients whose boats cost upwards of $5 million.

In the process, he gained enlightenment into the world of private banking and how the "red carpet was being laid out" for ultra-high-net-worth individuals.

"I was influenced by my father and the ideas of money and finance very early on," Mr. Scott said.

About five years ago, Mr. Scott turned down a partnership in an advisory firm to go out on his own and start what would become Bay Harbor Wealth Management, which specializes in bringing the investment practices and strategies tapped by institutions such as foundations and endowments to individual clients with between $1 million and $5 million in investible assets.

"I had the entrepreneurial spirit as well," Mr. Scott said. "I don't think I was ever going to be satisfied working for someone else."

Mr. Scott has grown his registered investment advisory business, based in Baltimore County, Md., "completely organically," and has more than 260 accounts at present.

Mr. Scott said his wife's success in the field of optometry, where she specializes in ocular disease, paved the way for his own success — he had the wherewithal to start over and go out on his own because of it.

— Greg Iacurci

KRISTEN MOOSMILLER

VICTOR

SENIOR FINANCIAL PLANNER, PARTNERSHIP FINANCIAL

TWO YEARS AGO, Kristen Moosmiller made a gutsy career change to provide comprehensive planning services to clients who pay her firm a retainer fee.

The move from a large investment company where she managed more than 150 client relationships required a substantial pay cut, but she's never looked back.

AGE: 29

"While it was wonderful to move up at that company and be a lead on so many client relationships, I couldn't do as good of work for each of them that I wanted to," she said.

After deciding she wanted fewer but more meaningful client relationships, Ms. Moosmiller joined Partnership Financial in 2014 without a single client.

Today she works with 20 clients, most of whom she found through her own business development efforts. She plans to become an owner in Partnership Financial next year.

Her growing client base is a testament to her passion for helping others achieve financial independence, especially the middle-income clients she specializes in serving. She's also helped her colleagues in the industry work through their difficulties.

She mentors young advisers through her local Financial Planning Association chapter in Ohio. Ms. Moosmiller joined both the National Association of Personal Financial Advisors and the local FPA chapter in 2012. That year she was pro-bono director for the FPA group, which was recognized for its charitable efforts.

She's also served two terms as president of the chapter.

Her instinct to give back to the industry and community continues this year, as Ms. Moosmiller heads up the public relations and marketing committee of the Alliance of Comprehensive Planners.

— Liz Skinner

NICK CROW

MAESTRO

PRESIDENT, MOTLEY FOOL WEALTH MANAGEMENT

POPULISM IS IN vogue in this year's presidential campaign, and Nick Crow may make it fashionable in investing, too.

As the president of Motley Fool Wealth Management, Mr. Crow wants to "democratize" investment advice by making it available to more people.

AGE: 37

Mr. Crow launched the registered investment adviser arm of The Motley Fool two years ago, and has amassed $980 million in assets under management.

Most of its clients have $500,000 to $3 million in investible assets. But Mr. Crow hopes one day to attract investors with as little as $25,000 in assets.

Motley Fool Wealth Management combines an automated online component with human advisers. This hybrid approach is key to bringing advice to the masses.

"It's going to lower costs and increase access to investment advice," Mr. Crow said.

The "authentic, grassroots voice" that characterizes the stock-picking side of The Motley Fool site also imbues its RIA side, he said.

"This is a community of investors, and communities look out for one another," said Mr. Crow, who started working at the site in 2008. Daily conversations revolve around "what's best for the client."

— Mark Schoeff Jr.

NEELA BUSHNELL HUMMEL

MAESTRO

PARTNER, ABACUS WEALTH PARTNERS

UNDERSTANDING WHAT DRIVES Neela Bushnell Hummel requires looking no further than her upbringing in a home with five brothers, an entrepreneurial father and a mother she describes as "the toughest woman I've ever met."

Ms. Hummel, a partner at Abacus Wealth Partners, said seeing her father, Nolan Bushnell, make and then lose his fortune has motivated her to constantly promote financial independence and financial literacy.

AGE: 31

Her father founded both Atari and Chuck E. Cheese's Pizza Time Theater, but was driven to near-bankruptcy by shady investment bankers, she said. That experience pushes Ms. Hummel to help other families steer clear of what her family went through.

"The effect that had on me was two-fold," she said. "I saw the ups and downs an entrepreneur goes through, and I also knew what type of adviser I wanted to be."

Ms. Hummel doesn't focus on female clients, but she does enjoy working with "high-earning females."

"They are often the decision-making women in their household," she said. "I'm kind of an alpha woman myself, so we get along."

— Jeff Benjamin

NATHAN HARNESS

MAESTRO

TD AMERITRADE DIRECTOR OF FINANCIAL PLANNING, TEXAS A&M UNIVERSITY

NATHAN HARNESS FOUND his career path after running for his life on Sept. 11, 2001.

He was working on the 61st floor of one of the World Trade Center buildings on the day of the terrorist attacks. "I got out about 15 minutes before Tower Two collapsed," Mr. Harness said.

AGE: 37

Following that harrowing experience, he reflected on what he enjoyed most about working at Morgan Stanley — educating clients about their finances — and decided that teaching should be his vocation, sooner rather than later.

Sept. 11 "caused me to re-evaluate the delicate nature of life," Mr. Harness said. "You don't always get the timeline you think you're going to get. I want to jump in now."

He obtained a doctorate in financial planning from Texas Tech University and is now the TD Ameritrade director of financial planning at Texas A&M University.

His research focuses in part on analyzing what makes millennials tick financially. He wants to determine rules of thumb that can improve their investing.

"How can we use some of their preferences to put them in a better financial place?" Mr. Harness said. "We're still in the infancy of figuring out who this group is and how we can serve them best."

— Mark Schoeff Jr.

40 UNDER 40 | THE **POWER** OF **PERSONALITY**

AMONG THIS YEAR'S class of 40 Under 40 winners, we had six "Victors," whose personality strengths include being respected; five "Maestros," characterized by our quiz as ambitious, focused and confident; and three "Guardians," who are sure-footed and genuine. Find out more about all our winners through their extended profiles, videos and fun facts — and take the test yourself to see your strengths — at InvestmentNews.com/40. To join the conversation on Twitter, post your comments using #IN40.

WILLIAM JARRY

TALENT

SENIOR WEALTH DIRECTOR, BNY MELLON WEALTH MANAGEMENT

WILLIAM JARRY IS the veteran of this year's 40 Under 40 class, and he sees himself as uniquely positioned as both part of the younger generation of financial advisers and a mentor to industry newcomers.

"I try to be a leader for the next generation of advisers," he said. "At my age, I have enough experience to be helpful to them, and I'm young enough to still be able to relate to them."

Mr. Jarry is a senior wealth director at BNY Mellon Wealth Management, where he has worked for the past four years, but he is in his 19th year in the financial services industry.

AGE: 39

He credits his 12 years of experience in middle-market mergers and acquisitions with helping him to better understand the challenges facing small businesses.

"So many advisers say they're experts in M&A, but I've actually worked on over 100 deals," he said. "I learned a lot about financial advice by helping entrepreneurs and business owners transition through the process of learning to live off the portfolio instead of off the business."

Mr. Jarry is a founding board member of the Association of Merger & Acquisition Advisors in New England and a committee member for the Boston Estate Planning Council. As a board member and head of the development committee at Family Access of Newton, Mass., he is involved in building and growing its foundation and endowment.

He is also a member of the diversity council at BNY Mellon and has been a mentor to several junior professionals on the wealth management team.

— Jeff Benjamin

TONY CHAN

VICTOR

FINANCIAL ADVISER, CROSSROADS PLANNING

TONY CHAN is the kind of person who might be difficult for most people to keep up with. That's not just because he works out twice a day, or because he's a 13-year veteran of the Army Reserves. It is more about the fact that he is driven to build his fledgling business.

