October 22-26, 2018

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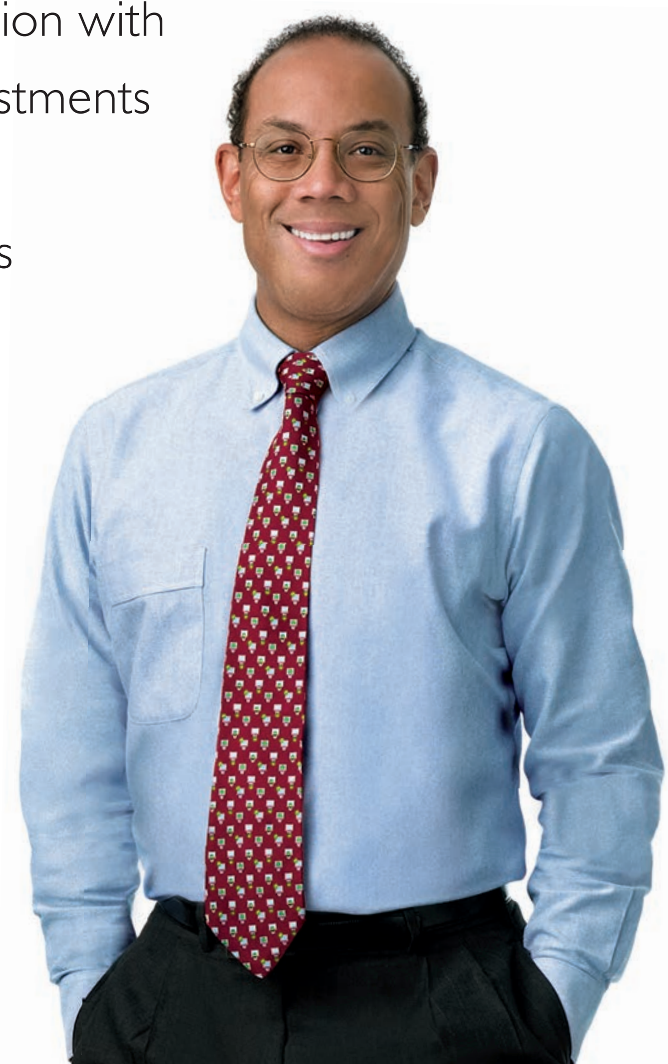

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	Annualized						
Ariel Fund–Institutional Class	+15.30%	+15.76%	+11.74%	+23.52%	+12.46%	+10.12%	+11.52%
Ariel Fund–Investor Class	+14.98%	+15.43%	+11.41%	+23.24%	+12.23%	+10.01%	+11.45%
Russell 2500™ Value Index	+10.24%	+14.51%	+ 9.99%	+19.18%	+10.53%	+10.24%	+11.31%
Expense Ratio (as of 9/30/17)							
Ariel Fund–Institutional Class (ARAIX)							0.71%
Ariel Fund–Investor Class (ARGFX)							1.01%

Performance data quoted represents past performance. Past performance does not guarantee future results. All performance assumes the reinvestment of dividends and capital gains. The investment return and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted. Performance data current to the most recent month-end for the Fund may be obtained by visiting our website, arielinvestments.com. Extraordinary performance shown for any short-term period may not be sustainable and is not representative of the performance over longer periods.

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ARIEL INVESTMENTS

2 DAWN BENNETT FOUND GUILTY OF $20M PONZI | 3 NEW JERSEY AND DOL FACE FIDUCIARY FUTURE | 25 USING AN IRA TO FUND AN HSA | 29 FIDELITY TO CUSTODY, TRADE CRYPTOCURRENCIES

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SURVIVNG THE NEXT DOWNTURN

OUR 2018 PRICING & PROFITABILITY STUDY SHOWS ADVISORY FIRMS RIDING THE STOCK MARKET TO NEW HEIGHTS — AND EXPOSES VULNERABILITIES AHEAD PAGE 8

INSIDE

3 Diversity & Inclusion
6 Editorial
14 Mutual fund rankings
24 Ask the Ethicist
25 IRA Alert
26 On Retirement

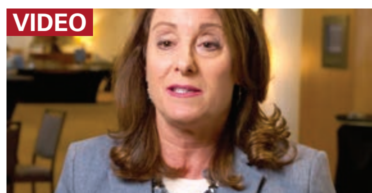
A CLOSER LOOK

4 Merrill keen on new clients
Wirehouse will continue pay plan that rewards advisers for accounts.

33 Congress next?
SEC commissioner Stein suggests Congress address advice standards.

ONLINE

VIDEO



How women running for Congress impact advisers
InvestmentNews.com/Congress

SLIDESHOW

10 states with the most college student debt
InvestmentNews.com/studentdebt

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Cover: Taylor Callery

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LEGALMATTER

Dawn Bennett found guilty of $20M Ponzi

BY JEFF BENJAMIN

FORMER FINANCIAL ADVISER Dawn Bennett was convicted last Wednesday in federal court in Maryland of 17 charges related to a $20 million Ponzi scheme.

Ms. Bennett, 56, was found guilty of all charges, including conspiracy, securities fraud, wire fraud, bank fraud and making false statements on a loan application. The jury deliberated for less than five hours before returning its verdict.

Ms. Bennett, who formerly operated Bennett Financial Group Services, faces a maximum of 20 years in prison for wire fraud conspiracy and for each of nine counts of wire fraud; a maximum of five years for securities fraud conspiracy; a maximum of 20 years for each of four counts of securities fraud; and a maximum of 30 years each for bank fraud and for making false statements on a loan application. Ms. Bennett remains detained pending sentencing.

DAWN BENNETT

According to evidence presented in the trial, Ms. Bennett obtained more than $20 million from 46 investors between December 2014 and April 2017, many of them elderly clients who knew her from a radio show she hosted focusing on investing.

Prosecutors charged that some of the funds were used to pay earlier investors, and the rest was used for her personal benefit, including a luxury suite at a football stadium, to pay a website operator to arrange for priests in India to perform religious ceremonies to ward off federal regulators, to purchase astrological gems and for cosmetic medical procedures.

"Dawn Bennett's greed knew no bounds as she knowingly defrauded elderly retirees of their life's savings," said U.S. Attorney Robert K. Hur. "This conviction, and the years in federal prison that she is facing, holds her accountable for her actions."

On Aug. 25, 2017, the SEC filed a related action against Dawn J. Bennett and DJB Holdings d/b/a/ DJBennett and DJBennett.com, alleging violations of the Securities Act of 1933 and the Securities Exchange Act of 1934.

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FINTECH

Fidelity's new marketplace

Xchange features menu of new technologies

BY RYAN W. NEAL

FIDELITY INSTITUTIONAL has integrations with more than 100 third-party technology vendors, and now it's launching a new digital marketplace to help advisers make sense of all the tools available.

First announced in February, the Wealthscape Integration Xchange features a menu of technologies, such as financial planning, portfolio management and client relationship management, that explains what integrations are available. There are about a dozen third-party tools on the Integration Xchange currently, and Fidelity said it is adding more tools, and deepening integrations with existing providers.

"IT'S NOT JUST ABOUT THE TOOLS OR PRODUCTS ... IT'S THE PURPOSE."
TRICIA HASKINS, VICE PRESIDENT
FIDELITY INSTITUTIONAL

Fidelity supported some third-party integrations through eMoney, which it acquired in 2015, but the Integration Xchange brings third-party technology support to advisers who don't use the financial planning tool. Competing financial planning technologies like MoneyGuidePro are included in the marketplace, though Fidelity is able to offer deeper data integration and a robo-adviser with eMoney.

The Integration Xchange also includes options for independent firms to integrate parts of Wealthscape — Fidelity's consolidated technology platform for RIAs and broker-dealers — into their own technology systems. For example, a firm could customize adviser-facing interfaces using a suite of programs for real-time data retrieval and processing. Or it could add various Wealthscape functions to its client-facing website, while keeping the adviser's branding intact.

CLIENT DATA

There is support for receiving client-specific data from Fidelity's core brokerage systems, inbound file processing and integration with the Financial Information eXchange for managing orders and transactions.

The goal is to help advisers navigate the enormous marketplace of technology options available to them. Instead of looking at individual products, firms should decide first what kind of technology will best fit the needs of their users and their clients, said Tricia Haskins, vice president of digital strategy and platform consulting for Fidelity Institutional.

"By putting the building blocks all in one place, we're simplifying the user experience and helping clients efficiently create the right technology offerings for their businesses," Ms. Haskins said in a statement. "Integration is not 'one size fits all,' and firms can mix and match solutions to build

CONTINUED ON PAGE 34

EDITOR'S NOTE

What do you want first: good or bad news?

Do you want the good news or the bad news first?

The good news is that it's a great time to be running a financial advisory firm: Median assets grew 16.8% in 2017, while median revenue grew 11.7%. But wait, there's more! The average pre-tax income of advisory firm owners reached a new high of $623,000, up 11.8% from $557,000 the year before; and average operating profit margins hit a new high of 24.9%, according to the 2018 *InvestmentNews* Study of Pricing & Profitability.

The bad news is that most advisory firm owners did little to boost their good fortune.

This week's cover story, which delves into the results of our biennial report on the financial performance of nearly 400 advisory firms across the country, reveals that the biggest contributor of asset growth in 2017, by far, was market performance.

FRED GABRIEL

The S&P 500 stock index returned 21% last year. About half of the average growth in AUM among firms was attributed to market gains.

"The positive markets have camouflaged a lot of sins, because for the majority of firms, growth is tied to assets under management," said Mark Tibergien, chief executive of Pershing Advisor Solutions, which helped *InvestmentNews* compile the report along with The Ensemble Practice.

In our cover story, by senior columnist Jeff Benjamin, Mr. Tibergien goes on to offer some good advice.

"The adviser's value proposition has to be greater than just investment management," he said. "Those advisers who hold on to investment performance as a unique proposition will inevitably disappoint their clients."

So, congratulations on your good fortune. But beware it will not continue when — not if — the market stumbles.

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LEGALMATTERS

Wells Fargo fires back at ex-brokers

Intends to file counterclaim against two who sued over bank scandals

BY BRUCE KELLY

WELLS FARGO Advisors plans to fight back against two ex-brokers who sued the firm this month, claiming they lost business in the wake of the bank's scandals, by filing a counterclaim against them in industry arbitration.

The advisers, John L. Perry and Robin Johnson, left Wells Fargo Advisors on Oct. 1 and are now working at RBC Capital Markets. On Oct. 8, they filed their arbitration claim, alleging that the steady stream of scandals over the past two years at the bank and brokerage substantially damaged their business, with the dispute resolution arm of the Financial Industry Regulatory Authority Inc.

PROMISSORY NOTES

But a Wells Fargo Advisors spokesperson, Shea Leordeanu, said the issue at hand was that the advisers failed to pay back promissory notes, which are paid as bonuses to brokers to move to one firm from another. The broker then pays back the loan by working at the firm over several years.

"If an adviser leaves the company before fully repaying a promissory note, we use the Finra dispute resolution process to collect," Ms. Leordeanu wrote in an email. "This claim is an attempt to avoid repaying their obligations. We still intend to collect."

EXITING
Wirehouse loses more brokers in Q3.
Page 22

The attorney for the advisers, Andrew Stoltmann, said that was not the issue.

"This is not an attempt to duck payment on a note," Mr. Stoltmann said. "This is a classic case of blaming the victim."

Mr. Stoltmann's firm, Stoltmann Law, has advertised online looking for Wells Fargo advisers who want to sue the firm in Finra arbitration.

TROUBLES

Wells Fargo has been enmeshed in scandals since September 2016, when it was revealed that Wells Fargo bank employees had secretly created millions of accounts in the names of customers without their consent. The bank was fined $185 million.

Wells Fargo clients and the public have lost trust in the company and made it impossible for ad-

CONTINUED ON PAGE 34

diversity&INCLUSION

History tells the tale

Lagomasino's varied route to success

BY SARAH MIN

When Maria Elena Lagomasino was 11 years old, she and her family fled the communist regime in Cuba to move to Westford, Conn. It was 1960. She made friends quickly in school and found everyone welcoming, however, it was challenging for her family to lose their language, culture, home and their money.

"It was very difficult all around. That's why it was meaningful for me to have families never, ever go through something like that," said Ms. Lagomasino, CEO and managing partner of WE Family Offices, based in New York and Miami.

Her family history gave a purpose and meaning to her work that kept her engaged through her 40-year financial career, which began in 1977 at Citibank.

Ms. Lagomasino's first job required her to work with families in Chile, which was an upheaval similar to Cuba's and was being run by a military dictatorship established after the socialist President Salvador Allende

CONTINUED ON PAGE 34

THIS STORY IS part of an ongoing initiative by *InvestmentNews* to cultivate a financial advice profession in which diverse perspectives are welcomed and respected, and industry best practices are shared across organizations.

Maria Elena Lagomasino

FIDUCIARYFUTURE

New Jersey releases fiduciary goal

Pre-proposal suggests SEC advice package is too weak on protections

BY MARK SCHOEFF JR.

NEW JERSEY released a request for public comment last Monday on what could become a proposal to raise investment advice requirements for brokers.

The state's Bureau of Securities issued what it called a notice of pre-proposal that would subject brokers, agents, investment advisers and investment adviser representatives to a fiduciary duty when providing investment recommendations to clients.

MORE
SEC commissioner suggests Congress step in.
Page 33

The document notes that investment advisers already adhere to a fiduciary standard. A potential rule would impose the same requirement on brokers, who currently meet a suitability standard — a bar New Jersey implied is too low.

"The bureau believes that this uniform standard protects investors against the abuses that can result when financial professionals place their own interests above those of their customers," the document states.

New Jersey is acting because federal regulators have not done enough to raise advice standards, according to the document.

It mentions that the Labor Department's fiduciary rule for retirement accounts was struck down by a federal appeals court. It suggests the Securities and Exchange Commission's advice reform proposal, which requires brokers to act in the

CONTINUED ON PAGE 34

FIDUCIARYFUTURE

ADVICE STANDARDS

DOL set to address conflicts of interest again

BY MARK SCHOEFF JR.

THE LABOR DEPARTMENT signaled that by next fall, it will address unfinished business surrounding its investment advice rule that was killed by a federal court earlier this year.

The agency released a regulatory agenda last Thursday that shows it will consider "regulatory options" to respond to the 5th U.S. Circuit Court of Appeals decision in March to vacate the rule, which required brokers in retirement accounts to act in the best interests of their clients. The deadline for a proposal is September 2019.

In May, the DOL released guidance saying financial professionals could still rely on the rule to provide advice but it would not enforce violations of the rule. The agency has not issued any further statements. Meanwhile, the Securities and Exchange Commission proposed its own advice reform package in April.

SEC RULE TIMING

SEC chairman Jay Clayton has not indicated when the SEC might issue a final advice rule. But the agency's own agenda said it will come out by September.

Given that both the DOL and the SEC have the same deadline on their regulatory agendas, some observers speculate that they are going to produce complementary measures.

Fred Reish, a partner at Drink-

CONTINUED ON PAGE 34

BROKER-DEALERS

Merrill to continue pay plan

Firm has seen best performance in past 5 years

BY BRUCE KELLY

WHEN IT REVEALS its 2019 compensation plan in the coming weeks, Merrill Lynch will continue to reward its wealth management advisers for bringing in new clients.

Last year, Merrill Lynch unveiled a 2018 pay grid that rewarded advisers who brought in a healthy number of net new accounts. Those advisers who fell short of company goals had their compensation reduced. The plan was called the"growth grid."

Merrill's 15,015 financial advisers can expect to see such a compensation plan next year, said a senior Merrill Lynch executive, but he declined to give specific details ahead of the firm unveiling its compensation plan, known as the grid in the retail securities industry.

"We feel the growth grid has been successful, and we expect to see that in the 2019 compensation plan for advisers," said the executive, who asked not to be named when speaking to reporters last Monday morning. "There may be slight changes in 2019, but the growth grid will remain a large part of the comp plan. We are listening to adviser feedback."

Merrill Lynch in 2018 has continued to see the strongest performance in this area in at least the last five years, the executive said. The number of new households has almost doubled to five on average per adviser, the executive said. In the past, Merrill Lynch advisers had been averaging about 2.5 gross new households per year.