AGE: 35

After eight years in the financial advice industry, Mr. Chan launched his own firm, Crossroads Planning, in 2013.

He also does lots of pro bono financial advisory work for military families, which is where he is looking to expand the reach of his planning firm.

Mr. Chan, who is closing in the rank of captain, is considering resigning from the Army to dedicate more time to financial planning.

To help build his practice, Mr. Chan has learned to leverage tax planning as an avenue for new client relationships.

"The type of clients I get are tax savvy ... I use tax as more of a gateway to generate leads," he said.

— Jeff Benjamin

ERIC ROBERGE

TRENDSETTER

FOUNDER, BEYOND YOUR HAMMOCK

ERIC ROBERGE WAS 33 years old when he started Beyond Your Hammock, an unorthodox company among financial planning circles that embraces millennial clientele.

Mr. Roberge operates his practice through a monthly subscription model that relies almost entirely on virtual interaction — 85% of his meetings are conducted online, through Google Hangouts and Skype. He doesn't maintain a formal office.

"I like the fact that there are no boundaries. Geography doesn't play a factor whatsoever," said Mr. Roberge, who works with clients in several states.

A Massachusetts native who graduated from Babson College with a degree in finance, Mr. Roberge initially wanted to be a trader, but changed gears upon realizing computers would likely take over on the floors of stock exchanges, he said.

AGE: 36

Mr. Roberge currently serves on the board of the Financial Planning Association in Massachusetts as the NexGen director, organizing activities and events in the state for young financial planners. He was a founding member of the XY Planning Network in 2014, an organization of fee-only advisers focused on generation X and Y clients.

He also does pro bono work as a guest lecturer in the personal finance classes of some Boston-area colleges and universities, and has in the past worked with gang members in Dorcester, Mass., to try to teach principles of financial literacy.

— Greg Iacurci

MICHELLE SMALENBERGER

AUTHENTIC

VICE PRESIDENT, KABAREC FINANCIAL ADVISORS

MICHELLE SMALENBERGER is on a quest to ensure young professionals pursue a path that leads to financial security.

She's created a young professionals program at Kabarec Financial Advisors to nurture clients early in their careers so they have the knowledge and guidance to make the right financial decisions over decades.

AGE: 34

In addition to providing a valuable resource to clients, Ms. Smalenberger has helped her eight-person firm grow its assets under management to $200 million, and today, as vice president, plays a vital role in developing and mentoring new hires.

Outside of her career, she volunteers in classrooms through Junior Achievement, teaching children as young as first grade about financial concepts and how those matter in their communities.

— Liz Skinner

KASIA MARCZYK

MAESTRO

FOUNDER, ANCHOR WEALTH MANAGEMENT GROUP

EMIGRATING FROM POLAND to the United States when she was 19 and later studying education in college are key experiences that inform Kasia Marczyk's career as an adviser.

AGE: 38

In addition to running her own practice, Anchor Wealth Management Group, in West Palm Beach, Fla., she works with the local and state chapters of the Financial Planning Association, focusing on emigres, education and diversity in the industry.

South Florida's immigrant population requires the help of planners who offer pro bono workshops, she said. "There are people coming here from Haiti and other countries, and they're not used to saving in a 401(k) plan or even knowing what one is."

Ms. Marczyk is on the FPA's national diversity committee. "I am passionate about the ... initiative," she said. "There are not a lot of women in the business ... and the industry is still not promoted as female-friendly."

— Bruce Kelly

YUSUF ABUGIDEIRI

TALENT

FINANCIAL PLANNER, YESKE BUIE

ONE OF YUSUF ABUGIDEIRI'S proudest achievements: Getting the financial planning residency at Yeske Buie off the ground.

AGE: 29

The program helps people learn to be financial planners and fulfill their work requirements for the certified financial planner designation.

"We think of it in the same way as a medical resident," he said.

Mr. Abugideiri is pursuing a master's degree in economics at George Mason University, where he is co-chair of the alumni board, and works with the local Financial Planning Association chapter.

— John Waggoner

JASON MCGARRAUGH

GUARDIAN

SENIOR FINANCIAL ADVISER, NEAL FINANCIAL GROUP

WHILE ATTENDING Texas Tech University's graduate personal financial planning program, Jason McGarraugh helped the faculty create a financial counseling program to provide free financial education and basic planning services for university students, as well as faculty and staff. Today the Red to Black counseling center has more than 20 peer coaches and four permanent staff.

AGE: 38

Mr. McGarraugh, now a senior financial adviser with Neal Financial Group in Houston, currently sits on the FPA Houston's NexGen committee, which is organizing its first career day.

— Liz Skinner

MICHAEL MCDANIEL

BELOVED

CO-FOUNDER AND CHIEF INVESTMENT OFFICER, RISKALYZE

WHEN MIKE MCDANIEL isn't working at a software company he co-founded that focuses on risk, he's raising cows and making his own wine.

Mr. McDaniel spends about 60 hours a week working as chief investment officer at Riskalyze, which he co-founded in 2011, and as an adviser at McDaniel Wealth Management, a firm he started in 2005.

He uses Riskalyze to reach and help significantly more investors than the ones he meets with as clients.

"Instead of having an impact on 50 households, now it's hundreds of thousands of households," he said.

Mr. McDaniel thinks investing is broken for two reasons. First, investor psychology hurts investors — they may know what they're not supposed to do but they do it anyway.

Second, the industry is too complex, with convoluted fee structures and unlimited investment options.

AGE: 38

"I sincerely believe that the investment industry needs disruption to better serve mom and pop investors," he said.

— Alessandra Malito

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BRANDON AVERILL

DIPLOMAT

PARTNER, ATHLETE WEALTH MANAGEMENT GROUP

AGE: 34

SOME OF BRANDON Averill's clients are real pros, such as Toronto Blue Jays pitcher Aaron Sanchez (in photo). But many of them are like Mr. Averill, a former third baseman: destined to play a few years in the minors but never make the big leagues.

Regardless of whether his clients make the All-Star team or ride the bench, Mr. Averill works to ensure their money plays well for the rest of their lives.

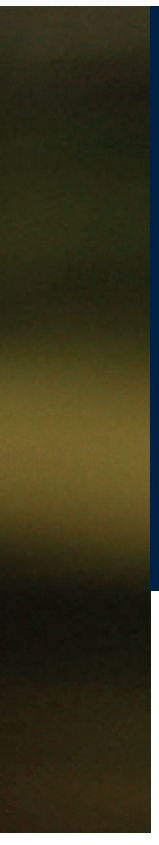
"Our whole mission is to help athletes make wise decisions about their wealth and change the culture of how they're using that wealth," said Mr. Averill, a partner at Athlete Wealth Management Group, which has about 120 clients.

Mr. Averill and his brother, Erik, who is his business partner and a former baseball player himself, build trust with clients by relating to them as former athletes.

"We understand the daily lifestyle, some of the pressures they face. It's somewhat of a fraternity," he said.

Mr. Averill has helped players buy homes and start businesses with their signing bonuses. He talks with clients frequently, a minimum of once every two weeks, often traveling to their games.

— Mark Schoeff Jr.



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AARON BAUER

VICTOR

EXECUTIVE MANAGING DIRECTOR, ENVESTNET INC.

AGE: 38

AARON BAUER has been with Envestnet, which provides wealth management software to advisers, for about 14 years. Now responsible for the "Advisor Suite," he has an influential role in the growth of the firm.

A chief area of focus is ensuring advisers have the software they need to comply with the Labor Department's new fiduciary regulation, he said.