COMMITTED TO PROTOCOL

He added that Merrill Lynch remains committed to staying in the protocol for broker recruiting, an industry agreement that makes it easier for a financial adviser to seek employment at a rival firm. A year ago, Morgan Stanley and UBS Financial Services Inc. exited the agreement as a way to keep more of their advisers in their seats.

Ever since, it has been widely speculated that Merrill Lynch would follow its two rivals and leave the broker protocol, but the company continues to indicate publicly that it will remain in the agreement.

"We want to be the employer of choice in the wealth management industry," the executive said.

Meanwhile, Merrill Lynch's parent company, Bank of America Corp., reported positive earnings last Monday morning.

Merrill Lynch Wealth Management revenue rose 3% when compared with last year's third quarter, reaching $3.9 billion, according to Bank of America's earnings report.

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BROKER-DEALERS

Morgan revenue up, staff down

BLOOMBERG NEWS

MORGAN STANLEY reported third-quarter results last Tuesday, noting wealth management revenue of $4.4 billion compared with $4.2 billion a year earlier.

The wealth management group had a pretax margin of 27.1% compared with 26.5% in last year's third quarter. Adviser headcount was 15,655 at the end of the quarter, down 1% from the same quarter last year, but up slightly from the end of the second quarter.

Volatile markets have boosted Morgan Stanley's businesses, chief financial officer Jonathan Pruzan said in an interview. Earlier this month, as markets fluctuated, "we saw significant client engagement, people re-positioning and hedging," he said. However, "prolonged periods of volatility lead to closing markets and weakening confidence. We haven't seen that yet."

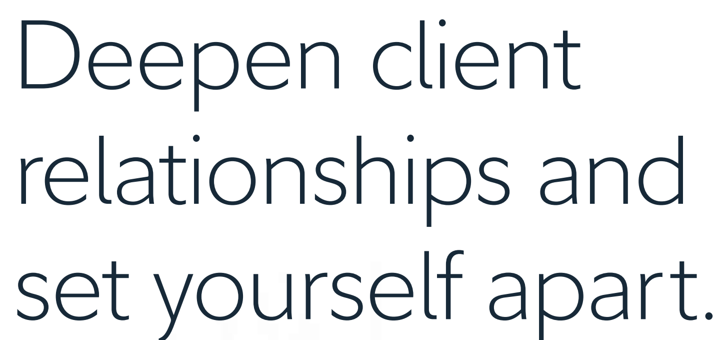
Meanwhile, Morgan Stanley's capital-markets businesses are firing on all cylinders.

SURPASSED RIVALS

The bank was the only Wall Street firm to beat analyst expectations in three main businesses: fixed income, equities trading and investment banking. The firm's dealmakers posted a 15% jump in revenue, higher than each of Morgan Stanley's rivals.

Morgan Stanley and Goldman Sachs Group Inc. avoided the investment-banking slump that weighed on their larger rivals. Morgan Stanley also made strides in CEO James Gorman's goal of gaining market share in fixed-income trading. The results may help reverse the firm's stock slide after falling 17% this year through last Monday, the most of the five biggest U.S. banks.

In investment banking, Morgan Stanley skirted a slump in debt underwriting that plagued its competitors.



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FROM THE WEB AND PRINT PAGES OF *IN* THIS WEEK

"The opportunity cost of becoming cautious at this point in the cycle is still actually quite high."

BEN MANDEL, global strategist for JPMorgan Asset Management, on recession risk remaining low

"I'M FIVE-ONE, VERY PETITE AND I DON'T TAKE 'NO' FOR AN ANSWER."

LAUREN SIMMONS, the only full-time female trader currently employed at the NYSE, on how her confidence helps her succeed

"Educating investors about complicated legal duties is quite complicated in and of itself."

KARA STEIN, SEC commissioner, on why disclosure of a broker's versus an investment adviser's standard isn't always effective

OPINION

EDITORIAL

Investors shouldn't lose sleep over the midterm elections

THE EARLY October jolt of stock market volatility seemed to awaken investors briefly from a relative sense of calm and reminded us that pullbacks and downside risk are part of the price to be paid for upside performance.

Despite just about every investing fear imaginable, any long-term snapshot of stock market performance will illustrate a persistent bias toward positive performance. Whether looking back 10, 50, 100 years or more, the basic economics of investing in a broad range of publicly traded companies is difficult to deny.

Of course, we also know that looking at the 100-year ascent of the Dow Jones Industrial Average provides little comfort to somebody who is watching their retirement savings drop by 3% or more in a single day.

On the subject of whether more market shake-ups are ahead, most financial advisers are rightly positioning the possible impact of the midterm elections along the lines of: "We're long-term investors" or "We don't have a crystal ball."

And considering the markets' nonreaction to the unexpected election of President Donald J. Trump, maybe there is something to be said for not worrying about it.

But if that won't suffice, just consider how three possible midterm election scenarios could affect the markets.

The most likely scenario shifts control of the House of Representatives from Republicans to Democrats.

Because this is considered most likely, it is the outcome that would be the least jarring to the financial markets initially.

Long term, a divided government usually means little gets done legislatively.

If the Democrats gain control of both houses of Congress or the Republicans retain control, the long-term outlook either takes the shape of uber-gridlock or more of the same, legislatively speaking.

HISTORICALLY SPEAKING, THE WORST IS BEHIND US.

In terms of market impact, consider that since 1949, the third quarter of a midterm election year has averaged the second-worst performance of the 16 quarters making up a four-year presidential term.

The S&P 500 Index averaged a gain of 0.1% during those quarters. The worst quarter in the cycle is the second quarter of a midterm year, averaging -2.8%.

In other words, the worst is behind us, historically speaking.

The good news is the fourth quarter of a midterm election year has averaged a gain of 8%, and the first quarter of the following year has averaged a gain of 7.5%.

Of course, we all know past performance is no guarantee ...

But beyond any anticipated reactions from financial markets, there is the pragmatic reality of how the election outcome will affect the financial services industry.

As *InvestmentNews* senior reporter Mark Schoeff Jr. laid out in last week's cover story, if Democrats take control of the House, that could alter the course for such major issues as the Securities and Exchange Commission's proposed advice rule, additional tax reform and retirement savings.

Rep. Maxine Waters, D-Calif., the top Democrat on the House Financial Services Committee, and the ranking members of other committees showed their hand in a Sept. 12 letter to SEC chairman Jay Clayton. The letter criticized the agency's Regulation Best Interest as too weak.

Mark also reported on Democratic opposition to further tax cuts in the vein of those already passed, and the potential positive effect on retirement savings policies. If Democrats take the house, expect Rep. Richard Neal, D-Mass., to become chairman of the House Ways and Means Committee. He is a vocal advocate of measures that encourage Americans to save more for retirement.

As is often the case, there is much at stake, which is why we vote.

But what should not be keeping investors awake at night is how whatever happens on Nov. 6 could disrupt a solid, long-term investing strategy.

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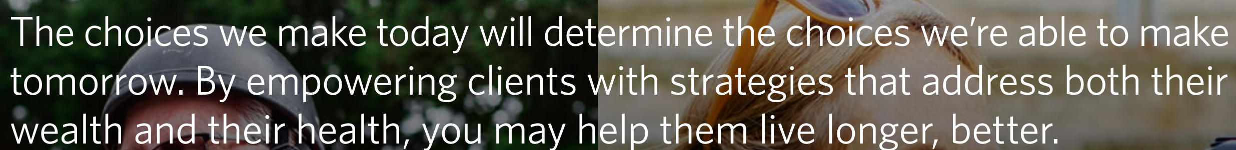

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BY JEFF BENJAMIN

ADVISORY INDUSTRY BALANCED ON A DOUBLE-EDGED SWORD

Last year's stock market gains helped advisers turn in solid growth in assets and revenue, but that growth could disappear in the next market downturn

IF one were to look at the financial advice industry solely by the numbers, it would look pretty good.

Median assets grew a whopping 16.8% last year, while median revenue grew by 11.7%, according to the 2018 *InvestmentNews* Study of Pricing & Profitability. The revenue number was substantially higher than the 5% growth recorded in 2016 and marks a return to a double-digit rate of growth not seen since 2014.

The research also shows that average pre-tax income of advisory firm owners reached a new high of $623,000, up 11.8% from $557,000 the year before; and average operating profit margins hit a new high of 24.9%.

But a deeper look into the positive snapshot reveals an industry that is dangerously vulnerable to financial market fluctuations, potentially ignoring important business development and organic growth fundamentals that would help firms weather a market downturn.

11.7%

MEDIAN REVENUE GROWTH FOR FINANCIAL ADVISORY FIRMS IN 2017

The *InvestmentNews* research and survey of 385 advisory firms, compiled in conjunction with Pershing Advisor Solutions and The Ensemble Practice, shows that the biggest contributor of asset growth in 2017, by far, was market performance. The S&P 500 stock index returned 21% last year. More than 8 percentage points — or about half — of the average growth in assets under management among advisory firms was attributed to market gains.

"The positive markets have camouflaged a lot of sins, because for the majority of firms, growth is tied to assets under management," said Mark Tibergien, chief executive of Pershing Advisor Solutions.

Averages being what they are, Mr. Tibergien said advisory firms that see their numbers falling behind those

CONTINUED ON PAGE 10

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of their peers should strip out the market performance and pay attention to things like asset decumulation and a lack of capacity to take on new clients.

"The adviser's value proposition has to be greater than just investment management," Mr. Tibergien said. "Those advisers who hold on to investment performance as a unique proposition will inevitably disappoint their clients."

As the increased focus on fiduciary duty and fee-based advice continues to lead the financial services industry on its steady migration toward the independent advice channel, financial success is increasingly tied to investment performance.

According to Matthew Sirinides, senior research analyst at *InvestmentNews* Research, this year's study revealed that 88% of advisory firm revenue is from asset-based fees.

"The majority of firms we talked to said it was all about market appreciation, so it's not a mystery to them why they're doing well," he said. "But because that's not necessarily sustainable, when the markets fall they will need to make sure their relationships with clients are sticky enough."

CLIENT LOYALTY

The data, however, does not bode well for client loyalty.

While advisory firms report that nearly 35% of new clients are coming from the traditional brokerage industry and about the same percentage are coming from the self-directed-investor ranks, more than a third are coming from competing independent advisory firms.

> "A STOCK MARKET DECLINE IS A BOOGIE MAN THAT WILL HAVE A SIGNIFICANT IMPACT ON M&A."
>
> DAVID DEVOE, MANAGING DIRECTOR, DEVOE & CO.

By comparison, in 2015, firms reported that less than 10% of new clients were coming from competing advisory firms.

Some practitioners attribute client movement among RIAs to a recognition of fiduciary status and holistic planning.

"I started my practice in 2008 and I didn't have any problems getting clients because a market downturn is when people want help the most," said Lazetta Rainey Braxton, founder and chief executive of Financial Fountains.

"It's not just about the money in the portfolio," she said. "It's about how you're living, what's going to happen with your job, living expenses. All of those are financial planning questions that people need help with."

Sidney Devine has been in the financial planning business for eight years, but started his own firm, Devine Wealth Strategies, in September.

From his perspective, if clients are leaving one RIA for another, they are

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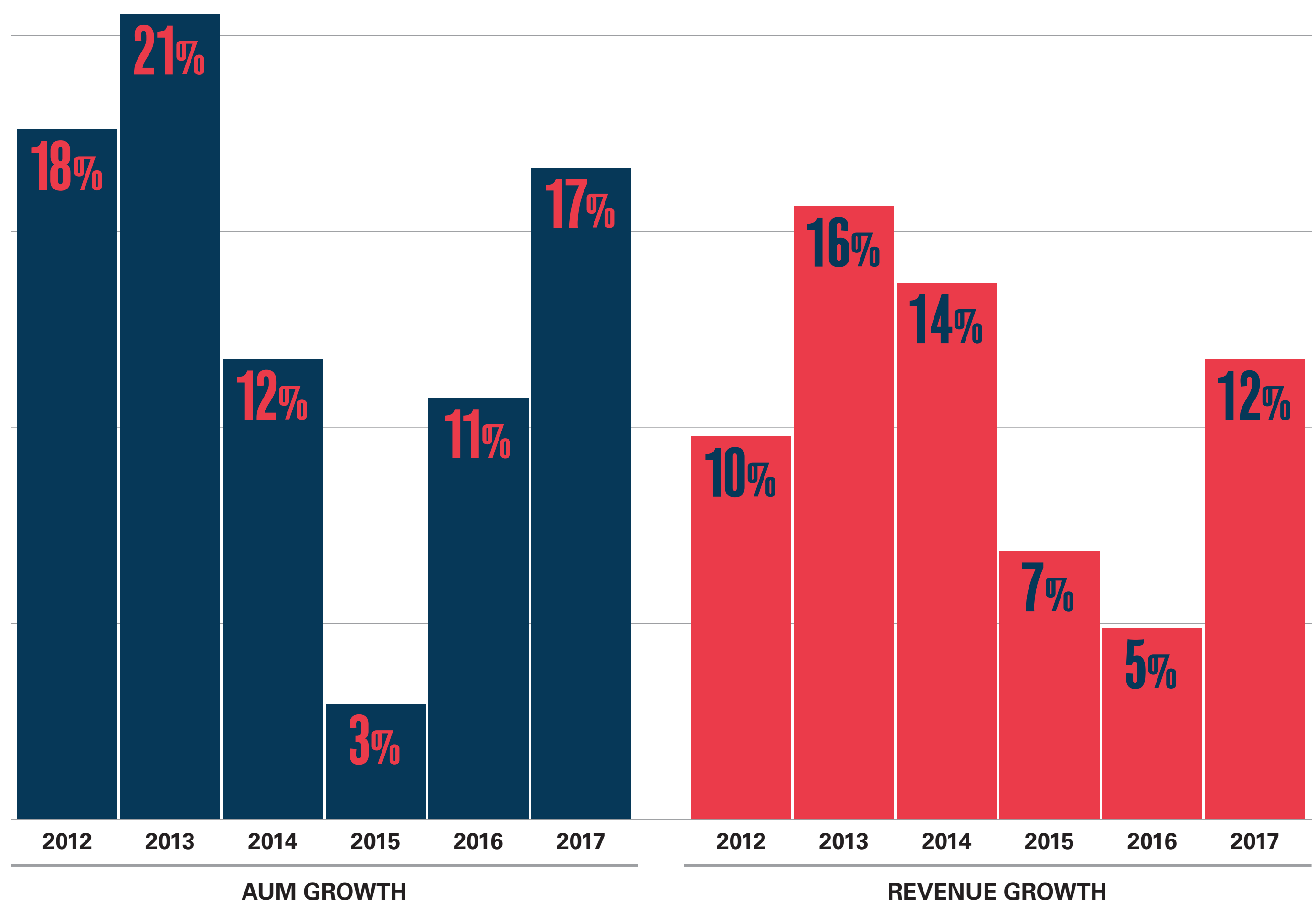
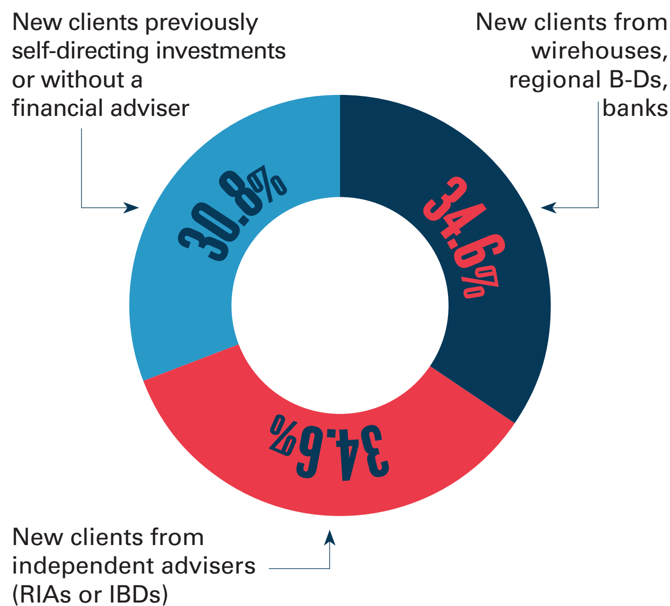
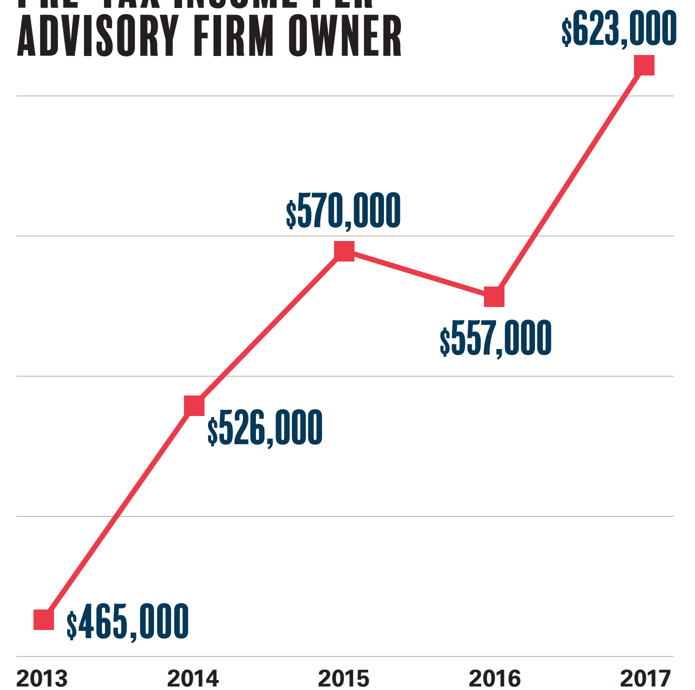
MEDIAN ANNUAL AUM AND REVENUE GROWTH



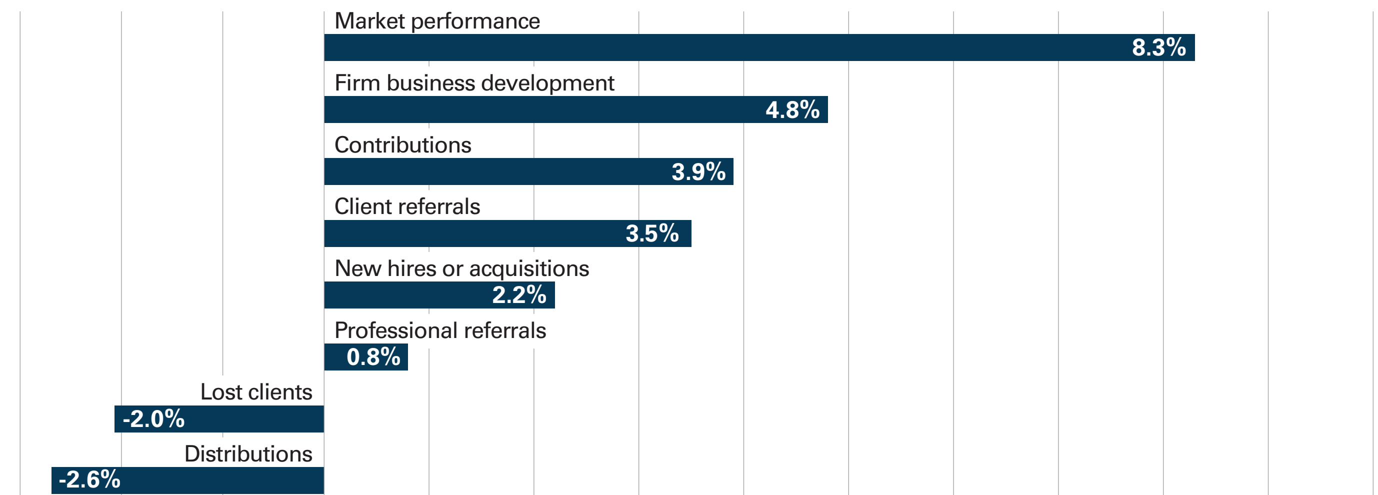
WHERE NEW CLIENTS ARE COMING FROM



PRE-TAX INCOME PER ADVISORY FIRM OWNER



SOURCES OF AUM



Source: InvestmentNews *2018 Study of Pricing and Profitability: Benchmarking the Financial Performance of Advisory Firms*

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1. Source: BlackRock and Morningstar as of 9/30/18. 7 of 8 funds accounts for 88% of our active municipal bond mutual funds. Over the 1, 3, 5 and 10 year periods, 6, 7, 7 and 7 of BlackRock municipal bond funds are in the first quartile of their respective Morningstar categories. Based on the institutional share classes of BlackRock open-end municipal fixed income funds.

2. Source: BlackRock and Morningstar as of 9/30/18. Based on Morningstar's U.S. Category Group Municipal Bond. Total universe consists of 48 ETFs. iShares National Muni Bond ETF (MUB) and iShares Short-Term National Muni Bond ETF (SUB) are the least expensive ETFs in this universe based on prospectus net expense ratio. Both funds have a net expense ratio of 0.07%.

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HIGHS AND LOWS OF A SOLO PRACTICE

As the financial services industry continues to consolidate, growing to a list of nearly 700 mega-sized advisory firms with at least $1 billion under management, what becomes of the solo practitioner?

The answer depends on whom you ask.

"I see the industry evolving simultaneously toward both more successful, scaled advice firms and a golden age for solo advisers who, thanks to technology, also can be more efficient than ever," said Michael Kitces, partner and director of wealth management at Pinnacle Advisory Group and co-founder of XY Planning Network.

"The problem is being in the middle," he said. "A large swath of firms are too big to be small, and far too small to be big, and are at risk of getting squeezed out — a phenomenon that is actually happening in many different industries right now, as technology makes it easier for large businesses to scale and for small niche providers to chip away at them."

That is not the view of David Canter, head of the RIA segment at Fidelity Clearing & Custody Solutions.

"With the competition that our industry is facing, gone are the days when an adviser could easily thrive as a sole proprietor," he said. "We believe that the trend toward consolidation will continue in our space, and firms must be focused on how to scale their businesses while also continuing to deliver an exceptional client experience."

The 2018 *InvestmentNews* Study of Pricing & Profitability defines solo practices as firms with one professional who works with all clients and manages the practice.

While solo practices are smaller, they are by no means less profitable than many of the larger RIAs.

The median pre-tax owner income of solo practices that were part of the *InvestmentNews* study was $245,500 last year, with the top-performing solos bringing in more than $491,000.

With median 2017 asset and revenue growth of 14.4% and 6.3%, respectively, solo firms lagged the industrywide median of 16.8% asset growth and 11.7% revenue growth.

But, perhaps a testament to lean operations, solo firms rose above the pack when it came to profit margins.

In 2017, solo firms produced a median operating profit margin of 28.2%, which compares to an industry median of 22.7%.

"There are plenty of clients who prefer size and scale, and plenty of others who find much to dislike about that and prefer the more intimate relationship and feel of a solo or small shop," said Kashif Ahmed, a sole practitioner and president of American Private Wealth.

"Folks who like to give business to local businesses would rather do business with the local financial adviser in the area than work with a large, perhaps impersonal, multinational firm," he said. "I suspect most folks perhaps rightly may feel that an adviser in a large organization has loyalties to the firm, and not necessarily to the client."

— Jeff Benjamin

CONTINUED FROM PAGE 10

likely looking for more than just commoditized asset management services.

"There are more aspects of planning, ancillary services, that aren't necessarily being provided by all advisers," said Mr. Devine. "When I meet with clients we go deeper than just financials and talk about life stuff. We don't talk about investing until the third meeting."

Brian Jones, who launched NextGen Financial Advice in March after spending eight years at a wirehouse, said smaller firms have the advantage of being nimble both in terms of products and services.

"Where I used to work there would have been pressure to keep clients invested during a market downturn, but now that I'm independent I can be more flexible and put clients into CDs if they're really nervous," he said. "Being a fiduciary is a big deal with clients, and that's something they don't have at the big brokerage firms."

LARGEST FIRMS GROW FASTEST

Despite the perceived virtues of smaller firms, the *InvestmentNews* study shows that the largest firms are growing the fastest and are the best performers, benefiting from a balanced blend of organic growth, inorganic growth, strategic hiring and the growing presence of private-equity capital.

Fidelity Investments counts 697 advisory firms with at least $1 billion under management, which is up from 360 firms in 2013.

Financial advisers are splitting into quantifiable blocks that show revenue growth moving in stride with assets under management, enhancing the focus on size and scale.

For example, the largest firms in the *InvestmentNews* study, those with at least $10 million in annual revenue, increased assets by an average 17.5% and revenue by 12.8% last year. At the other end of the spectrum, solo practitioners increased assets by an average 14.4% and revenue by 6.3%.

The biggest firms might be pulling away from the pack by bellying up to a table set for industry consolidation.

The impact of mergers and acquisitions, which have been heavily influenced by the growing appetite of private-equity investor capital, last year contributed an average 3.4% in asset growth at the largest firms studied by *InvestmentNews.*

PRIVATE EQUITY STILL HOT

Marty Bicknell, chief executive at Mariner Wealth Advisors, which has $25 billion in assets, believes "the private-equity craze will be here for a while."

"I can't see past five years, but I don't see (PE investing) slowing down in that time frame," he said. "There's just too much of it. I recently had a conversation with a PE firm that missed out on a $20 billion firm, and their comment to me was, 'No worries, we will be here to buy them in three to five years when the PE investor that won is ready to sell them.' Just think about that mentality."

One development that could derail it would be a prolonged market decline, according to one M&A consultant.

"A stock market decline is a boogie man that will have a significant impact on M&A, because valuations will get hammered, and it pulls advisers away from the negotiating table to deal with nervous clients," said David DeVoe, managing director at the investment bank DeVoe & Co.

Another industry expert believes some firms are concentrating on M&A activity because it is the easiest path to asset growth.

"Asset growth is what drives most of what happens in this industry, and firms can get overly focused on that because doing mergers and acquisitions is sexier than growing organically," said Drew Taylor, founder of consulting firm DTaylor Group.

"Organic growth requires having the right sales and business practices, and leveraging stories and strategies," he said. "It's the basics of blocking and tackling, and it's easy to ignore it when the M&A market is booming and there are a good number of deals out there."

Mr. Tibergien also has noticed a lack of organic growth among firms.

"Because we've been in such a positive market environment for the past decade, advisers can grow assets and business without doing a lot of business development, so their sales muscles have atrophied," he said. "Why make an effort when everything is going up? Particularly for owners, whose business is getting bigger, they kind of feel like king of the hill."

The *InvestmentNews* report shows that as firms ramped up hiring to build capacity, the average revenue per professional remained about where it was in 2015.

"The rate of growth at the average firm has been disappointing relative to the size of the opportunity in the U.S. and the number of new millionaires out there," Mr. Tibergien said. "Right now, 90% to 95% of revenue is coming from existing clients. In this environment, more should come from new business."

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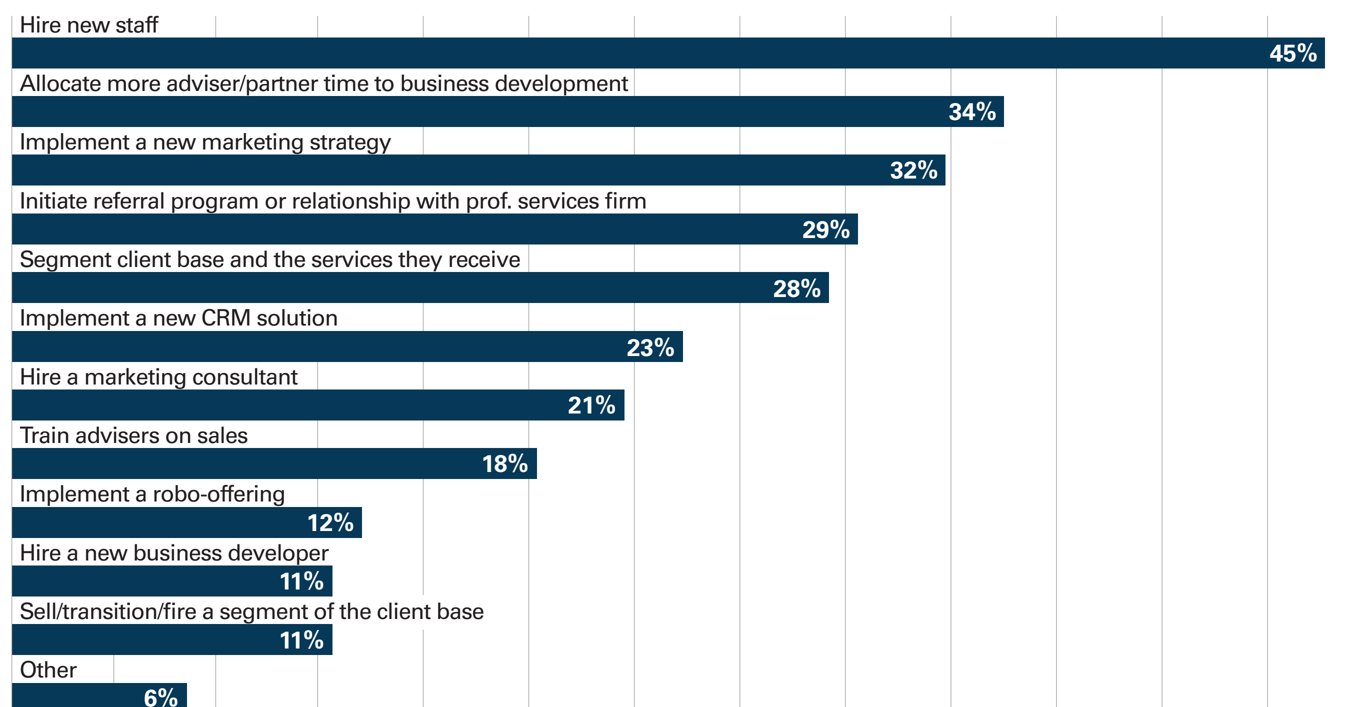
GROWTH TACTICS OVER THE LAST TWO YEARS



Source: InvestmentNews *2018 Study of Pricing and Profitability: Benchmarking the Financial Performance of Advisory Firms*

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MUTUAL FUNDS

BEST- AND WORST-PERFORMING EQUITY FUNDS

By category, ranked by one-year total returns

LARGE-CAP GROWTH

Top 10	1-year return	3-year return	5-year return	Expense ratio*	Portfolio net assets ($M)**
Berkshire Focus Fund (BFOCX)	51.15%	29.68%	19.55%	2.02%	$187.6
Dunham Focused Large Cap Growth;N (DNFGX)	37.92%	18.99%	14.11%	1.16%	$67.1
Transamerica Capital Growth;A (IALAX)	36.82%	24.89%	18.76%	1.23%	$402.7
Touchstone Sands Capital Sands Grwth Fund (CISGX)	33.93%	20.06%	13.59%	0.80%	$2,068.1
Fidelity Focused Stock Fund (FTQGX)	33.58%	20.78%	14.24%	0.57%	$2,366.8
JPMorgan Large Cap Growth Fund;I (SEEGX)	33.29%	21.45%	16.96%	0.69%	$4,679.4
Cognios Large Cap Growth Fund;Inst (COGEX)	33.14%	N/A	N/A	0.90%	$34.8
Touchstone Sands Capital Select Growth Fund;Z (PTSGX)	33.09%	19.50%	13.09%	1.22%	$624.8
GAMCO Growth Fund;AAA (GABGX)	32.95%	21.15%	15.88%	1.41%	$642.7
William Blair Large Cap Growth Fund;I (LCGFX)	32.53%	19.55%	17.33%	0.80%	$159.2
Bottom 5					
FinTrust Income and Opportunity Fund;Inst (HIOIX)	3.04%	N/A	N/A	2.03%	$6.4
Sirius S&P Strategic Large-Cap Allocation Fund (SSPLX)	9.06%	0.96%	N/A	2.21%	$22.7
AQR Large Cap Relaxed Constraint Equity Fund;I (QLRIX)	11.95%	N/A	N/A	1.43%	$16.5
Franklin Select U.S. Equity Fund;A (FCEQX)	15.02%	9.97%	10.41%	1.25%	$71.3
Pioneer Disciplined Growth Fund;A (PINDX)	15.52%	15.16%	13.20%	1.10%	$1,233.7
Classification total/average	24.95%	18.54%	14.93%	1.06%	$971,722.0
S&P 500 Growth Total Return Index	25.21%	19.86%	16.56%		