"Being thoughtful, to talk about the impact of a decision across co-workers in various departments," these are essential to driving success, Mr. Bauer said. "That tangled web can be complicated at times."

— Christine Idzelis

RACHEL MORAN

GUARDIAN

FINANCIAL PLANNER, RTD FINANCIAL ADVISORS

AGE: 26

RACHEL MORAN is among the youngest people at RTD Financial Advisors, but that isn't stopping her from making her mark in the firm or industry.

Ms. Moran is the Financial Planning Association's NexGen president-elect (she will take over in January) and is a mentor to a younger planner in Colorado through a program she helped create along with fellow Virginia Tech alumni.

She joined RTD, a firm with 32 employees and $1 billion under advisement, less than three years ago, and is embracing the new challenges of being a full financial planner, including bringing in new business.

— Jeff Benjamin

EDDIE KRAMER

EDITOR-IN-CHIEF

FINANCIAL ADVISER, ABACUS PLANNING GROUP

EDDIE KRAMER OWES much of his career as a financial adviser to his mentors, so it's only natural he seeks to serve as a mentor for young people who are entering the profession.

Mr. Kramer, head of business development at Abacus Planning Group, was turned on to financial planning by an older fraternity brother at Texas Tech University, who also helped him get his first internship at a financial planning firm.

Mr. Kramer also received a guiding hand from the head of the university's personal financial planning program, Vickie Hampton, who, along with her husband, took an active role in showing Mr. Kramer what it would take to be successful in the field.

AGE: 33

"I owe so much to them for taking a small-town guy from Texas and teaching me how this profession works," he said.

So, as president of Texas Tech's personal financial planning alumni advisory board last year, Mr. Kramer helped push through a mentorship program, which pairs board members with undergrads for regular one-on-one sessions to discuss goals and provide direction to the aspiring planners. The program was the one mark he wanted to leave from his term as president, said Mr. Kramer, who now serves as board chairman.

Mr. Kramer, a father of two with a third on the way, has been a financial planner for 12 years. In a testament to his work ethic, Mr. Kramer earlier this year passed the last of three exams to become an enrolled agent for the IRS so he could hone his tax expertise, particularly for small-business owners.

Among this year's class, Mr. Kramer is the sole Editor-in-Chief personality archetype in the group, the key attributes of which include being skilled and productive.

Authenticity is one of his guiding principles, both personally and professionally.

"I like people who are a little bit weird, just because they're unique. They have their own personality," he said.

— Greg Iacurci

DARIN SHEBESTA

AVANT-GARDE

VICE PRESIDENT AND WEALTH ADVISER, JACKSON/ROSKELLEY WEALTH ADVISORS

DARIN SHEBESTA GREW UP wanting to be the next Frank Lloyd Wright. But after his first day of design class, he knew that wasn't the career path for him. "I realized I had zero interest and walked to the business school," he said.

Mr. Shebesta, now at Jackson/Roskelley Wealth Advisors, recently served as president of the Financial Planning Association of Greater Phoenix and is currently its chairman. He said it was exciting to bring together younger planners.

AGE: 32

Mr. Shebesta also played a part in pairing the CFP Board with the University of Arizona. Starting in 2017, the school will have a bachelor's program and a minor in the industry for which he advocates.

— Alessandra Malito

FRANK M. DEVINCENTIS

RINGLEADER

SVP, MORGAN STANLEY WEALTH MANAGEMENT

THE MUSIC WORLD'S loss is the financial advice industry's gain — except Frank DeVincentis still performs as an opera singer when he can.

AGE: 36

He's also earning applause as senior vice president and financial adviser with The Chicago Group at Morgan Stanley Wealth Management in Chicago, where Mr. DeVincentis has discretion over $250 million in assets.

"My team and I take financial planning and wealth planning incredibly seriously," he said.

Mr. DeVincentis and his colleagues designed an income strategy that BlackRock later invited him to speak about to its employees.

And on occasion his voice comes in handy at his alma mater, DePaul University, when he guest lectures for investment classes.

— John Waggoner

KATE HOLMES

ADVOCATE

FOUNDER, BELMORE FINANCIAL

THE TRAVEL BUG bit Kate Holmes on a school trip to Europe when she was 14. Today, that love of travel is at the heart of her career as a financial planner.

She will soon move her practice to Colombia and is intent on spreading the gospel of financial planning internationally.

AGE: 32

When she lands in South America, Ms. Holmes will have a completely virtual practice and communicate with her clients electronically. "With the number of expats abroad and technology making it easier to communicate, the world is getting smaller," she said. "I want to show what an awesome career a fee-only planner can be.

"And there's an opportunity to help get the [certified financial planner] program up and running there," Ms. Holmes said.

She has experience with planners overseas. She was in South Africa last year and met hundreds of planners. "They have the same issues there as we do here, like getting more women in the industry and increasing diversity. Most planners there are white," Ms. Holmes said.

After graduating from college in Australia, she worked for a small RIA in Seattle that specialized in 401(k) plans, which first sparked her interest in a career as a planner.

— Bruce Kelly

GRANT MOORE

GOOD CITIZEN

ADVISER, SAVANT CAPITAL MANAGEMENT

AT 18, GRANT MOORE convinced Savant Capital Management to hire him as its first intern ever. Now Mr. Moore oversees roughly what the firm had in total assets at the time.

AGE: 31

He describes himself as a "hard worker" and has shown himself willing to go above and beyond for clients. One client had a family member diagnosed with terminal cancer, leading to questions about medical expenses and other planning concerns. "If you have someone who's important to you, than they're important to us," Mr. Moore told his client, and offered pro bono advice.

— Christine Idzelis

WADE CURRY

GUARDIAN

VICE PRESIDENT, KISH FINANCIAL SOLUTIONS

WADE CURRY HELPS many of his clients do a lot with just a little.

For 16 years, he has been an adviser in Lewistown, the central Pennsylvania town where he grew up. The median income is about $19,000 a year — not what most advisers would consider a fertile market for clients.

AGE: 38

Mr. Curry focuses on making clients smarter about the financial decisions important to their future.

He manages about $200 million in assets for 3,500 clients.

"We educate our clients about their wealth so they can take care of the people and causes they love," Mr. Curry said, quoting his mission statement.

— Liz Skinner

JOE O'BOYLE

GUARDIAN

PRINCIPAL, O'BOYLE WEALTH MANAGEMENT

JOE O'BOYLE'S PRACTICE is located center stage in the entertainment industry — on Wilshire Boulevard in Beverly Hills, west of Rodeo Drive.

O'Boyle Wealth Management has become one of the leading advisers to production company executives and lawyers and doctors who serve Hollywood by offering something that isn't often associated with show business: family values.

His firm has become popular in part because it assists its business-owner clients in smoothing out the boom-and-bust cycles inherent to the entertainment industry.

"Helping them through the down times is a function of the planning and investing we did during the good times," he said.

In another dimension of his professional life, Mr. O'Boyle is one of four advisers in Voya Financial Advisors' retirement-coach program. He writes columns for Money and U.S. News & World Report.

AGE: 34

His message to young adults: Develop a written financial plan.

— Mark Schoeff Jr.

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Pursuing income through lower-risk real estate

STAN KRASKA, Jr.
Global CEO
LaSalle Investment Management Securities, LLC

In this time of very low fixed-income returns, investors often are attracted to the diversification and income that real estate securities can provide. To find out about current opportunities and challenges in the sector, the InvestmentNews Content Strategy Studio recently talked with a 30-year veteran of the real estate business, Stan Kraska, Jr. He is co-portfolio manager of the Ivy LaSalle Global Risk-Managed Real Estate Fund, which reached its three-year anniversary on April 1. The fund is managed by Ivy Investment Management Company and subadvised by LaSalle Investment Management Securities, LLC, where Mr. Kraska is Global CEO.

InvestmentNews Content Strategy Studio | Stan, what is your assessment of the global real estate sector currently?

Stan Kraska, Jr. | Real estate fundamentals remain healthy. Economic growth continues to spur greater demand for space, occupancy levels are firm or improving and rental rates are increasing in many markets around the world. We have seen vacancy rates decline dramatically as economic activity has improved. As a result of these conditions, many properties are in a position to increase their income, which in turn should support the potential for real estate companies to generate strong earnings growth. We believe the stock valuations of most companies remain attractive relative to the value of their underlying real estate. In fact, these stocks are more attractively priced now than they were a year ago. Strong private capital flows into the sector have led property values to rise, while stock prices have seen only moderate increases.

InvestmentNews CSS | How big is the public portion of the global real estate market?

Kraska | I'd say there is a robust opportunity set of public real estate companies around the world today. One way to view it is via the market capitalization of the publicly traded real estate companies within a widely used benchmark. In this case, I'll use the FTSE EPRA/NAREIT Developed Market Index, which is the benchmark for our Fund. The index consists of 330 companies with a market capitalization of $1.3 trillion at the end of 2015, up more than 20% from the end of 2013. Going forward, we expect more opportunities as existing companies grow, new companies come to market and additional countries develop real estate securities markets. Public real estate securities comprise less than 8% of the total value of investable real estate around the globe, and we think there are opportunities for continued long-term expansion.

InvestmentNews CSS | U.S. interest rates may be on the rise. What would be the impact of higher short-term interest rates on real estate and real estate securities?

Kraska | While the potential for rate increases may cause volatility, we think real estate securities over time are influenced primarily by underlying fundamentals, not just short-term interest rate movements. The key is the performance of the broader economy. Consumer spending, business travel, corporate profits, demand for office and warehouse space — these and other factors are what really drive the long-term performance of real estate and real estate securities.

InvestmentNews CSS | Let's talk about the Ivy LaSalle Global Risk-Managed Real Estate Fund. Does its name say it all?

Kraska | You could say that. We wanted to make it clear how the Fund differs from traditional global real estate securities funds. The key is its lower risk profile, which we pursue through our proprietary risk-review process. We focus on companies with lower leverage, lower business risk and lower-risk property types. That means we generally exclude companies that have higher financial leverage, substantial exposure to non-core asset types such as hotels and home-building companies, and significant exposure to non-earning assets and ancillary activities such as merchant building – which is constructing an asset and immediately selling it for profit – or investment management. Over time, and particularly during the global financial crisis, these risk factors pushed up volatility and created more downside risk for real estate companies.

We believe the lower risk profile of our Fund should reduce downside risk, which we define as the risk of material relative loss of value during a downturn in the economy or in the real estate and/or capital markets. However, these lower-risk companies in the portfolio are not passively waiting for a market downturn. These are quality companies actively seeking to add value to their portfolios and shareholders. Through active management and our proprietary risk-review process, we think the Fund can provide attractive risk-adjusted returns over a full market cycle.

By investing in lower-risk companies, we believe our Fund looks more like the type of real estate that institutional investors historically have owned and which typically is not available to retail investors.

InvestmentNews CSS | How does the Fund differ from other risk-managed strategies?

Kraska | We think our risk-review process identifies the key risk factors within global real estate. Rather than try to manage risks through derivatives exposure or other methods, we aim to do it at the source – in other words, through the security selection process.

The Fund does not use strategies designed to reduce short-term volatility, such as a "black-box" minimum volatility strategy; illiquid private real estate or debt securities; or high cash balances. We are not managing variability versus the benchmark. Our portfolio differs from the benchmark and will act differently.

InvestmentNews CSS | With the breadth of global real estate, how do you get insight into so many different markets?

Kraska | First of all, we benefit from having one of the largest and most experienced teams of portfolio managers and securities analysts. They are located in Baltimore, Amsterdam and Hong Kong. Our parent organizations, Jones Lang LaSalle (NYSE: JLL) and LaSalle Investment Management, are among the world's leading real estate service and investment firms and are focused solely on real estate. Our portfolio managers and security analysts can draw on JLL's resources – meaning a global organization with 60,000 employees in 75 countries. This direct real estate market platform provides us with great real-time information and a critical input to our investment decision-making process.

InvestmentNews CSS | How has focusing on lower-risk companies within global real estate helped the portfolio's performance in recent years?

Kraska | Our positive relative performance for more than two years has been driven by the low-risk bias of the Fund and our focus on blue-chip companies in several sectors: regional malls, apartments, office and self-storage. Our risk-review process avoided higher risk companies, such as Hong Kong developers, the U.S. hotels sector and development companies in Japan. At various points in 2014, 2015 and 2016, these types of companies underperformed the benchmark index.

InvestmentNews CSS | Broadly, how are public real estate companies positioned at this point in the real estate cycle?

Kraska | Let me speak generally first. In most markets, real estate fundamentals are strong; we expect that to continue. This is the seventh year of the economic and real estate fundamental recovery, and we are in a more mature phase of the cycle. Supply is increasing in response to the positive demand for space. While fundamentals are expected to remain healthy, the increased supply may moderate the pace of improvement. Most companies are seeing the benefit from these healthy conditions through growth in income from their properties and value creation from new developments.

Unfortunately, economic and real estate fundamental recovery cycles don't last forever. When the next downturn does occur, we believe global real estate securities – and specifically the lower-risk companies in this Fund – should be well positioned. These companies own higher quality properties that can compete for tenants. They have strong balance sheets which should provide the financial flexibility to be defensive if necessary or to take advantage of available opportunities.

In addition, the Fund has exposure to domestic and international markets, which can be at different stages in terms of fundamentals, capital markets and other cyclical factors. We think a strategy that seeks to take advantage of global real estate cycles can be effective for investors in the long term, helping to reduce volatility and temper the swings that cycles can cause.

InvestmentNews CSS | Real estate will be listed as a separate sector in key indexes later this year. What's your view on this change?

Kraska | We see a favorable result from the creation of a separate real estate sector because it will draw more attention to the asset class from all types of investors. I may be biased, but after working with clients for more than a quarter century, I believe that real estate and real estate securities should be a long-term allocation to a multi-asset portfolio.

InvestmentNews CSS | Where can people go to learn more about the Fund?

Kraska | They can go to www.ivyinvestments.com for additional information. ❖

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Ivy INVESTMENTS℠

IVY LASALLE GLOBAL RISK-MANAGED REAL ESTATE FUND

GLOBAL PORTFOLIO

The Fund seeks to provide total return through long-term capital appreciation and current income. It primarily invests in global publicly traded real estate equity securities and does not directly invest in real estate.