LARGE-CAP VALUE

Top 10	1-year return	3-year return	5-year return	Expense ratio*	Portfolio net assets ($M)**
Eaton Vance Focused Value Opportunities Fund;I (EIFVX)	20.05%	15.31%	11.74%	0.80%	$75.0
DoubleLine Shiller Enhanced CAPE;I (DSEEX)	19.94%	21.75%	N/A	0.56%	$4,784.1
AMG Yacktman Fcsd Fund - Security Selection Only;I (YFSIX)	19.49%	N/A	N/A	1.08%	$1.6
Cognios Large Cap Value Fund;Inst (COGVX)	17.50%	N/A	N/A	0.85%	$21.3
Eaton Vance Tax-Managed Value Fund;A (EATVX)	16.76%	13.77%	10.88%	1.19%	$330.2
Voya Corporate Leaders Trust Fund (LEXCX)	16.49%	16.05%	10.14%	N/A	$840.0
Union Street Partners Value Fund;A (USPVX)	16.36%	14.07%	10.17%	1.60%	$5.0
American Century Income & Growth Fund;Investor (BIGRX)	16.22%	16.36%	11.94%	0.67%	$1,846.2
iShares Edge MSCI USA Value Factor Index Fund;K (BKVFX)	16.15%	N/A	N/A	0.15%	$12.2
PIMCO RAE PLUS Fund;A (PIXAX)	16.06%	17.36%	11.88%	1.25%	$715.0
Bottom 5					
Sims Total Return Fund Inc (SIMFX)	4.24%	7.59%	2.93%	2.80%	$7.2
John Hancock Fundamental Large Cap Value Fund;A (JFVAX)	4.91%	10.15%	8.50%	1.11%	$20.2
Gabelli Dividend Growth Fund;AAA (GABBX)	5.43%	10.53%	7.12%	2.00%	$16.2
Snow Capital Focused Value Fund;I (SFOIX)	5.98%	9.56%	7.01%	0.96%	$2.4
Pioneer Disciplined Value Fund;A (CVFCX)	6.20%	13.67%	9.76%	1.15%	$297.7
Classification total/average	10.55%	13.35%	10.05%	1.02%	$444,379.8
S&P 500 Value Total Return Index	10.06%	14.12%	10.87%		

SMALL-CAP GROWTH

Top 10	1-year return	3-year return	5-year return	Expense ratio*	Portfolio net assets ($M)**
Nysa Fund (NYSAX)	59.38%	20.15%	-0.49%	5.27%	$3.0
Delaware Small Cap Growth Fund;Institutional (DSGGX)	58.71%	N/A	N/A	1.05%	$6.9
Alger Small Cap Focus Fund;I (AOFIX)	51.42%	27.89%	17.23%	1.20%	$367.8
PF Developing Growth Fund;P	49.45%	19.99%	11.19%	0.75%	$10.1
Driehaus Small Cap Growth Fund;Institutional (DNSMX)	46.20%	N/A	N/A	0.95%	$150.0
Jacob Small Cap Growth Fund;Investor (JSCGX)	45.21%	21.54%	8.82%	2.25%	$6.4
Wasatch Ultra Growth Fund;Investor (WAMCX)	41.97%	27.66%	17.32%	1.35%	$262.7
Frontier Timpani Small Cap Growth Fund;Instl (FTSGX)	41.03%	20.03%	13.57%	1.10%	$79.8
Osterweis Emerging Opportunity Fund (OSTGX)	40.62%	N/A	N/A	1.29%	$119.5
ClearBridge Small Cap Growth Fund;A (SASMX)	39.59%	23.18%	13.06%	1.23%	$1,060.5
Bottom 5					
AQR Small Cap Relaxed Constraint Equity Fund;I (QSRIX)	2.86%	N/A	N/A	1.44%	$1.4
River Oak Discovery Fund (RIVSX)	6.26%	10.11%	7.27%	1.35%	$14.5
Virtus KAR Small-Cap Value Fund;I (PXQSX)	7.62%	17.18%	11.34%	1.05%	$474.8
AllianzGI Micro Cap Fund;Institutional (AMCIX)	11.04%	13.73%	10.68%	1.34%	$26.1
PGIM Jennison Small Company Fund;B (CHNDX)	11.65%	13.17%	9.35%	2.04%	$5.7
Classification total/average	27.46%	18.75%	11.91%	1.27%	$184,122.1
S&P SmallCap 600 Growth TR	24.05%	20.20%	14.48%		

SMALL-CAP VALUE

Top 10	1-year return	3-year return	5-year return	Expense ratio*	Portfolio net assets ($M)**
Pacific Advisors Small Cap Value Fund;A (PASMX)	21.51%	14.88%	0.37%	4.08%	$20.1
Aegis Value Fund;I (AVALX)	20.79%	20.44%	3.11%	1.50%	$124.8
CM Advisors Small Cap Value Fund (CMOVX)	17.46%	18.22%	3.85%	1.26%	$101.8
Bridgeway Small-Cap Value Fund (BRSVX)	16.04%	14.99%	9.08%	0.94%	$71.1
Segall Bryant & Hamill Small Cap Value Fund (SBHVX)	15.30%	14.54%	10.34%	0.99%	$117.1
PIMCO RAE PLUS Small Fund;Inst (PCFIX)	14.28%	19.44%	11.80%	0.89%	$93.8
Snow Capital Small Cap Value Fund;A (SNWAX)	14.03%	10.24%	4.80%	1.52%	$15.0
Bridgeway Ultra-Small Company Market Fund (BRSIX)	13.56%	16.31%	10.13%	0.87%	$389.4
MFS New Discovery Value Fund;I (NDVIX)	13.21%	16.96%	11.32%	1.08%	$559.0
PIMCO RAE US Small Fund;Institutional (PMJIX)	13.16%	15.83%	N/A	0.50%	$152.8
Bottom 5					
Intrepid Endurance Fund;Investor (ICMAX)	-0.49%	2.43%	1.40%	1.40%	$76.9
Ariel Discovery Fund;Investor (ARDFX)	-0.47%	8.07%	-0.43%	1.29%	$7.7
Perritt Ultra MicroCap Fund (PREOX)	1.72%	13.27%	8.57%	1.71%	$66.3
Towle Deep Value Fund (TDVFX)	2.10%	21.40%	10.54%	1.06%	$141.7
Dean Small Cap Value Fund (DASCX)	3.12%	11.76%	7.97%	1.18%	$371.5
Classification total/average	8.43%	13.72%	8.00%	1.30%	$106,038.6
S&P SmallCap 600 Pure Value TR	11.66%	14.13%	8.03%		

EQUITY INCOME

Top 10	1-year return	3-year return	5-year return	Expense ratio*	Portfolio net assets ($M)**
Meridian Equity Income Fund;Legacy (MEIFX)	34.13%	21.56%	14.35%	1.35%	$59.3
Stock Dividend Fund (SDIVX)	28.10%	25.66%	12.01%	0.85%	N/A
Copeland Risk Managed Dividend Growth Fund;A (CDGRX)	21.99%	8.73%	7.21%	1.45%	$59.1
Westfield Capital Dividend Growth Fund;Inst (WDIVX)	20.96%	15.68%	11.55%	0.95%	$124.2
WP Smaller Companies Income Plus Fund;Inst (WPSMX)	18.92%	N/A	N/A	3.25%	$8.5
Oak Ridge Dividend Growth Fund;I (ORDNX)	18.19%	15.81%	12.36%	1.01%	$12.4
Johnson Equity Income Fund (JEQIX)	17.84%	16.28%	11.19%	1.00%	$285.0
Pax ESG Beta Dividend Fund;Institutional (PXDIX)	17.36%	N/A	N/A	0.65%	$140.8
Carillon Eagle Growth & Income Fund;A (HRCVX)	16.66%	16.42%	10.96%	0.98%	$154.3
Segall Bryant & Hamill Large Cap Div;Rtl (WTEIX)	16.65%	10.63%	9.49%	0.89%	$9.1
Bottom 5					
Rational Iron Horse Fund;A (IRHAX)	-1.68%	3.53%	3.17%	1.97%	$2.4
Hussman Strategic Value Fund (HSVLX)	0.11%	-2.00%	-1.79%	1.38%	$6.6
Eventide Global Dividend Opportunities Fund;N (ETNDX)	0.63%	N/A	N/A	1.17%	$5.4
Dunham Alternative Dividend Fund;N (DNDHX)	0.80%	N/A	N/A	1.39%	$62.6
Federated Strategic Value Dividend Fund;Inst (SVAIX)	0.89%	9.54%	8.97%	0.81%	$7,558.1
Classification total/average	10.57%	12.91%	9.63%	1.15%	$355,541.2
Russell 1000 Value TR	9.45%	13.54%	10.71%		

REAL ESTATE

Top 10	1-year return	3-year return	5-year return	Expense ratio*	Portfolio net assets ($M)**
BlackRock Real Estate Securities;Inst (BIREX)	6.98%	8.27%	10.24%	1.05%	$9.4
Sterling Capital Stratton Real Estate Fund;Inst (STMDX)	6.42%	8.94%	9.78%	0.81%	$93.9
Davis Real Estate Fund;A (RPFRX)	5.95%	9.60%	9.50%	0.97%	$138.9
Cohen & Steers Institutional Realty Shares (CSRIX)	5.93%	8.06%	9.89%	0.75%	$2,932.5
Principal Real Estate Securities Fund;R-5 (PREPX)	5.92%	7.96%	10.06%	1.07%	$165.2
Cole Real Estate Income Strategy (Daily NAV) Inc.	5.90%	5.58%	7.39%	N/A	$332.3
TIAA-CREF Real Estate Securities Fund;Inst (TIREX)	5.89%	8.56%	10.06%	0.51%	$1,453.1
Cohen & Steers Realty Shares (CSRSX)	5.73%	7.78%	9.65%	0.97%	$4,339.0
AMG Managers CenterSquare Real Estate Fund;N (MRESX)	5.67%	7.29%	9.61%	1.09%	$197.8
PGIM US Real Estate Fund;Z (PJEZX)	5.58%	7.17%	8.74%	1.00%	$17.5
Bottom 5					
Anchor Tactical Real Estate Fund;Inst (ARESX)	-3.73%	N/A	N/A	2.33%	$32.0
REMS Real Estate Value-Opportunity Fund;Inst (HLRRX)	-2.29%	4.36%	5.27%	1.38%	$91.3
CGM Realty Fund (CGMRX)	-1.15%	7.50%	8.53%	0.97%	$798.5
Salient Select Income Fund;A (KIFAX)	-0.88%	5.49%	5.95%	1.91%	$163.2
REMS Real Estate Income 50/50 Fund;Inst (RREIX)	0.18%	6.20%	7.30%	0.71%	$64.6
Classification total/average	3.24%	6.61%	8.30%	1.22%	$103,418.0
Dow Jones US Select REIT TR	4.59%	6.87%	9.13%		

As of Sept. 30. Excludes leveraged and inverse funds. Funds closed to new investors have been omitted for the top-10 grouping. Rankings are based on unrounded figures. Three- and five-year returns are annualized. In case of multiple share classes, the oldest share class is listed. N/A = not available (fund has been in operation for less than the period indicated). *Net prospectus. **As of Aug. 31.

Source: Lipper, a Thomson Reuters company

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MUTUAL FUNDS

BEST- AND WORST-PERFORMING FIXED-INCOME FUNDS

By category, ranked by one-year total returns

CORE BOND

Top 10	1-year return	3-year return	5-year return	Expense ratio*	Portfolio net assets ($M)**
River Canyon Total Return Bond Fund;Institutional (RCTIX)	**5.00%**	5.31%	N/A	0.72%	$26.3
Anfield Universal Fixed Income Fund;I (AFLIX)	**3.71%**	3.57%	3.06%	1.27%	$199.3
Miller Intermediate Bond Fund;I (MIFIX)	**3.41%**	5.33%	N/A	1.05%	$125.2
Ladder Select Bond Fund;Institutional (LSBIX)	**2.68%**	N/A	N/A	0.95%	$13.4
Osterweis Total Return Fund (OSTRX)	**1.81%**	N/A	N/A	0.76%	$99.2
Bramshill Income Performance Fund;Inst (BRMSX)	**1.80%**	N/A	N/A	1.45%	$232.9
American Beacon Garcia Hamilton Qual Bd Fund;Inst (GHQIX)	**1.48%**	N/A	N/A	0.45%	$227.3
Putnam Income Fund;A (PINCX)	**1.17%**	2.47%	2.60%	0.88%	$626.7
Highland Fixed Income Fund;A (HFBAX)	**0.43%**	3.03%	2.64%	1.01%	$97.4
Diamond Hill Core Bond Fund;Y (DHRYX)	**-0.03%**	N/A	N/A	0.35%	$36.8
Bottom 5					
DoubleLine Long Duration Total Return Bond Fund;I (DBLDX)	**-3.59%**	0.43%	N/A	0.65%	$59.3
Virtus Seix Total Return Bond Fund;I (SAMFX)	**-2.46%**	0.89%	1.85%	0.46%	$435.7
Dreyfus Intermediate Term Income Fund;A (DRITX)	**-2.28%**	0.77%	1.44%	0.93%	$373.4
North Country Intermediate Bond Fund (NCBDX)	**-2.21%**	0.39%	0.96%	0.89%	$73.7
Vanguard Intermediate-Term Bond Index Fund;Inv (VBIIX)	**-2.10%**	1.10%	2.32%	0.15%	$1,120.0
Classification total/average	**-1.23%**	**1.45%**	**2.04%**	**0.72%**	**$833,425.7**
Bloomberg Barclays U.S. Aggregate Bond TR	-1.22%	1.31%	2.16%		

GENERAL AND INSURED MUNICIPAL DEBT

Top 10	1-year return	3-year return	5-year return	Expense ratio*	Portfolio net assets ($M)**
Oppenheimer Rochester AMT-Free Municipal Fund;A (OPTAX)	**7.09%**	6.47%	7.30%	1.03%	$1,163.4
BlackRock Allocation Target Shares Series E (BATEX)	**3.82%**	6.08%	N/A	0.08%	$178.7
Nuveen Strategic Municipal Opportunities Fund;I (NSIOX)	**3.60%**	4.54%	N/A	0.63%	$104.7
Clearwater Tax-Exempt Bond Fund (QWVQX)	**2.98%**	4.73%	6.41%	0.66%	$537.6
BNY Mellon Municipal Opportunities Fund;M (MOTMX)	**2.95%**	3.64%	4.72%	0.73%	$1,428.2
Sit Tax-Free Income Fund (SNTIX)	**2.73%**	3.66%	5.49%	0.90%	$219.1
SEI Tax-Advantaged Income Fund;F (SEATX)	**2.38%**	4.87%	5.75%	1.09%	$1,163.6
Navigator Duration Neutral Bond Fund;I (NDNIX)	**2.23%**	2.59%	2.13%	1.35%	$59.3
PIMCO Municipal Bond Fund;Institutional (PFMIX)	**2.05%**	3.78%	4.72%	0.48%	$206.5
Wells Fargo CoreBuilder Shares - Srs M (WFCMX)	**1.99%**	3.21%	4.99%	0.00%	$634.8
Bottom 5					
Saratoga Municipal Bond Portfolio;I (SMBPX)	**-2.37%**	-0.33%	0.24%	3.74%	$0.6
Manning & Napier Diversified Tax Exempt Series (EXDVX)	**-1.13%**	0.40%	0.83%	0.58%	$272.4
Neuberger Berman Municipal Impact Fund;Inst (NMIIX)	**-1.10%**	1.09%	2.37%	0.43%	$54.3
Madison Tax-Free National Fund;Y (GTFHX)	**-1.00%**	1.17%	2.57%	0.75%	$23.8
First Investors Tax Exempt Opportunities Fund;A (EIITX)	**-1.00%**	1.21%	3.33%	1.00%	$265.2
Classification total/average	**0.56%**	**2.28%**	**3.66%**	**0.89%**	**$147,656.6**
Bloomberg Barclays Municipal Bond TR	0.35%	2.24%	3.54%		