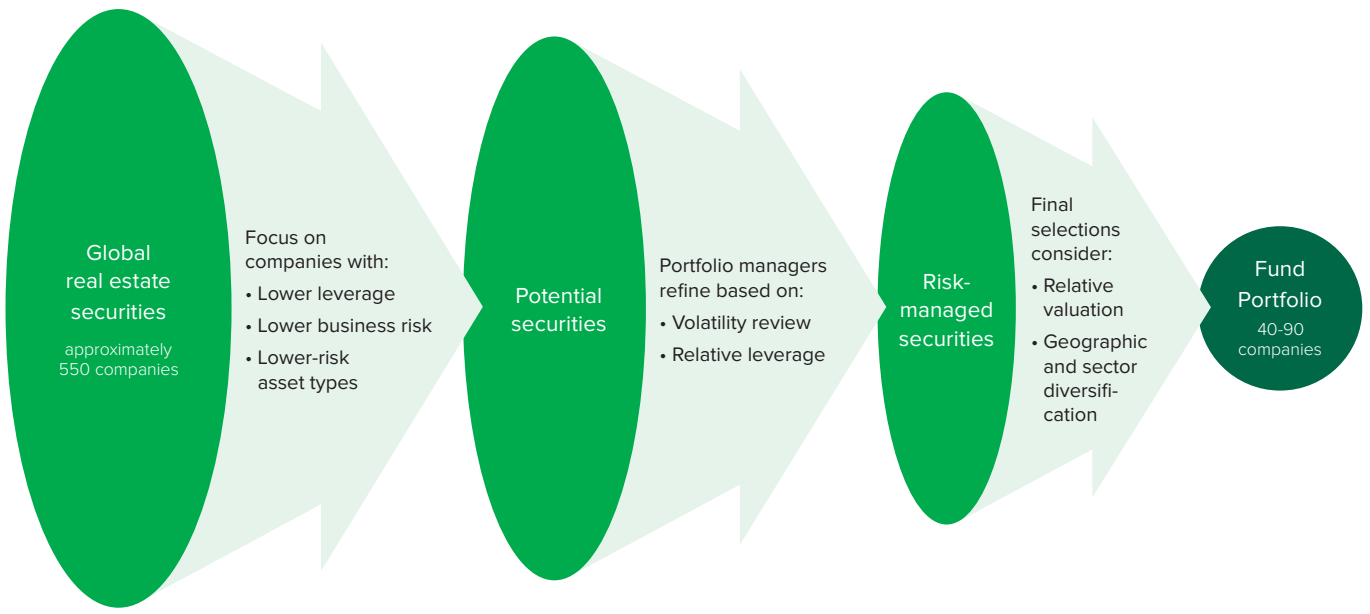
INVESTMENT FOCUS

The managers refine the global real estate securities universe to focus on companies thought to have lower leverage, lower business risk or lower-risk property types.

RISK-REVIEW PROCESS

The portfolio managers seek to manage risk using a proprietary risk-review process combined with top-down assessment of global real estate markets and bottom-up analysis of individual securities.

REFINING THE UNIVERSE OF POTENTIAL SECURITIES INTO A RISK-MANAGED PORTFOLIO



Source: LaSalle Investment Management Securities, LLC

CATEGORY LEADER

PERCENTILE AND CATEGORY RANKINGS (AS OF 05/31/2016)

	1 YEAR	3 YEARS	LIFE
Morningstar Percentile (Rank) – Class A (IVRAX)	1 (3/250)	6 (13/208)	13 (27/206)
Lipper Percentile (Rank) – Class A (IVRAX)	2 (3/167)	9 (11/128)	19 (24/126)
Morningstar Percentile (Rank) – Class I (IVIRX)	1 (2/250)	4 (9/208)	12 (24/206)
Lipper Percentile (Rank) – Class I (IVIRX)	2 (2/167)	7 (8/128)	17 (21/126)

Sources: Morningstar Direct, Lipper. Lipper rankings are based on average annual total returns, but do not consider sales charges. Percentile represents position versus total number of funds in the category. Morningstar rank is total-return percentile rank relative to all funds in the category. The highest (or most favorable) percentile rank is 1 and the lowest (or least favorable) percentile rank is 100. The top-performing fund in a category will always receive a rank of 1. Percentile rank is based on total returns which include reinvested dividends and capital gains, if any, and exclude sales charges.
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FUND PERFORMANCE

AVERAGE ANNUAL TOTAL RETURNS (AS OF 05/31/2016)

	1 YEAR	3 YEARS	LIFE	GROSS/NET EXPENSES (%)
Class A (IVRAX), NAV	7.75%	7.57%	6.14%	1.83/1.51
Class A (IVRAX), Load	1.59%	5.47%	4.17%	1.83/1.51
Class I (IVIRX)	7.95%	7.61%	6.17%	1.47/1.47
AVERAGE ANNUAL TOTAL RETURNS (AS OF 03/31/2016)				
Class A (IVRAX), NAV	5.27%	-	6.77%	1.83/1.51
Class A (IVRAX), Load	-0.74%	-	4.68%	1.83/1.51
Class I (IVIRX)	5.37%	-	6.78%	1.47/1.47

Data quoted is past performance and current performance may be lower or higher. Past performance is no guarantee of future results. Investment return and principal value of an investment will fluctuate, and shares, when redeemed, may be worth more or less than their original cost. Please visit www.ivyinvestments.com for the Fund's most recent month-end performance. Class A share performance, including sales charges, reflects the maximum applicable front-end sales load of 5.75%. Performance at net asset value (NAV) does not include the effect of sales charges. Fund inception date was 04/01/2013. Through July 31, 2016, Ivy Investment Management Company (IICO), the Fund's investment manager, Ivy Distributors, Inc. (IDI), the Fund's distributor, and/or Waddell & Reed Services Company, doing business as WI Services Company (WISC), the Fund's transfer agent, have contractually agreed to reimburse sufficient management fees, 12b-1 fees and/or shareholder servicing fees to cap the total annual ordinary operating expenses for the Fund's Class A shares at 1.51%. Prior to that date, the expense limitation may not be terminated by IICO, IDI, WISC or the Board of Trustees.

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InvestmentNews CONTENTSTRATEGY STUDIO

ALEXEY SOKOLIN

MAESTRO

CHIEF OPERATING OFFICER, VANARE

CHALLENGES ARE NOT unfamiliar to Alexey Sokolin, and he has an innate ability to overcome them. As a 10-year-old, he moved with his family from Russia to the United States, where they lived on food stamps and welfare as he learned a new language. His desire to help clients of all ages and assets stems from his upbringing.

AGE: 32

Mr. Sokolin, who also goes by Lex, is a young leader of new media, and his focus is technology in financial services. His main message is simple: Technology is a tool, and it deeply benefits the traditional adviser's practice.

Technology only exists to make people better, he said. "That sometimes gets lost," Mr. Sokolin said. "I want to humanize it just a bit."

Mr. Sokolin, who has an MBA and a law degree, is chief operating officer at wealth management technology provider Vanare. He started as an investment management analyst at Lehman Brothers, where he saw colleagues and clients watch as their life savings were depleted. He wanted to find solutions, so in 2010, he created a business-to-business robo-adviser, NestEgg, that allowed advisers to automatically manage their clients' assets.

In 2014, Vanare acquired NestEgg, which has hatched more innovation and business development for Vanare, he said.

— Alessandra Malito

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WILLIAM BISSETT

PROVOCATEUR

SENIOR FINANCIAL PLANNER, SECREST BLAKEY & ASSOCIATES

WILLIAM BISSETT HAS found a spot where technology and financial planning meet in Charlotte, N.C.

Mr. Bissett founded Principled Heart, an online solution that organizes personal and financial data, particularly online data: passwords for financial and social media accounts and other digital information that becomes incredibly important to family and friends when you pass away.

AGE: 37

Principled Heart is now on the back burner, in part because of difficulty in attracting new customers. "I was running up the startup ramp, fell off of it, and was on my back staring at the sky," he said. "As I was laying there, someone in the Charlotte angel investment community who is a mentor for local startups picked me up and showed me how to help other entrepreneurs through my own experiences."

Now Mr. Bissett works as a mentor with Queen City FinTech, an incubator for startups, as well as Queen City Forward, aimed at social entrepreneurs. (As you may have guessed, Charlotte is Queen City.)

At the same time, he's refocusing on financial planning. He started the Charlotte NexGen chapter in 2014. And the part of financial planning he enjoys most is implementation. "I love co-creating a plan with the client and then developing strategies to defend their goals and strategically attack planning opportunities as they become available."