HIGH YIELD

Top 10	1-year return	3-year return	5-year return	Expense ratio*	Portfolio net assets ($M)**
Victory High Yield Fund;A (GUHYX)	**6.39%**	8.79%	5.41%	1.00%	$22.9
Ivy ProShares Interest Rate Hedged High Yld Idx;I (IIIRX)	**5.48%**	N/A	N/A	0.65%	$36.1
Catalyst/SMH High Income Fund;A (HIIFX)	**5.45%**	13.69%	-0.95%	1.47%	$14.6
Diamond Hill High Yield Fund;Y (DHHYX)	**5.43%**	N/A	N/A	0.55%	$29.6
Fidelity Advisor High Income Advantage Fund;M (FAHYX)	**5.07%**	8.80%	6.57%	1.01%	$355.5
Morgan Stanley Inst High Yield Portfolio;I (MSYIX)	**5.01%**	7.68%	6.00%	0.65%	$91.4
Western Asset Short Duration High Income Fund;A (SHIAX)	**4.97%**	5.75%	3.00%	1.00%	$264.2
Virtus Newfleet Credit Opportunities Fund;R6 (VRCOX)	**4.97%**	4.95%	N/A	1.11%	$86.1
Nuveen Symphony Credit Opportunities Fund;I (NCOIX)	**4.92%**	8.02%	4.84%	0.74%	$587.0
Artisan High Income Fund;Advisor (APDFX)	**4.84%**	8.85%	N/A	0.82%	$1,941.1
Bottom 5					
Robinson Opportunistic Income Fd;A (RBNAX)	**-1.04%**	N/A	N/A	3.56%	$3.8
CMG Tactical Bond;I (CHYOX)	**-0.96%**	1.98%	N/A	1.76%	$10.1
AB High Income Fund;A (AGDAX)	**-0.61%**	6.67%	4.69%	0.82%	$1,420.4
Toews Tactical Income Fund (THHYX)	**-0.56%**	4.22%	3.72%	1.61%	$559.2
Tortoise Select Income Bond Fund;Institutional (TBNIX)	**-0.54%**	N/A	N/A	0.50%	$1.2
Classification total/average	**2.24%**	**6.41%**	**4.31%**	**1.04%**	**$238,604.8**
Bloomberg Barclays US High Yield 2% Issuer Cap TR	3.05%	8.14%	5.54%		

INFLATION-PROTECTED

Top 10	1-year return	3-year return	5-year return	Expense ratio*	Portfolio net assets ($M)**
Lord Abbett Inflation Focused Fund;I (LIFIX)	**3.32%**	3.36%	0.39%	0.50%	$686.6
Eaton Vance Short Duration Inflation-Pro Inc;I (EIRRX)	**2.21%**	2.92%	1.47%	0.59%	$305.5
Invesco Strategic Real Return Fund;A (SRRAX)	**2.02%**	3.80%	N/A	0.82%	$21.1
DFA Short-Duration Real Return Portfolio;Instl (DFAIX)	**1.61%**	2.27%	N/A	0.24%	$1,377.0
Federated Real Return Bond Fund;Class A (RRFAX)	**1.49%**	2.29%	0.84%	0.75%	$23.8
Franklin Real Return Fund;A (FRRAX)	**1.12%**	2.59%	0.26%	0.93%	$134.5
Wells Fargo Real Return Fund;Adm (IPBIX)	**1.05%**	3.06%	1.91%	0.60%	$18.4
DFA LTIP Portfolio;Institutional (DRXIX)	**0.93%**	4.67%	3.18%	0.15%	$183.0
PIMCO Fixed Income SHares Series R (FXIRX)	**0.90%**	3.01%	1.59%	0.62%	$139.9
iShares Short-Term TIPS Bond Index;Inst (BIIPX)	**0.88%**	N/A	N/A	0.11%	$1.3
Bottom 5					
HC Inflation Protected Securities Portfolio;HC Adv (HCPAX)	**-0.49%**	1.58%	N/A	0.41%	$0.1
MFS Inflation-Adjusted Bond Fund;A (MIAAX)	**-0.40%**	1.31%	0.58%	0.80%	$45.4
American Funds Inflation Linked Bond Fund;A (BFIAX)	**-0.35%**	1.77%	1.47%	0.73%	$645.7
Hartford Inflation Plus Fund;A (HIPAX)	**-0.24%**	1.56%	0.48%	0.86%	$178.8
Dreyfus Inflation Adjusted Securities Fund;I (DIASX)	**-0.11%**	1.21%	0.66%	0.51%	$22.0
Classification total/average	**0.48%**	**1.97%**	**0.76%**	**0.76%**	**$116,757.6**
Bloomberg Barclays U.S. TIPS TR	0.41%	2.04%	1.37%		

MULTISECTOR INCOME

Top 10	1-year return	3-year return	5-year return	Expense ratio*	Portfolio net assets ($M)**
AlphaCentric Income Opportunities Fund;I (IOFIX)	**6.30%**	10.21%	N/A	1.52%	$1,988.6
Semper MBS Total Return Fund;Inst (SEMMX)	**5.27%**	4.71%	6.43%	0.85%	$1,636.2
Deer Park Total Return Credit Fund;I (DPFNX)	**4.70%**	N/A	N/A	2.01%	$626.5
Credit Suisse Strategic Income Fund;I (CSOIX)	**4.06%**	7.42%	6.18%	1.24%	$165.8
Osterweis Strategic Income Fund (OSTIX)	**3.69%**	5.83%	4.28%	0.88%	$6,181.2
Angel Oak Multi-Strategy Income Fund;A (ANGLX)	**3.68%**	4.02%	4.40%	1.37%	$612.8
Voya Strategic Income Opportunities Fund;I (IISIX)	**3.43%**	4.81%	4.67%	0.66%	$365.7
Opportunistic Income Fund;A (ENIAX)	**3.39%**	3.53%	2.97%	0.52%	$1,789.7
Angel Oak Flexible Income Fund;Institutional (ANFIX)	**3.35%**	2.30%	N/A	0.87%	$110.4
Lord Abbett Bond-Debenture Fund;A (LBNDX)	**2.82%**	7.11%	5.66%	0.80%	$4,701.5
Bottom 5					
Toews Unconstrained Income Fund (TUIFX)	**-3.11%**	1.85%	1.87%	1.52%	$71.1
GuideMark Opportunistic Fixed Income Fund;Svc (GMIFX)	**-2.57%**	2.04%	1.03%	1.56%	$55.3
Horizon Active Income Fund;Investor (AIMNX)	**-1.88%**	0.27%	0.41%	1.47%	$270.3
John Hancock Strategic Income Opportunities Fd;NAV ()	**-1.81%**	2.95%	3.36%	0.66%	$1,713.7
Oppenheimer Global Strategic Income Fund;A (OPSIX)	**-1.49%**	2.96%	2.26%	0.99%	$2,704.1
Classification total/average	**0.63%**	**4.10%**	**3.30%**	**1.05%**	**$263,101.2**
Bloomberg Barclays U.S. Aggregate Bond TR	-1.22%	1.31%	2.16%		

LOAN PARTICIPATION

Top 10	1-year return	3-year return	5-year return	Expense ratio*	Portfolio net assets ($M)**
Catalyst Floating Rate Income Fund;I (CFRIX)	**7.25%**	4.91%	3.74%	1.18%	$30.0
Fidelity Series Floating Rate High Income Fund (FFHCX)	**5.82%**	5.26%	3.88%	0.01%	$455.4
Ziegler Floating Rate Fund;A (ZFLAX)	**5.37%**	N/A	N/A	1.00%	$8.2
Victory Floating Rate Fund;Y (RSFYX)	**5.36%**	5.90%	3.70%	0.78%	$289.0
Eaton Vance Floating-Rate Fund;Institutional (EIBLX)	**5.34%**	5.72%	3.98%	0.79%	$7,219.2
Columbia Floating Rate Fund;A (RFRAX)	**5.21%**	5.18%	3.89%	1.04%	$384.3
Pacific Funds Floating Rate Income;I (PLFRX)	**5.18%**	5.50%	3.99%	0.72%	$471.5
Lord Abbett Floating Rate Fund;F (LFRFX)	**5.16%**	5.43%	4.13%	0.69%	$6,551.3
Oppenheimer Senior Floating Rate Plus;A (OSFAX)	**5.09%**	5.36%	3.94%	1.61%	$30.3
Natixis Loomis Sayles Senior Float Rt & Fxd Inc;Y (LSFYX)	**5.08%**	5.58%	4.62%	0.80%	$3,224.9
Bottom 5					
Palmer Square Income Plus Fund (PSYPX)	**2.71%**	3.09%	N/A	0.78%	$525.5
DWS Floating Rate Fund;C (DFRCX)	**2.76%**	1.14%	0.70%	1.80%	$84.1
Dunham Floating Rate Bond Fund;A (DAFRX)	**3.45%**	3.65%	N/A	1.30%	$19.3
Neuberger Berman Floating Rate Income Fund;A (NFIAX)	**3.74%**	3.70%	2.94%	1.09%	$20.2
Hartford Floating Rate Fund;C (HFLCX)	**3.78%**	4.49%	2.78%	1.74%	$921.2
Classification total/average	**4.40%**	**4.60%**	**3.38%**	**1.09%**	**$137,695.0**
S&P/LSTA Leveraged Loan TR	5.18%	5.30%	4.12%		

As of Sept. 30. Excludes leveraged and inverse funds. Funds closed to new investors have been omitted for the top-10 grouping. Rankings are based on unrounded figures. Three- and five-year returns are annualized. In case of multiple share classes, the oldest share class is listed. N/A = not available (fund has been in operation for less than the period indicated). *Net prospectus. **As of Aug. 31.

Source: Lipper, a Thomson Reuters company

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MUTUAL FUNDS

BEST- AND WORST-PERFORMING INTERNATIONAL FUNDS

By category, ranked by one-year total returns

EQUITY

INTERNATIONAL MULTI-CAP CORE

Top 10	1-year return	3-year return	5-year return	Expense ratio*	Portfolio net assets ($M)**
PIMCO StocksPLUS International Fd (DH);Inst (PISIX)	**7.45%**	12.82%	8.74%	0.84%	$1,791.4
State Street Hedged Internatl Developed Eq Idx;K (SSHQX)	**6.84%**	10.27%	N/A	0.20%	$3,258.4
MFS International Diversification Fund;I (MDIJX)	**6.70%**	11.75%	6.10%	0.91%	$5,683.1
Catholic Investor International Equity Fund;I (KCIIX)	**6.01%**	13.49%	N/A	1.10%	$72.2
Pear Tree Polaris Foreign Val Fd;Ord (QFVOX)	**5.29%**	11.13%	6.47%	1.41%	$856.5
Tweedy Browne Global Value Fund (TBGVX)	**5.28%**	8.56%	5.50%	1.36%	$9,499.7
Parametric International Equity Fund;Inst (EIISX)	**3.78%**	10.39%	5.75%	0.50%	$108.6
iShares Edge MSCI Mltfctr Intl Index Fnd;K (BKIMX)	**3.74%**	N/A	N/A	0.30%	$11.8
Dreyfus Diversified International Fund;I (DFPIX)	**3.53%**	9.48%	4.73%	0.99%	$29.3
Parametric Tax-Managed International Eqty Fd;Inv (ETIGX)	**3.43%**	9.63%	5.04%	1.05%	$19.8
Bottom 5					
EuroPac International Value Fund;A (EPIVX)	**-11.16%**	5.66%	-4.87%	1.75%	$55.1
Tocqueville International Value Fund (TIVFX)	**-4.35%**	8.29%	5.88%	1.26%	$1,239.7
GMO Tax-Managed International Equities Fund;III (GTMIX)	**-3.63%**	6.39%	2.14%	0.70%	$52.4
STAAR International Fund (SITIX)	**-3.00%**	5.60%	-1.52%	3.08%	$1.8
Swan Defined Risk Foreign Developed Fund;I (SDJIX)	**-2.39%**	N/A	N/A	1.84%	$43.6
Classification total/average	**0.90%**	**8.47%**	**4.09%**	**1.00%**	**$617,233.3**
MSCI ACWI EX US IMI TR	2.26%	10.64%	4.86%		

EMERGING MARKETS

Top 10	1-year return	3-year return	5-year return	Expense ratio*	Portfolio net assets ($M)**
BlackRock Emerging Markets Equity Strat Fund;Inst (BEFIX)	**9.11%**	N/A	N/A	1.31%	$7.2
Virtus KAR Emerging Markets Small-Cap Fund;I (VIESX)	**7.36%**	16.01%	N/A	1.63%	$27.0
Voya Russia Fund;A (LETRX)	**7.21%**	15.97%	0.96%	2.00%	$71.8
American Beacon Acadian EM Mgd Volatility Fund;Y (ACDYX)	**7.06%**	7.70%	3.02%	1.45%	$25.5
PIMCO RAE Low Volatility PLUS EMG Fd;Institutional (PLVLX)	**6.68%**	14.50%	N/A	1.27%	$916.7
Janus Henderson Emerging Markets Managed Vol Fd;D (JOLDX)	**5.10%**	9.81%	N/A	1.22%	$5.6
T Rowe Price Institutional Afr & Middle East Fund (TRIAX)	**4.23%**	5.12%	3.30%	1.21%	$174.7
Fidelity Emerging Europe Middle East Africa Fund (FEMEX)	**4.14%**	11.66%	2.70%	1.39%	$87.0
T Rowe Price Africa & Middle East Fund (TRAMX)	**4.07%**	4.74%	2.86%	1.42%	$126.3
TOBAM Emerging Markets Fund;I (TBMIX)	**3.79%**	N/A	N/A	1.10%	$49.7
Bottom 5					
Templeton Frontier Markets Fund;A (TFMAX)	**-17.69%**	0.70%	-4.70%	2.01%	$36.4
Morgan Stanley Frontier Markets Portfolio;I (MFMIX)	**-14.45%**	0.66%	0.44%	1.73%	$427.4
HSBC Frontier Markets Fund;I (HSFIX)	**-13.75%**	3.46%	2.69%	1.50%	$10.8
Fiera Capital Emerging Markets Fund;Investor (RIMIX)	**-12.71%**	9.20%	6.25%	1.62%	$146.3
Brown Advisory - Somerset Emerging Markets Fd;Inst (BAFQX)	**-12.37%**	4.97%	0.64%	1.17%	$434.0
Classification total/average	**-4.08%**	**9.86%**	**2.68%**	**1.40%**	**$369,580.4**
MSCI EM (Emerging Markets) TR USD	-0.44%	12.76%	3.99%		

GLOBAL EQUITY INCOME

Top 10	1-year return	3-year return	5-year return	Expense ratio*	Portfolio net assets ($M)**
Horizon Active Dividend Fund;Investor (HNDDX)	**13.11%**	N/A	N/A	1.12%	$29.7
Steward Global Equity Income Fund;Inst (SGISX)	**11.68%**	15.79%	11.09%	0.68%	$235.4
Guinness Atkinson Dividend Builder Fund (GAINX)	**10.97%**	12.36%	8.15%	0.68%	$9.8
O'Shaughnessy Enhanced Dividend Fund;I (OFDIX)	**10.63%**	14.88%	4.64%	0.99%	$10.3
QS Global Dividend Fund;IS (LDIFX)	**9.98%**	10.82%	8.95%	0.76%	$349.1
Nuveen Santa Barbara Global Dividend Growth Fd;I (NUGIX)	**9.08%**	11.86%	8.28%	0.90%	$10.1
Dreyfus Global Equity Income Fund;I (DQEIX)	**8.35%**	12.18%	8.58%	0.92%	$276.1
Crow Point Global Tactical Allocation Fund;Inv (CGHAX)	**8.33%**	5.18%	2.49%	1.26%	$1.8
Aberdeen Dynamic Dividend Fund;Institutional (ADVDX)	**8.09%**	12.06%	9.08%	1.38%	$150.0
Guggenheim World Equity Income Fund;A (SEQAX)	**8.01%**	11.03%	7.16%	1.24%	$68.1
Bottom 5					
Janus Henderson Global Eqty Income Fund;C (HFQCX)	**-2.76%**	6.09%	3.29%	1.85%	$1,067.9
Federated Global Strategic Value Dividend Fd;R6 (GVDLX)	**-0.22%**	N/A	N/A	0.85%	$1.1
Voya International High Dividend Low Vol Fd;A (VGLAX)	**0.37%**	N/A	N/A	0.85%	$4.7
American Funds Capital Income Builder;A (CAIBX)	**0.91%**	7.25%	5.53%	0.59%	$67,007.7
BlackRock Global Dividend Portfolio;Inst (BIBDX)	**1.44%**	9.47%	6.52%	0.75%	$1,591.0
Classification total/average	**4.16%**	**9.26%**	**6.09%**	**1.20%**	**$133,244.6**
MSCI World High Dividend Yield TR	5.75%	11.98%	7.54%		