— John Waggoner

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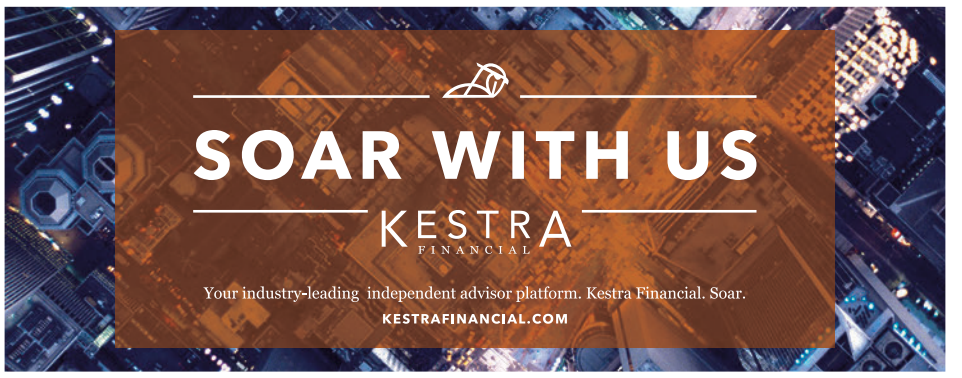

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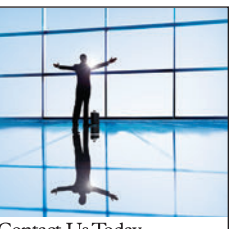

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British decision felt

Continued from Page 3

to their plan on this historic Brexit vote," Mr. Cote said. "Investors risk getting whipsawed if [they] change at this point."

While the vote could hardly be defined as an unexpected "black swan" event, because it could only have gone one of two ways and it was considered a tossup to the very end, the financial markets clearly expected Britain to favor staying put.

BUYING OPPORTUNITY?

"It was a surprise to the markets because the markets were pricing in a 'remain' vote, and the markets don't like uncertainty," said Todd Rosenbluth, director of mutual fund and ETF research at S&P Capital IQ.

"At this point, the market sell-off is either a buying opportunity or a reason to do nothing," he added. "It's historically been better to buy than to bail. The market will recover, but it takes time for it to recover, so being in is better than being out and trying to time it."

Financial advisers, in general, had been paying close attention to the unfolding scenario leading up to the historic Brexit vote, and some even factored it into their portfolio strategies.

"Seven days before the vote we cut our international exposure down to 10%, and we plan to keep it that way for the remainder of the year," said Jon Ulin, managing principal at Ulin & Co. Wealth Management.

"It is a little bit of market timing, but it was obvious to me it could be a big dip in the markets," he added. "There seemed to be a strong chance this was going to happen."

Wells Fargo Investment Institute, the registered investment advisory arm of the bank's wealth and investment management division, is recommending frequent rebalancing to bring portfolio allocations in line with strategic objectives while adding and trimming allocation to exploit price drops as entry points for favorable investments.

DOWNWARD PRESSURE

"General market uncertainty and the volatility it brings are likely to favor U.S. stocks, while developed and emerging-market stocks are expected to face downward pressure in the near future," Wells Fargo Investment Institute's head global market strategist Paul Christopher and research analyst Peter Donisanu said in a research note Friday.

UBS Group AG also is encouraging investors not to abandon their long-term strategies or sell down risky assets in the heightened market volatility.

"We would look to global policy makers and central bankers to issue statements over the coming … days," Mark Haefele, the global chief investment officer of UBS' wealth management business said in a note Friday. "There is a strong likelihood of coordinated central bank action to support liquidity."

With additional reporting by Christine Idzelis.

jbenjamin@investmentnews
Twitter: @jeff_benjamin

Advisers reassure

Continued from Page 3

Mr. Yeske sent out a note to all clients a few hours later, suggesting the market reactions over the next week should not be extrapolated far into the future.

"Is it true that this development has negative ramifications? Yes," the note said. "Will the more apocalyptic predictions now spilling forth come true? Almost assuredly not."

DETAILED ANALYSIS

At FJY Financial, the firm proactively posted a detailed analysis of the situation last Wednesday.

If further communications were needed, Jon Yankee, an FJY Financial partner, said it would remind clients about the long-term nature of their goals.

"We would also remind them that their portfolios are globally diversified so that they can get through times like these, and that the market's drop does not have much to do with the fundamentals of economic and business markets," he said last Friday morning.

News that 52% of Great Britain's voters chose to leave the European Union, and the announcement soon after that Prime Minister David Cameron would step down, shocked many who had believed polls that suggested a majority of the British public would vote "Bremain" to stay in the EU.

Markets showed again that they don't appreciate surprises. A stock sell-off hit the Dow Jones Industrial Average and S&P 500 Index, both of which were off more than 3% by Friday's close. The FTSE 100, an index of British blue chips, also closed down more than 3%.

Because of mixed reactions from clients, some advisers took multiple tacks, including addressing the impulse to trade during turbulent markets.

TALKING POINTS

"Clients are not unreasonably concerned about Britain leaving the EU," said Mark Snyder, an adviser with an eponymous advisory firm. "But we cautioned against any overreaction and not to react to what's likely to be short-term volatility."

RegentAtlantic's investment team was up at 4:30 a.m. ET Friday working on its communication to clients, and had given advisers talking points in advance of Thursday's vote, said Chris Cordaro, managing partner.

The firm told clients before the markets opened Friday that "trying to trade in extremely volatile markets is very dangerous."

Jeff Benjamin and Christine Idzelis contributed reporting to this story.

lskinner@investmentnews.com
Twitter: @skinnerliz

Annuities

Continued from Page 3

"I think this is the future of the variable annuity space," said Judson Forner, vice president of investment marketing at ValMark Securities Inc., an independent broker-dealer.

Fee-based variable annuities aren't new — registered investment advisers tend to use them primarily for tax deferral and the low contract costs, rather than for the living benefit features readily available in the commission market. They make up only a small fraction of total VA sales, and as such insurers haven't focused much on product development in the fee-based realm, Mr. Forner said.

The Jackson contract is unique in that, unlike other fee-based products, it offers living-benefit options and could be a sort of pivot product for advisers and brokers shifting toward a fee arrangement with clients, according to Steven McDonnell, president of Soleares Research, which provides variable annuity market research.

INVESTOR-FRIENDLY

"This product has the full-blown living benefit menu, a lot of death benefits, with the low fees. So I think this might be for advisers who might be migrating toward the fee-based model more recently," Mr. McDonnell said.

The fairly short surrender period of the contract offers a certain amount of liquidity to contract holders, which makes it investor-friendly when coupled with low contract charges, said John McCarthy, a member of Morningstar Inc.'s adviser practice management group as well as its DOL task force.

> **"I THINK THIS is the future of the variable annuity space."**
>
> **Judson Forner**
> Vice president
> ValMark Securities

Although Jackson National is early to the scene with its product, annuity experts expect other insurance companies to follow suit.

giacurci@investmentnews.com
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InvestmentNews

Exiting reps sabotage client records

Two recent Finra cases highlight efforts to alter contact info

By Alessandra Malito

Brokers moving from one firm to another who sabotage their former employer by changing customer contact information have sparked recent disciplinary action, according to the Financial Industry Regulatory Authority Inc.

This month alone, Finra charged two individuals with doctoring customer records before leaving their firms. Such practices have been around for years, and they continue to occur as registered representatives and their employers race to maintain, or win over, clients.

"We regularly bring disciplinary actions based on the alteration of documents and the removal of [personal confidential information] in connection with a broker's transition from one firm to another," Brad Bennett, Finra's executive vice president and head of enforcement, said in an email.