FIXED INCOME

INTERNATIONAL INCOME

Top 10	1-year return	3-year return	5-year return	Expense ratio*	Portfolio net assets ($M)**
PIMCO Intl Bond Fund (US Dollar-Hedged);Inst (PFORX)	**2.94%**	4.36%	5.02%	0.56%	$6,034.5
DFA World ex US Government Fixed Income Ptfl;Inst (DWFIX)	**2.74%**	3.17%	4.42%	0.20%	$1,103.0
CGCM International Fixed Income Fund (TIFUX)	**2.39%**	3.97%	3.79%	1.01%	$144.6
Vanguard Total International Bond Index Fund;Adm (VTABX)	**2.22%**	2.86%	3.65%	0.11%	$43,083.2
AB FlexFee International Bond Portfolio;Advisor (FFIYX)	**1.67%**	N/A	N/A	0.20%	$45.6
T Rowe Price International Bond Fd (USD Hgd) (TNIBX)	**1.44%**	N/A	N/A	0.59%	$4,569.7
SEI International Fixed Income Fund;F (SEFIX)	**1.38%**	2.50%	3.09%	1.08%	$436.2
PGIM International Bond Fund;R6 (PXBQX)	**1.33%**	N/A	N/A	0.74%	$26.6
Azzad Wise Capital Fund (WISEX)	**1.23%**	1.50%	1.64%	1.29%	$115.3
Fidelity Series International Credit Fund (FCDSX)	**0.92%**	N/A	N/A	0.01%	$99.7
Bottom 5					
Wells Fargo International Bond Fund;Inst (ESICX)	**-5.75%**	0.71%	-0.97%	0.70%	$253.2
BrandywineGLOBAL - Intl Opportunities Bond Fund;IS (LMOTX)	**-4.51%**	3.66%	1.26%	0.65%	$37.2
Oppenheimer International Bond Fund;A (OIBAX)	**-4.20%**	3.30%	1.60%	1.00%	$1,081.8
EuroPac International Bond Fund;A (EPIBX)	**-3.62%**	2.15%	-2.57%	1.15%	$39.0
Dunham International Opportunity Bond Fund;A (DAIOX)	**-3.53%**	0.99%	N/A	1.79%	$3.6
Classification total/average	**-1.81%**	**2.86%**	**1.20%**	**0.91%**	**$169,467.2**
Bloomberg Barclays Global Aggregate ex U.S. TR	-1.45%	2.40%	-0.33%		

EMERGING-MARKETS HARD CURRENCY DEBT

Top 10	1-year return	3-year return	5-year return	Expense ratio*	Portfolio net assets ($M)**
Ashmore Emerging Markets Short Duration Fund;Inst (ESFIX)	**0.95%**	11.65%	N/A	0.67%	$344.8
Finisterre Unconstrained Emerging Mkts Bd Fd;Inst (PFUMX)	**0.60%**	N/A	N/A	1.13%	$28.4
Franklin Emerg Market Debt Opptys Fund (FEMDX)	**0.56%**	7.92%	4.14%	1.01%	$503.7
PIMCO Emerging Markets Corporate Bond Fd;Inst (PEMIX)	**0.03%**	7.15%	3.00%	0.92%	$135.0
DoubleLine Low Dur Em Mkts Fixed Income;N (DELNX)	**-0.50%**	3.13%	N/A	0.84%	$18.4
T Rowe Price Emerging Markets Corporate Bond;Inv (TRECX)	**-0.64%**	6.42%	4.51%	0.84%	$52.0
Payden Emerging Markets Corporate Bond Fund;SI (PYCIX)	**-0.86%**	5.55%	N/A	0.85%	$41.2
Voya Emerging Markets Corporate Debt Fund;P (IMCDX)	**-0.94%**	5.67%	5.12%	0.10%	$104.3
Ashmore Emerging Markets Corporate Debt Fund;Inst (EMCIX)	**-1.27%**	9.87%	4.99%	1.17%	$310.7
American Beacon Frontier Markets Income Fund;Y (AGEYX)	**-1.56%**	6.97%	N/A	1.27%	$132.2
Bottom 5					
Putnam Emerging Markets Income Fund;A (PEMWX)	**-10.47%**	3.75%	1.72%	1.25%	$10.5
Invesco Emerging Markets Flexible Bond Fund;A (IAEMX)	**-7.95%**	0.78%	-4.03%	1.25%	$3.7
Stone Harbor Emerging Mkts Debt Alloc Fund;Inst (SHADX)	**-7.11%**	5.21%	N/A	0.85%	$28.4
SEI Emerging Markets Debt Fund;F (SITEX)	**-6.81%**	5.06%	0.48%	1.63%	$1,394.5
HSBC Global Emerging Markets Debt Fund;Inst (HCGIX)	**-6.61%**	4.28%	3.50%	0.50%	$48.6
Classification total/average	**-4.11%**	**5.48%**	**2.49%**	**1.12%**	**$55,266.0**
JP Morgan EMBI Global	-2.94%	5.70%	4.62%		

EMERGING-MARKETS LOCAL CURRENCY DEBT

Top 10	1-year return	3-year return	5-year return	Expense ratio*	Portfolio net assets ($M)**
Vanguard Emerging Markets Bond Fund;Investor (VEMBX)	**2.39%**	N/A	N/A	0.60%	$25.0
American Century Alter Emerg Opps Tot Rtn Fd;Inv (AEOVX)	**-2.43%**	N/A	N/A	0.99%	$11.8
Eaton Vance Emerging Markets Debt Opportunities;R6 (EELDX)	**-2.72%**	6.99%	3.37%	0.86%	$72.0
Lazard Emerging Markets Income Portfolio;Inst (LEIIX)	**-5.60%**	1.87%	N/A	0.91%	$4.9
MFS Emerging Markets Debt Local Currency Fund;I (EMLIX)	**-7.19%**	4.81%	-1.73%	0.85%	$13.3
Hartford Emerging Markets Local Debt Fund;Y (HLDYX)	**-8.08%**	5.28%	-1.14%	0.91%	$87.8
Oppenheimer Emerging Markets Local Debt Fund;A (OEMAX)	**-8.09%**	5.29%	-0.88%	1.15%	$46.7
Voya Emerging Markets Local Currency Debt Fund;P (ILCDX)	**-8.21%**	3.35%	-2.37%	0.15%	$68.5
TCW Emerging Markets Local Currency Income Fund;I (TGWIX)	**-8.31%**	5.16%	-1.32%	0.99%	$253.1
Ashmore Emerging Markets Loc Currency Bd Fund;Inst (ELBIX)	**-8.50%**	5.74%	-1.65%	0.97%	$65.1
Bottom 5					
BlackRock Emerging Markets Local Currency Bd;K (BELKX)	**-12.99%**	N/A	N/A	0.70%	$20.2
Goldman Sachs Local Emerging Markets Debt Fund;Ins (GIMDX)	**-11.18%**	3.59%	-3.08%	0.91%	$100.1
Stone Harbor Local Markets Fund;Inst (SHLMX)	**-10.83%**	3.73%	-3.49%	0.89%	$984.2
Ivy Pictet Emerging Markets Local Currency Db Fd;I (IECIX)	**-10.56%**	1.66%	N/A	0.80%	$74.2
PGIM Emerging Markets Debt Loc Currency Fd;Z (EMDZX)	**-10.44%**	3.75%	-1.89%	0.88%	$55.2
Classification total/average	**-8.26%**	**4.25%**	**-1.53%**	**1.15%**	**$7,800.9**
JP Morgan EMBI Global	-2.94%	5.70%	4.62%		

As of Sept. 30. Excludes leveraged and inverse funds. Funds closed to new investors have been omitted for the top-10 grouping. Rankings are based on unrounded figures. Three- and five-year returns are annualized. In case of multiple share classes, the oldest share class is listed. N/A = not available (fund has been in operation for less than the period indicated). *Net prospectus. **As of Aug. 31.

Source: Lipper, a Thomson Reuters company

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BROKER-DEALERS

Wells Fargo loses another 152 advisers in Q3

The total number of reps lost since the banking scandal broke now exceeds 1,000

BY BRUCE KELLY

WELLS FARGO Advisors continued to lose advisers in the third quarter, pushing the total to more than 1,000 since September 2016, when it was revealed that Wells Fargo bank employees had secretly created millions of unauthorized accounts in the names of customers without their consent.

On Oct. 12, Wells Fargo reported it had 14,074 financial advisers, down 152 from the number it reported at the end of the second quarter.

Prior to the scandal two years ago, it had 15,086 advisers across its various business lines, which include retail wealth management, banks and independent contractors. Between then and now, the firm's adviser workforce has declined by 1,012, or 6.7%.

During a conference call with analysts to discuss company earnings on Oct. 12, CEO Tim Sloan said that the company was focused on financial adviser productivity and had seen improvements in loan origination and the size of advisers' books of business.

He added that there had been some impact from reputational issues at the wirehouse, but that despite headwinds, Wells Fargo Advisors was making progress.

"While the number of our cross-channel advisers decreased 1% from the second quarter, we are seeing attrition beginning to stabilize," wrote Wells Fargo Advisors spokeswoman Shea Leordeanu in an email.

"In the third quarter, about a third of the net departures were retirements. Recruiting has been slower than previous years, but we had a strong September and the anticipated hiring over the next quarter is strong."

CLIENT 'DISSATISFACTION'

John Pierce, head of recruiting at Stifel Nicolaus & Co., said he continues to hear from Wells Fargo advisers.

"We have not seen an abatement of interest in Stifel from Wells Fargo financial advisers," said Mr. Pierce. "The advisers are telling us three things: there is dissatisfaction in Wells Fargo from clients; they are looking for a smaller firm that reminds them of where they started in the industry; and they are tired of the corporate drama."

It is not clear how well Wells Fargo Advisors is recruiting because it does not make that information public.

The steady flow of scandals since September 2016 has damaged the firm, according to sources inside and outside Wells Fargo Advisors.

In addition to opening bogus customer accounts, other wrongdoings on the part of Wells Fargo have surfaced in its mortgage and auto-loan businesses.

In May, Wells Fargo launched a major branding campaign to win back customer trust. Called "Re-Established," it acknowledges that the bank lost its way, but emphasizes its commitment to "re-establish" its customer relationships.

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INVESTINGINTELLIGENCE

Wealthfront fund's performance criticized

Attacks on Risk Parity Fund mount, but robo-adviser defends its strategy

BY RYAN W. NEAL

WEALTHFRONT'S risk-parity strategy has been controversial since launching in February, but now it is being attacked for underperformance.

The Wealthfront Risk Parity Fund (WFRPX) is underperforming similar risk-parity funds like the AQR Risk Parity Fund (AQRIX). Since February, Wealthfront's fund was down 8.65% as of Oct. 12, according to Google data, while AQR's fund was down 2.55%. Both have dropped further since.

In its white paper, Wealthfront uses AQRIX and Bridgewater's All-Weather Fund as comparisons. The digital adviser said backtests of its fund yielded better returns than both, net of fees.

Some Wealthfront clients have expressed their dissatisfaction with the fund on social media.

"Any chance you guys can explain why your risk parity is utterly busted and under performing the market?" asked Aria Haghighi, a Facebook engineer and Wealthfront client. "It sucks you opted us into your own fund, but can you at least have it work?"

The company said it remains confident in its strategy.

"Judging a long-term investment strategy in such a narrow span of time is a fool's errand and what often causes people to enact some of the worst investing behavior out there — buying high and selling low," said Wealthfront spokeswoman Kate Wauck. "We are confident in our risk-parity strategy and believe it will improve our clients' risk-adjusted returns over the long term."

> **"AT WHAT POINT WILL IT PULL THE PLUG?"**
> MICAH HAUPTMAN, FINANCIAL SERVICES COUNSEL, CONSUMER FEDERATION OF AMERICA

Ms. Wauck also said "it is incorrect to use AQR's mutual fund (or other risk-parity strategies) as the benchmark for our risk-parity strategy and vice versa as we target different levels of volatility."

This isn't the first criticism the fund has received.

Micah Hauptman, financial services counsel at Consumer Federation of America, has previously criticized the company for defaulting users into the fund and for not being transparent with investors about the total underlying costs.

"Wealthfront continues to destroy its clients' money with its shoddy and conflict-ridden in-house fund," he tweeted Oct.11. "At what point will it pull the plug and decide that being a legitimate fiduciary adviser is more important than the fees it's extracting from clients?"

Joe Mallen, chief investment officer of Helios Quantitative Research, said risk-parity strategies in general highlight some of the flaws in backtesting strategies. The funds often look at a long-term relationship between asset classes without understanding that they change over time.

"You can apply correlations all day long to achieve the risk exposure you're looking for, but at the end of the day they don't always move in that fashion," Mr. Mallen said.

OTHER RISK PARITY FUNDS

Other risk parity funds are easily outperforming equity and fixed-income gauges.

The S&P Risk Parity Index had lost a modest 1% over the week of Oct. 8 versus a 6.3% slump in the S&P 500. It also bested a benchmark exchange-traded fund tracking long-dated Treasuries and a classic 60/40 portfolio.

"Risk parity does not seem to be suffering anywhere as much volatility as it did in February, meaning that it won't need to deliver as much," said Pravit Chintawongvanich, equity derivatives strategist at Wells Fargo Securities.

In a stress test the week of Oct. 8, the volatility-based allocation had insulated the funds from pain — even as traditional two-decade correlations between stocks and bonds cratered.

The S&P 500 Index fell more than 3% Oct.10 while the iShares 20+ Year Treasury Bond ETF also declined, an in-tandem slump registered only three times during bull-market cycles in the 16-year history of the product. The benchmark stock index was down as much as 2.7% Oct.11.

One reason for Wealthfront's underperformance is that the fund typically gets exposure to commodities through energy stocks rather than commodity futures. Wealthfront's fund also has a higher volatility target than some of its peers, another reason that may explain its underperformance.

Additional reporting provided by Bloomberg.

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LEGALMATTERS

Fidelity sued again for mismanaged 401(k)s

Company settled similar suit four years ago for $12M

BY GREG IACURCI

FIDELITY INVESTMENTS Inc. has been sued by participants in its company 401(k) plan for alleged self-dealing that caused the firm to profit at the expense of its employees saving for retirement.

The lawsuit filed against Fidelity — Moitoso et al v. FMR LLC et al — is similar to a separate case filed against the firm about five years ago, which was settled for $12 million in 2014.

Plaintiffs claim that Fidelity breached its fiduciary duty by loading its $15 billion 401(k) plan with proprietary mutual funds, causing the firm and several affiliated entities to benefit financially. They claim Fidelity's conduct is "particularly inexcusable" given the firm should "know better" due to the prior lawsuit (Bilewicz v. FMR LLC) and its position as the country's largest record keeper of defined-contribution plans.

MORE PROPRIETARY FUNDS

In 2016, Fidelity had 234 proprietary mutual funds in its plan and no non-proprietary funds, plaintiffs allege. That's an increase over 2014 and 2015 in the number of in-house funds, despite the aforementioned settlement, according to plaintiffs, who claim participants have incurred more than $100 million per year in losses compared to the average 401(k) plan due to high fund fees and poor performance.

Fidelity spokesman Michael Aalto said the company "strongly disputes the allegations in this complaint.

"We provide an excellent retirement plan to our employees, and we plan to vigorously defend against this lawsuit," he said.

Fidelity is just one of several financial services firms to be sued for self-dealing in their company 401(k) plans. Results of the cases to date have been somewhat mixed. Some judges have found in favor of defendants, including Capital Group, Wells Fargo & Co. and Putnam Investments. Several firms, such as Deutsche Bank, Allianz, Citigroup Inc., TIAA and New York Life Insurance Co., have settled.

The new lawsuit was filed Oct. 10 in the U.S. District Court for the District of Massachusetts.

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Is it worthwhile to file a commissions complaint?

Two planners had a role in arranging a business owner's insurance policy, and one feels wronged

BY DAN CANDURA

I SPOKE AT a national conference recently and a certified financial planner approached me after my presentation. Call him "X." He wanted to know if I thought it was worthwhile to contact the Certified Financial Planner Board of Standards about a potential ethical violation by another CFP. We'll call him "L" since he is also a lawyer and holds multiple designations.