According to a June 17 Finra document, Kyle A. Gonzales, an unregistered assistant at Wells Fargo Advisors, was assigned in 2011 to a team of brokers who prior to his hire had decided to leave for another broker-dealer. After being directed to do so by a team member, Mr. Gonzales changed about 50 customer records to add inaccurate information. He was suspended for one month and fined $5,000.

A similar June 9 letter stated that Salvatore Bonetti, a former Morgan Stanley general securities representative, altered company records on 35 customers with a total of 63 securities accounts last year before moving on to another broker-dealer. Mr. Bonetti was suspended for 30 business days and fined $5,000.

GETTING A LEG UP

Changing client records is a surefire way to give brokers a leg up in the highly competitive environment following their resignation. Immediately after advisers notify their employer that they are moving on, that firm will begin contacting existing clients in an effort to retain them. By altering phone numbers and email addresses, departing employees get a little more time to reach their clients before their previous employer can.

The representatives in both these cases violated Finra Rule 2010, which requires all advisers to conduct business with high standards. Mr. Bonetti also violated Finra Rule 4511(a), which requires members to make and keep accurate books and records.

"In today's age of technology, really anything you do leaves a forensic footprint," said Sharron Ash, chief litigation counsel at Hamburger Law Firm. "I cannot believe there are still unsophisticated transitioning brokers who believe they will get away with this."

It doesn't have to be that way, though, said Bill Singer, an attorney who specializes in the financial services industry. Brokers have used this trick for years and will continue to do so until they are not in such a heated battle to keep their clients, he said.

"The only reason they're engaging in misconduct is because brokerage firms do everything they can to

retain accounts when the broker leaves," Mr. Singer said.

Finra suspended David Michael Mitchell for 30 business days and fined him $5,000 for altering at least nine of his customer accounts, including 17 phone numbers and 13 email addresses, according to an Finra document from earlier this year. He had made the changes in 2013 before resigning from Morgan Stanley.

According to another document from April, former Northwestern Mutual Investment Services representative Ryan Alexander Logan remotely accessed the firm's computer system in 2014 and changed information for 41 customers of the firm or its insurance affiliate two days before terminating his registration.

Wells Fargo and Morgan Stanley declined to comment for this story. Attorneys for the representatives named could not be reached.

The Protocol for Broker Recruiting, an agreement among major brokerages created in 2004, seeks to smooth the transitioning process for brokers. It potentially can save brokers from temporary restraining orders and lawsuits, but requires that these reps not contact clients prior to resignation or take more than their clients' name, address, phone number and account title.

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Distributions

Continued from Page 2

all of the distributions from one or more accounts. If in any year you take out more than the required amount for that year, you will not get credit when determining the minimum requirements for future years.

TAXES

Distributions from traditional IRAs, 401(k)s and similar workplace retirement plans are fully taxable in the year of distribution at ordinary income tax rates, assuming all of your contributions were deductible. If you made nondeductible contributions or rolled over any after-tax amounts, you have a costs basis, and the nondeductible contributions are not taxed when distributed. In that case, each distribution is partially nontaxable and partially taxable until all of your basis has been distributed.

DONATIONS

IRA owners who are at least 70½ can avoid taxes by donating up to $100,000 of their required minimum distribution each year directly to a public charity. For married couples, each spouse can direct some or all of their RMD up to $100,000 per person directly to a public charity. Donor-advised funds and private foundations are not eligible. The direct IRA donations do not qualify for a charitable deduction, but the money is excluded from taxable income.

401(K) RULES

If you are still working at 70½, you don't have to take a distribution from your current employer's 401(k) until you leave your job. Although you cannot contribute to a traditional IRA once you turn 70½, you can continue funding a 401(k) plan if you keep working beyond that age (unless you own 5% or more of the company). Once you stop working, you must begin annual required minimum distributions and can no longer fund your employer-based retirement plan.

IF YOU have multiple 401(k)s, you must calculate a separate RMD from each plan.

If you have multiple 401(k)s, you must calculate a separate required minimum distribution from each and take a distribution from each plan each year once you turn 70½.

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You may be able to make a qualified funding distribution from your traditional IRA or Roth IRA to your health savings account. The one-time distribution must be less than or equal to your maximum annual HSA contribution, and it must be made directly by the trustee of the IRA to the trustee of the HSA. The distribution is not included in your income, but it cannot be deducted as an HSA contribution.

Mary Beth Franklin is a contributing editor to InvestmentNews *and a certified financial planner.*
mbfranklin@investmentnews.com
Twitter: @mbfretirepro

Firms fined

Continued from Page 2

seven firms "address the fact that certain registered agents of the seven firms submitted unauthorized proxy votes for their clients who held interests in the American Realty Capital Investment programs," according to a press release. "The proxy authorization forms were each identical and were prepared for the firms to submit by Realty Capital Securities."

INVESTIGATING OTHER B-DS

"We are pleased to see this matter is being resolved with the Commonwealth of Massachusetts," Voya Financial spokeswoman Laura Maulucci said in a statement. "In reaching this agreement, neither Voya nor the VFA representatives admitted to any liability, wrongdoing or violation of law."

"RCS's actions in Massachusetts were unfortunate and egregious," said Derek Brumfield, director of investment platform at TKG Financial. "TKG failed to follow proper procedures with regards to voting proxies on behalf of its clients, but was not found to have committed any fraud by the state of Massachusetts. Although TKG had no clients in Massachusetts, we cooperated fully with the commonwealth and are glad to move past this issue."

7
Number of B-Ds that were fined a total of $238,000 by the Massachusetts securities regulator.

Executives at the other firms could not be reached for comment.

The Massachusetts Securities Division is investigating other broker-dealers in connection with proxy voting in ARC programs sold through RCS.

RCS was under the gun to get proxy votes approved after ARC said last August it was merging with Apollo. That deal later fell apart and Mr. Galvin fined RCS $3 million in connection with the proxy fraud.

RCS closed its doors last December as part of its settlement with Massachusetts.

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Kenneth Bentsen: Stressed that Wells Fargo never said that it was considering resigning.

Big banks

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kers and financial advisers interact with clients.

Until the lawsuit, banks, mutual funds and insurers presented a united front against the plan, contesting it on Capitol Hill and at the Labor Department. They argued that it would raise costs for savers, cause brokers to drop less-affluent clients and narrow investment choices.

SIFMA sued along with the U.S. Chamber of Commerce, the Financial Services Roundtable, the Financial Services Institute and several other groups. Trade associations often file cases against regulators to protect individual companies from any potential blowback.

'STANDARD PROCEDURE'

In an interview, Kenneth Bentsen, SIFMA's president and CEO, said he doesn't comment on board deliberations. Still, he stressed that Wells Fargo never said the bank was considering resigning its membership if the suit went forward.

"They never said it in any board discussion on the matter, nor did they say so to me," Mr. Bentsen said.

In a statement, SIFMA said it followed a "standard procedure" in assessing whether to sue.

"Given the judgment of the board, particularly members with significant direct exposure, that the department acted inappropriately in crafting its rule that will cause harm to the retirement market, the board determined that it was necessary to challenge the rule," the group said.

SIFMA chose to hold a voice vote on the suit, so there was no official tally. Still, it was clear that the majority of members supported the move, the people said. Spokesmen for JPMorgan, Morgan Stanley and Bank of America declined to comment. Wells Fargo declined to discuss specifics of the lawsuit debate, except to say in a statement that the bank "continues to have a strong relationship with SIFMA" and other trade groups.

DIVERSITY OF SIZE

"We support a best interest standard and believe that professional financial advisers have a crucial role to play in encouraging retirement saving and investing," Wells Fargo said in the statement. "Our firm has been an active advocate for our clients and financial advisers during the DOL's rulemaking process, and we have a robust process in place for reviewing and implementing the final rule."