The situation involved a high-net-worth business owner's succession plan that X set up several years ago. The business owner needed life insurance to deal with some transfer issues but had some health issues at the time that made a full solution cost-prohibitive.

As a result, and in consideration of the business owner's available cash flow, X put in place a term policy good for a certain period, but with an option that allowed the policy to be converted to a permanent policy at 1.5 times its death benefit — unconditionally. X planned to convert the policy before the term policy increased in premium.

Enter L, a lifelong friend of the business owner's daughter. The business is now more prosperous and the daughter wants to make sure that there is sufficient coverage in the event of her father's demise. She asks L to review the succession plan, and in particular what they should do about the term policy.

L doesn't understand the need to wait for the end of the term period since the business owner is in much better health now but not getting any younger. He recommends the business owner take advantage of the unconditional opportunity to move to a larger, permanent policy. X accepts that L has a personal relationship with the family and agrees that the change makes good sense. Since X put the original policy in place, he expected that when the policy was converted, he would be paid additional compensation. This didn't happen.

NO CONVERSION

L contends that the policy was not converted but that exercising the unconditional option resulted in a completely new policy with greater death benefit, permanent coverage and distinct premium requirements. Of course, X disagrees. He contends that the option he put in place years before effectively allowed conversion from term to permanent and that he deserves to be paid at least a portion of the compensation on the new policy.

The insurance company declined to split the compensation based on assertions from L that the term policy was not converted. Instead L developed a new recommendation and negotiated with the insurer to approve a new application and issue an entirely new policy.

Without getting into arcane matters of split commissions and insurance conversion requirements, X feels L's actions were unethical. X wanted to know whether I thought this was a matter he should pursue by submitting a complaint against L to the CFP Board's Discipline and Ethics Commission.

In formulating an answer, I considered several factors. First, the CFP Board can't order L to share commissions or do anything else that will benefit X. They could impose some discipline on L, but that does nothing of real benefit to X, despite having to submit documents, prepare statements and testify in a hearing. It could go on for a long

time and, if anything, result in a slap on L's wrist since L has no other complaints on his record.

Second, in my experience it is unlikely the CFP Board would conduct an investigation. Disputes between advisers are not uncommon and are difficult to resolve. The CFP Board tends to focus on those where another regulator has already made a determination of fact and assessed a penalty. In this case, if the state insurance regulator had found that L violated some insurance regulation and ordered a solution that resulted in a cash payment to X, the CFP Board would be more willing to evaluate L's ethical behavior. Without that, they hesitate to get involved.

My advice to X was simple. Let it go. Keep calm and carry on. While I understand how X feels about L's behavior, it was of great benefit to the client. X should take satisfaction that a plan he developed years before will help the business transition to the next generation.

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

GET TO KNOW "RETIREMENT CHASERS"– AND A POTENTIAL SOLUTION TO HELP THEM CATCH UP.

Retirement Chasers are 45- to 65-year-olds who are worried about being too far behind to reach their retirement savings goals.

[1] A 1.25% product fee and 0.70% Income Benefit rider fee are accrued daily and deducted on each quarterly contract anniversary, calculated as a percentage of the charge base, which is the contract value on the preceding quarterly contract anniversary, adjusted for subsequent purchase payments and withdrawals. The Income Benefit is automatically included in the contract at issue and cannot be added to a contract after issue.

[2] Opportunity for increasing income begins at age 45 and continues until lifetime income payments begin. If joint lifetime income payments are chosen, the age of the younger eligible person will be used.

Withdrawals reduce the contact value and the value of any protection benefits. Withdrawals taken within the contract withdrawal charge schedule will be subject to a withdrawal charge. All withdrawals are subject to ordinary income tax and, if taken prior to age 59½, may be subject to a 10% federal additional tax.

For more complete information about Allianz Index Advantage Income Variable Annuity and the AZL® Government Money Market Fund, call Allianz Life Financial Services, LLC at 800.624.0197 for a prospectus. The prospectuses contain details on investment objectives, risks, fees, and expenses, as well as other information about the variable and index-linked annuity and the AZL Government Money Market Fund, which your clients should carefully consider. Encourage your clients to read the prospectuses thoroughly before sending money.

IRAALERT ED SLOTT

For archived columns, go to InvestmentNews.com/iraalert

Using an IRA to fund an HSA

Clients have a one-time chance for a tax-free distribution

Funds from individual retirement accounts generally cannot be rolled over to a health savings account, but there is a one-time exception for a qualified HSA funding distribution, or QHFD.

An individual is allowed to transfer funds from an IRA to an HSA account up to the remaining contribution amount allowed for the year, but there are some restrictions.

A QHFD is a tax-free distribution of IRA funds to an HSA. The client gets to shift taxable funds to an HSA, which can then make tax-free distributions to the client for qualified medical expenses. Because the distribution is tax-free, it is not subject to the IRA 10% early distribution penalty.

A QHFD distribution is not subject to the pro-rata rule. This means that a client who has pre- and after-tax funds in his or her IRA and uses a QHFD gets to move taxable funds out of the IRA account, leaving a larger portion of after-tax funds in the account. This could make a later Roth conversion of the IRA more attractive, or it could mean that larger amounts of future distributions will be tax-free.

A QHFD can also be made from inherited IRAs. The QHFD will be subject to all the restrictions noted above.

A QHFD counts toward an individual's required minimum distribution for the year. This won't help IRA owners because they cannot contribute to an HSA once they are covered by Medicare, but it could be helpful for beneficiaries who will have RMDs from their inherited accounts.

The IRA funds can be moved to the HSA account only as a direct transfer. They cannot be moved as a 60-day rollover. An individual may do only one QHFD in his or her lifetime. A client with multiple IRAs still can do only one QHFD. IRA accounts can be combined before the QHFD in order to be able to transfer the maximum amount.

Example: Monty has two small IRA accounts with balances of $4,000 and $6,000. He wants to do a QHFD in 2018 for his HSA contribution limit of $6,900, but neither one of his IRAs holds that amount. Because Monty can do only one QHFD, he will have to combine his IRAs into one account and then do his QHFD from the single IRA, which would have a balance of $10,000.

SWITCHING COVERAGE

An exception to the one-time-only rule exists for individuals who have self-only coverage on the first day of the month in which the QHFD occurs but who switch to family coverage later in the year. They can do an additional QHFD to cover any remaining difference between the self-only contribution limit and the family contribution limit.

The transfer can come from an HSA owner's traditional IRA, Roth IRA, or inactive SEP or Simple IRA.

The transfer can only go between IRAs and HSAs owned by the same individual, and the funds transferred must be pre-tax funds only. The distribution is an exception to the pro-rata rule for IRA distributions. The use of Roth IRA funds for a QHFD will be extremely limited, as a Roth IRA will generally be mostly after-tax funds.

AN INDIVIDUAL MAY DO ONLY ONE QHFD IN HIS OR HER LIFETIME.

The amount that can be transferred as a QHFD is determined by the contribution limit for the HSA owner. He can transfer up to the total amount of his contribution limit for the year, minus any contributions already made. The owner cannot take a tax deduction for the QHFD.

TAXABLE DISTRIBUTION

The QHFD becomes a taxable distribution if the individual no longer qualifies for an HSA during a period beginning on the first day of the month when the QHFD was made and ending on the last day of the 12th month following that month.

Example: Greg did a QHFD in November 2018. He must remain eligible for an HSA beginning on Nov. 1, 2018, and ending on Nov. 30, 2019. There is an exception if his failure to remain eligible is due to his death or disability.

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

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IAI-008

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ONRETIREMENT

Estimating early retirement's impact

SSA's online tool can help figure out the cost of lost years of earnings

MARY BETH FRANKLIN

One of the most common questions I receive from financial advisers concerns the impact of early retirement on future Social Security benefits. They wonder if the estimated benefits statement that their clients receive accurately portray future benefits if their clients stop working before full retirement age.

In general, the statement assumes you will continue earning about the same amount of money as you did in the previous year until you reach retirement age. Every adult with an earnings history should set up a personalized Social Security account to get access to their estimated benefit statement 24/7.

Retirement benefits are based on your highest 35 years of earnings and your age when you start receiving benefits. If you stop work before you have 35 years of earnings, SSA uses a zero for each year without earnings to calculate your retirement benefits.

Even if you have 35 years of earnings, some of those years may be low earnings years when you first started working. Those low earnings years will be averaged in, creating a lower benefit than if you had continued to work.

PERMANENTLY REDUCED

Social Security benefits are available as early as age 62, but they are permanently reduced by 25% or more, depending on your birth year, and may be subject to earnings restrictions if you continue to work and claim benefits before your full retirement age.

If you wait until your full retirement age, which ranges from 66 to 67 depending on your birth year, you will receive 100% of your promised benefit even if you continue to work. But if you're willing to be patient, you can earn up to 32% in additional delayed retirement credits if you postpone claiming up to age 70.

The Social Security benefit estimates do not include annual cost-of-living adjustments, which means your future benefits could be higher than the estimate. You are eligible for COLAs starting in the year you become eligible for benefits at age 62, even if you do not claim benefits until age 70. The COLAs for each of those intervening years will be applied once you claim benefits.

"Generally, the older you are and the closer you are to retirement, the more accurate the retirement estimates will be because they are based on a longer work history with fewer uncertainties such as earnings fluctuations and future law changes," the Social Security Administration notes in the official boilerplate language that appears on every estimated benefits statement.

A financial adviser from Vancouver, Wash., wrote to me last week with a question about a client who retired from the local police force at age 55, but who does not expect to collect Social Security until his full retirement age of 67.

"He has 37 years of earnings, including his most recent annual salary of $90,000, but he will have no earned income for the next 12 years," the adviser wrote in an email. "I'm not sure how to estimate his future Social Security benefit."

I recommended that the adviser have his client use the Retirement Estimator on the Social Security website to obtain a more accurate benefits estimate by including the age when he stopped working (55) and his average annual future earnings ($0).

SECURE WEBSITE

To use the Retirement Estimator, you must log into a secure website that retrieves your personalized benefit estimate. You can use the Retirement Estimator if you have enough Social Security credits — generally at least 40 credits based on at least 10 years of earned income — and you are not currently receiving Social Security benefits on your own record.

You cannot use the Retirement Estimators if you are 62 or older and receiving Social Security benefits as a spouse or survivor based on someone else's earnings record or if you are eligible for a public pension that is based on work not covered by Social Security.

If you cannot access that site, the more generic quick calculator, at www.ssa.gov/OACT/quickcalc/index.html, allows clients and their financial advisers to create a reliable estimate of future benefits based on their most recent year of earnings and projections for future years with little or no earned income.

The adviser used the quick calculator and was delighted with the results. "It was great," he wrote. "I think this will be a very valuable resource."

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

Mary Beth Franklin, a certified financial planner, is a contributing editor for InvestmentNews.
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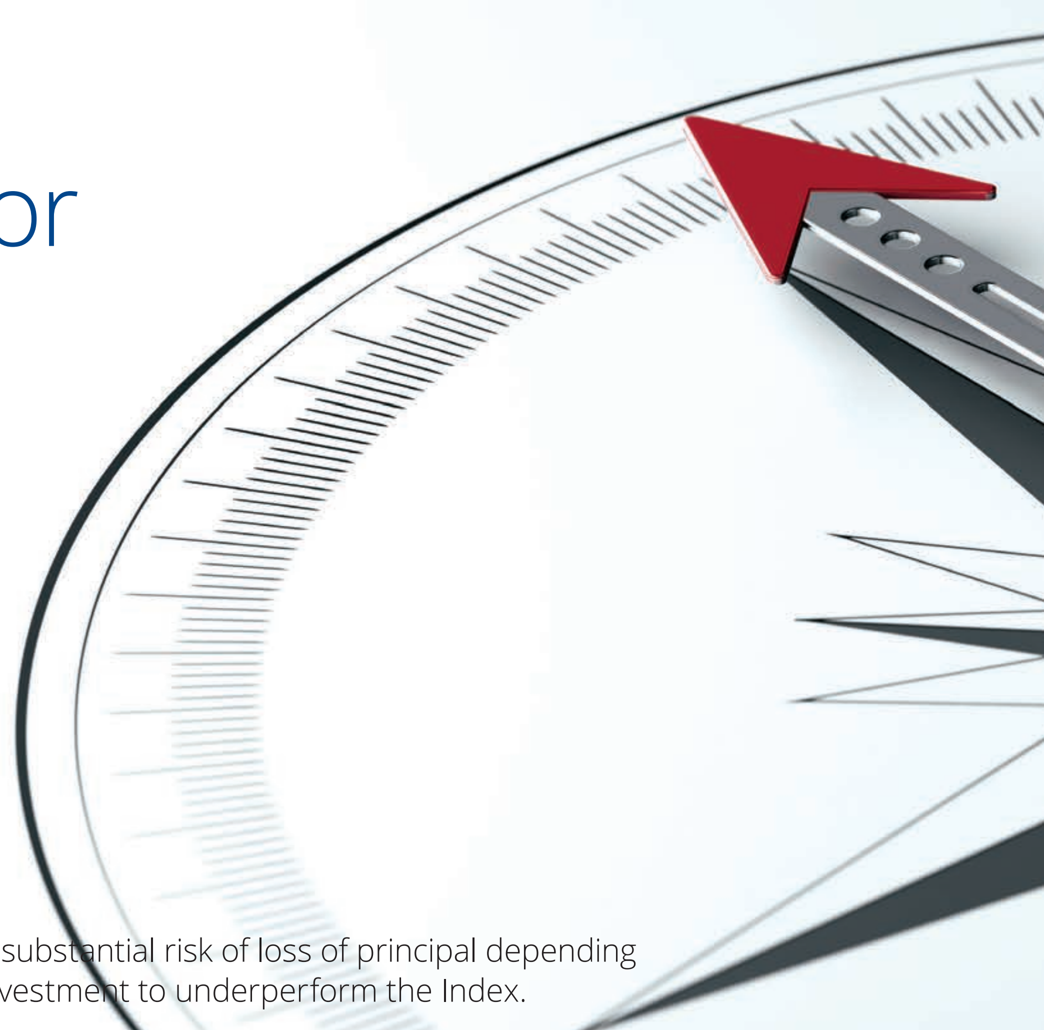

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FINTECH

Robinhood launches custody and clearing service

Move is likely a step toward an IPO, but the company would not say if it plans to serve advisers

BY RYAN W. NEAL

ONLINE BROKERAGE Robinhood is launching its own custody and clearing system.

The move helps the fintech startup, best known for offering zero-fee trading via a mobile app, cut costs in the likely run-up to an initial public offering. It's also the next step in the company's goal to be a "full-service financial company."

But Christine Hall, the product manager leading Clearing by Robinhood, wouldn't say whether the firm plans to offer custodial services to financial advisers.

Ms. Hall did say Robinhood began building its own custody and clearing system two years ago, and she described the effort as "the single most complex regulatory and engineering challenge that we've undertaken."

The company has formed the Robinhood Securities entity and secured approval from the Financial Industry Regulatory Authority Inc., Depository Trust & Clearing Corp. and the Options Clearing Corp.

Robinhood is following in the footsteps of discount brokerages like Charles Schwab and TD Ameritrade that leveraged retail brokerage platforms 30 years ago to offer custodial services to advisers and accelerate growth.

"The path to greatness for any broker-dealer online has always been through the independent adviser," said Tim Welsh, president of Nexus Strategy. "The most profitable thing to be is a custodian. They're going to have to hire salespeople and sell custody services to advisers."

GENERATING REVENUE

Robinhood has raised $539 million to date and faces pressure from shareholders to become profitable. Without charging trading fees, the brokerage generates revenue with a premium service that allows for margin trades, interest earned on cash balances and routing order flows to third parties.

A spokesperson said Robinhood has "a desire to be a public company."

Robinhood previously used Apex custody and clearing, but Ms. Hall said the company knew early on it would need to self-clear to handle the scale it envisioned.

"Before even launching, we had over a million people on the wait list," Ms. Hall said.

The Robinhood app went live in March 2015 and now has 6 million client accounts.

In addition to cutting Robinhood's own costs by eliminating a third party, Ms. Hall said self-clearing will reduce fees (such as overdraft charges) for clients; allow for better customer service; and let Robinhood move functions like client statements, tax documents and proxy voting in-house.