SIFMA counts hundreds of securities firms, banks and asset managers among its members. Their diversity of size and business model fueled the internal debate, the people said. Member firms that advocated for the suit included Raymond James Financial Inc., Ameriprise Financial Inc., Robert W. Baird & Co., Janney Montgomery Scott and Stephens Inc., the people said.

NEW TRADE GROUP

Representatives of some of the regional firms questioned whether the biggest banks were withholding support for the suit for competitive reasons. They noted that complying with all of the new rules will be much costlier for smaller firms and could put some of them out of business.

Such concerns led a number of the smaller brokers to form a new trade group earlier this year called the American Securities Association. Its agenda is partly to differentiate regional brokerages from their Wall Street counterparts.

The smaller firms also argued that the big banks opposed the suit because they have shifted many of their customers into accounts that charge based on assets — a setup that already requires putting clients' interests first.

> "OUR FIRM HAS been an active advocate for our clients and financial advisers during the DOL's rulemaking process."
>
> **Statement from Wells Fargo**

Smaller firms are much more reliant on the typical brokerage account where investors pay a commission for trading. Labor's fiduciary rule upends that practice, replacing a standard that lets brokers recommend products they deem suitable, a lesser requirement.

REPUTATIONAL RISK

Another issue some big banks had with the lawsuit was the potential for it to damage financial advisers' reputations, the people said.

President Barack Obama personally touted the new protections, and some firms were reluctant to participate in a case that could be spun by opponents as anti-investor.

Not all of SIFMA's largest members took the same position on the case. Goldman Sachs Group Inc., which hasn't played much of a role in the fiduciary debate because the vast majority of its clients aren't affected, stayed neutral. And some of the big banks that opposed the suit said they wouldn't stand in the way of filing it, though most didn't want to pay for it.

Some members said that splitting the legal costs may trigger another dust-up. Those bills, the people said, are estimated to be $1 million to $2 million, depending on whether there is an appeal.

ETF liquidity

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shareholders can't do this, only APs can; nor can individual holders redeem for cash. (This is a core reason why ETF expense ratios are lower than most mutual funds: The infrastructure needed to support retail shareholder redemptions is relatively expensive, and it's a cost ETFs don't have to bear.) What retail investors can do is sell (and buy) ETF shares on an exchange.

CASHING OUT

So when you go to cash out of an ETF, you'll always get the net asset value, right? Well, if the traded price and NAV are essentially the same, yes. But what keeps those values close to each other? What protects investors from having to sell at a big discount to the fund's NAV, as, for example, so often happens with other kinds of traded closed-end funds?

The APs are expected (but not required) to keep traded prices in line with the NAV by exploiting an arbitrage opportunity that should be present when the price of an ETF gets out of whack with the value of the securities it holds.

To illustrate: If an AP sees an ETF trading at a price that's too cheap — maybe $99 when the value of the underlying basket of securities is $100 — it can expect to make money by buying a share for $99, redeeming it for the basket of securities the ETF holds, and selling that basket of securities into the market for $100. The resulting buying pressure should push the price of the ETF shares back to NAV.

PROFIT MOTIVE

But never forget that the APs act purely out of profit motive. They don't have to do anything at all to "fix" an ETF's traded price. If there's not a clean and clear way to execute on that theoretical arbitrage opportunity, they will sit on the sidelines and let the price go wherever. And if even one security in the ETF basket can't be unloaded quickly at a known price, there is no longer a clear arbitrage. So illiquidity in the underlying market means the arbitrage mechanism won't work, and that means ETF pricing won't, either.

Doubt it? Look at last Aug. 24, when trading halts in just eight S&P stocks cascaded into stoppages of 42% of all U.S. equity ETFs. That day, fully one-fifth of all equity ETFs experienced price movements of 20% or more, even though just 4% of individual stocks did.

So let's reconsider that key marketing argument for ETFs: that they are "more liquid" than the underlying components of the fund. Is this a feature, or a bug?

TRADING VEHICLE

If you're a fast-twitch hedge fund, it's a feature. Why fool around with the clumsiness of transacting in many securities when you can instantly clear the lot? The ETF structure, initially conceived as a convenient and cheap indexing tool for average investors, has become a primary weapon of the billions crowd, as evidenced by the fact that the SPY has about 500 times the annual turnover of its underlying components. If that doesn't show that it's primarily a trading vehicle, not a long-term investment tool, I don't know what does.

The good news is that so long as all these guys are furiously taking positions against each other, there should be a healthy market into which average investors can sell, too. So, more supposed proof that ETFs are "liquid," and not a worry.

BEHIND THE CURTAIN

But that's not the idea of the product structure, and those conditions can disappear in an instant, as we saw last August. More to the point, hedge funds might well be nimble enough to exit their positions before a bout of illiquidity and mispricing sets in, but average investors aren't. And if the SPY, the world's largest ETF, can suddenly experience stoppages and wild price swings because a handful of stocks are temporarily halted, imagine what might happen when the underlying is radically less liquid than S&P stocks.

Instead of a hot market driven by nanosecond investors, the reliability of the pricing of ETFs is meant to derive from the arbitrage trade built into the structure: Assets in the ETFs should be liquid enough for the APs to perform their pricing function. With the bond market, that just is not true, which the Wall Street machinery, in a profound irony, touts as the reason investors should pile in.

So maybe Harry's cloak isn't quite the right analogy. Maybe looking behind the wizard's curtain is better. For when bond prices do come under pressure — whether by Fed action, a credit event, or a surprise whiff of inflation — Dorothy's going to pull it aside. And the little old market inside suddenly won't live up to the maker of miracles we're expecting.

Bob Rice is managing director of Tangent Capital. He is also the bestselling author of "Three Moves Ahead" (Jossey-Bass, 2008) and "The Alternative Answer" (HarperCollins, 2013). Mr. Rice appears frequently on various television and radio programs and is a contributing editor for InvestmentNews. *He can be reached via ricepartners.com.*

Merrill hit

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up to $58 billion of customer securities per day in a clearing account subject to a general lien by its clearing bank.

Customers would have been exposed to a "massive shortfall" in the reserve account if Merrill had failed in its trades, according to the SEC, while exposing clients to significant risk and uncertainty in getting back their own securities had the firm collapsed.

'ENHANCING OUR PROCESSES'

Bank of America Corp. bought brokerage firm Merrill Lynch in January 2009 as Wall Street was struggling in the financial crisis.

"While no customers were harmed and no losses were incurred, our responsibility is to protect customer assets and we have dedicated significant resources to reviewing and enhancing our processes," Bill Halldin, a spokesman for Bank of America Merrill Lynch, said in an emailed statement about the $415 million penalty.

$15M
Merrill's fines for misleading statements charges

SECOND SETTLEMENT

"The issues related to our procedures and controls have been corrected," he said. "We have cooperated fully with the SEC staff throughout this investigation."

In a separate announcement last Thursday, the SEC said Merrill Lynch agreed to pay a $10 million penalty to settle charges that it made misleading statements in materials provided to retail investors for structured notes linked to a proprietary volatility index. The materials emphasized the commissions that were charged and the annual fee, but didn't disclose a quarterly cost of 1.5% that was tied to the value of the volatility index.

The notes were issued by Bank of America. Merrill Lynch had "principal responsibility for drafting and reviewing the retail pricing supplements," according to the SEC.

Finra said that it had slapped Merrill Lynch with a $5 million fine for "negligent disclosure failures" in the sale of the volatility-linked structured notes. Merrill Lynch neither admitted nor denied the structured note charges made by SEC and Finra.

Mr. Halldin declined to comment on the fines tied to the structured notes cases.

cidzelis@investmentnews.com
Twitter: @cidzelis

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