"We saw that there hasn't been a lot of innovation in this space for decades," she said.

BUILT FROM SCRATCH

Building a custodial system takes an enormous amount of time, so many brokerages rely on systems built in the 1970s.

"Because we are a technology company first, we wanted to go self-clearing and build a system from scratch," Ms. Hall said.

The company claims Clearing by Robinhood is the only clearing system that has been built from scratch using modern technology since Vanguard built its system in 2008.

Wealthfront left Apex in 2017 to use a self-built omnibus platform for banking and brokerage, but it does not hold assets in-house. Betterment self-custodies assets but uses Apex for clearing services.

Apex CEO Bill Capuzzi said Robinhood co-founders Vlad Tenev and Baiju Bhatt first approached his company in 2013.

> **"THE MOST PROFITABLE THING TO BE IS A CUSTODIAN."**
>
> TIM WELSH, PRESIDENT NEXUS STRATEGY

"We were the only company that had the technology to enable Robinhood to create and scale their simple user experience. That's what we do. We help companies that want to democratize investing, whether they are startups that need to scale or mature companies that want to move quickly into digital wealth," Mr. Capuzzi said in a statement. He also wished Robinhood well in the future.

Although Apex lost both Wealthfront and Robinhood, Mr. Welsh said the firm is uniquely positioned to offer automated custody and clearing not just to digital startups but directly to advisers as well.

Both Apex and Robinhood have the technology to make a play for next-gen advisers' assets, and it could rival existing players. After all, Schwab and TD were newcomers to the adviser business 30 years ago, so Robinhood could be a household name in the future.

The challenge will be how the big firms will respond if Robinhood is successful. Just as large institutions watched the robo-adviser space before building their own, Mr. Welsh said all custodians are keeping an eye on Robinhood.

"They can watch innovation, and they can replicate it," he said. "They'll just say, 'Robinhood is a beta test. If you work, we will copy you and crush you.'"

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GUESTBLOG

Why annuities should be in 401(k)s

There's a growing need to translate savings into lifetime income

TIM WALSH

TIAA was founded 100 years ago by Andrew Carnegie to provide college professors with retirement income through employment-based annuities. This was an innovative concept at the time, predating the Social Security system by two decades.

The first product was a low-cost in-plan annuity option offering safety, stability and guaranteed income for life. The annuities sold by TIAA became the model for the tax-deferred annuities that form the basis of Section 403(b) of the tax code.

Today, the retirement industry is focused on how to translate retirement savings into income that will last for life.

There are several reasons for this — in our country, 10,000 people turn 65 each day, and they are living much longer, increasing the amount of time spent in retirement. There's also been a shift from defined-benefit to defined-contribution plans that, for most Americans, do not include lifetime income features.

This makes the plan design features Andrew Carnegie built into plans a century ago all the more relevant. For decades, the higher education sector and others in the nonprofit world have offered plans that provide guaranteed income in retirement that continues to grow when employees change jobs.

For that reason, we believe the not-for-profit sector has insights on how to improve income security in retirement with the broader industry. Annuity products are largely missing from the retirement plan investment menus of U.S. corporations, but we feel momentum is building.

Over the past several years, we have seen 401(k) and 403(b) design move closer together, and the fact that an entire industry is looking at guaranteed income is a positive sign.

Giving plan participants direct access to annuitization vehicles can reduce the risk of leakage through lump-sum distributions — in effect, helping to keep funds meant for retirement available to people when they are ready to retire. Perhaps there is also a behavioral psychology opportunity, as those who save for retirement using in-plan annuities are more likely to annuitize upon retirement.

Are there some simple changes that could be made to make it easier for Americans to invest in and receive guaranteed income? Consider the current qualified default investment alternative regulation.

Of the potential investment options that qualify under the QDIA safe harbor, the most utilized has been and continues to be target-date funds. In fact, over 75% of defined-contribution plan sponsors electing to use the QDIA safe harbor default their participants into target-date funds, according to a Profit-Sharing Council of America study.

This has helped ensure retirement plan participants are defaulted into diversified and well-managed portfolios, but the overwhelming majority of these default products lack guaranteed annuities within the investment.

THAT AN ENTIRE INDUSTRY IS LOOKING AT GUARANTEED INCOME IS A POSITIVE SIGN.

In considering this, we found a way to substitute standard bond funds with a guaranteed fixed annuity, providing the option of income certainty within the familiar target-date structure. This simple change can better mitigate the real risks people face in retirement planning — market risk, inflation, interest-rate and longevity risk — and help deliver income guarantees many investors already think are in a TDF.

Plan sponsors and their consultants can use their own in-house expertise to manage the glide path and investment options to fit the specific demographics of their participants. This is one example of the kind of innovation we believe is needed.

As federal regulators increasingly appreciate the need for in-plan lifetime income, they are reconsidering ways to include annuities and similar options in retirement plans.

The Department of Labor identified "the need for lifetime income as an important public policy issue" and emphasized its support for initiatives "that could lead to broader use of lifetime income options in defined-contribution plans as a supplement to and enhancement of accumulation of retirement savings."

There is a growing interest in bipartisan ideas to address this.

Tim Walsh is senior managing director of institutional investment at TIAA.

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[1] As of 07/15/18; statistics are reported by Morningstar Annuity Intelligence on VARDS.com. This considers guaranteed income for life and excludes competitors that decrease income when the contract value reaches zero. Nationwide L.inc is an optional rider available on Nationwide Destination℠ 2.0 variable annuities at an additional cost. Guarantees are subject to the claims-paying ability of the issuing insurance company.

[2] Variable annuities are long-term, tax-deferred investments designed for retirement that will fluctuate in value. They allow for a fixed or variable stream of income through a process called annuitization and also provide a variable rate of return based on the performance of the underlying investments, which are subject to investment risk, including possible loss of principal. A variable annuity is a contract between the owner and an insurance company and has fees and limitations that include mortality and expense, administrative fees, contract fees and the expense of the underlying investment options. Riders may not be available on all variable annuities and not in all states. Any early withdrawals will decrease the death benefit and contract value. If withdrawals are taken before age 59 1/2, a 10% early withdrawal federal tax, in addition to ordinary income taxes, may apply.

[3] Single life rates effective 8/13/18.

[4] Or until the first lifetime withdrawal, whichever comes first.

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INVESTINGINTELLIGENCE

Fidelity launches cryptocurrency unit

Business will make digital assets available to institutional investors

BY RYAN W. NEAL

FIDELITY INVESTMENTS IS launching a new company to offer custody and trade executions of cryptocurrencies and other digital assets.

The goal of Fidelity Digital Asset Services is to make things like bitcoin more available to sophisticated institutional investors such as hedge funds, family offices and market intermediaries, according to Abigail Johnson, chairman and CEO of Fidelity Investments.

Fidelity Digital Assets will launch in early 2019 with support for bitcoin and ether, and will offer over-the-counter trade execution and order routing. Functionality for independent registered investment advisers is on the road map for next year.

"We expect to continue investing and experimenting, over the long-term, with ways to make this emerging asset class easier for our clients to understand and use," Ms. Johnson said in a statement.

MORE TRUSTED

Fidelity is betting that established Wall Street firms will feel more comfortable working with another institution than with a startup. Fidelity said that it will carry over its same security principles and best practices to provide secure and compliant storage for digital assets, and use its internal crossing engine and smart order router to execute trades.

The asset management company has been exploring blockchain and digital assets for several years, said Tom Jessop, head of Fidelity Digital Assets. While there are plenty of solutions for retail investors, there is a gap in the support available for financial institutions despite a growing belief that cryptocurrencies have a place in the future of the investing.

Creating the new company is the first step toward building a "full-service enterprise-grade platform" for cryptocurrencies, Mr. Jessop said in a statement.

"In our conversations with institutions, they tell us that in order to engage with digital assets in a meaningful way, they need a trusted platform provider to enter this space," he said. "These institutions require a sophisticated level of service and security, equal to the experience they're used to when trading stocks or bonds."

OTHER PLAYERS

Fidelity isn't the only traditional financial institution dipping into the cryptocurrency waters. TD Ameritrade made an investment earlier this month in a platform to trade digital asset futures, and Edelman Financial Services founder and executive chairman Ric Edelman has invested in Bitwise Asset Management, a startup that's putting together cryptocurrency index funds.

Last month, Apex Clearing announced Apex Crypto, which will provide its custody and clearing clients with the ability to store and trade cryptocurrencies.

While the immediate opportunity may be in trading digital assets, Fidelity sees more long-term benefit in blockchain, the distributed ledger technology behind bitcoin. The company believes blockchain can enable new business models and improve existing market infrastructure for all types of assets.

EARLY EXPERIMENTER

Since Fidelity launched its Blockchain Incubator in 2013, the company has experimented with mining cryptocurrencies. In 2015, Fidelity Charitable began accepting donations in bitcoin. It received $69 million in digital asset donations in 2017 alone.

Last year, Fidelity integrated with Coinbase to let retail investors see their cryptocurrency balances on Fidelity's website.

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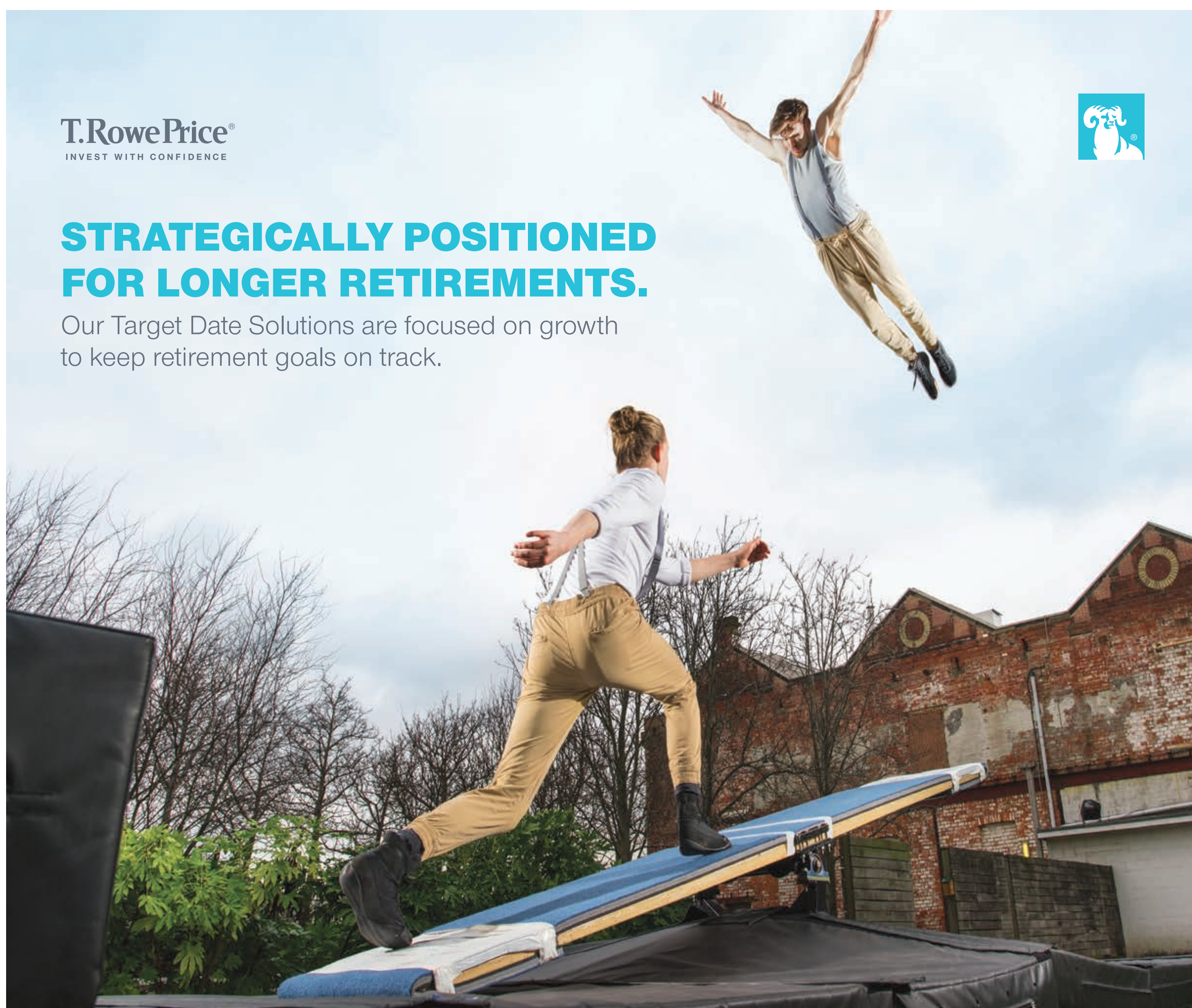
Abigail Johnson



People are living longer, which means that for many, the goal of having meaningful income throughout retirement has become harder to reach. Our research suggests that an allocation focused on generating growth in retirement accounts is one way to build a nest egg large enough to last throughout what could be a lengthy retirement. Call a representative at **1-800-371-4613** to learn how our Retirement Funds seek to deliver longer retirements for your clients.

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Investment Management and Retirement Plans

T. Rowe Price Investment Services, Inc., Distributor.

INBLOG

Advisers can learn from Elon Musk's mistakes

To avoid run-ins with regulators, social media posts should be reviewed for compliance

Social media is hard, and success requires patience, dedication and a lot of work.

There's no definite "right way" to use Facebook, Twitter, LinkedIn or any other platform. There's no handbook for advisers on how to attract a million followers on Twitter like Josh Brown, or grow a blog to the prominence of Michael Kitces' Nerd's Eye View.

But there sure is a way to do it wrong, as Tesla CEO Elon Musk recently found out.

After Mr. Musk tweeted in August that he had secured funding to take his electric car company private, Tesla's stock price soared. But the Securities and Exchange Commission filed suit Sept. 27, arguing that Mr. Musk's tweet was misleading.

RYAN W. NEAL

Mr. Musk eventually agreed to pay a $20 million fine, step down as Tesla's chairman (and not run for re-election for three years) and have future tweets about the company approved by lawyers. That didn't stop him from getting in an insult, calling the regulator the Shortseller Enrichment Commission.

Meanwhile, Tesla was ordered to pay an additional $20 million and appoint two new, independent members to the board.

TEACHABLE MOMENT

Though Mr. Musk's candor and spontaneity have propelled his Twitter account to more than 22 million followers, the whole episode underscores how important it is for corporate executives to have their tweets reviewed for compliance. That's especially true for advisers given the additional scrutiny they face from the SEC and the Financial Industry Regulatory Authority Inc.

Anthony Lendez, a lawyer and partner at accounting firm BDO in New York, recommends RIAs and broker-dealers have social media policies and procedures for employees using LinkedIn, Twitter and even conference calls. You don't want every word to be a canned corporate message, but in order to avoid a Musk-style tango with regulators, advisers should check with their organization's general counsel to make sure content is permissible under the company's policy and all relevant regulations.

"Elon Musk's brush with the SEC is a reminder to financial advisers that the regulatory body is keeping a close eye on social media," Mr. Lendez said. "It's important to think before you tweet, because what's published on social media can carry consequences."

Elon Musk

Part of what got Mr. Musk in trouble was that the funding to take Tesla private wasn't as cut-and-dried as his words "funding secured" seemed to indicate, said Keith Marks, executive director of Ascendant Compliance Management. When providing company information to the public, it has to be full, fair and not misleading, which can be a difficult task on social media.

"Not everyone will always interpret what you say with the perspective," Mr. Marks said. "Places where people tend to deliver a short message are subject to misinterpretation."

MOST COMMON ERROR

The most common area where Mr. Marks sees advisers trip up is using hyperbole on social media. An RIA calling itself "one of a kind" on Twitter could be accused of false and misleading marketing by regulators.

Advisers also can get in trouble for talking about specific trades they've made or how they've profited from an investment. Regulators can interpret this as "cherry-picking," or portfolio pumping.

"Most of the problems involve people trying to provide performance indicators without proper disclosure, or statements that exaggerate their qualifications," Mr. Marks said.

He and Mr. Lendez agree that advisers should think carefully before embracing an off-the-cuff, irreverent voice on Twitter, even if that has proven wildly successful for others. Those accounts are outliers and it's extremely hard to replicate their success.

If you decide to go that route, at least study up on the rules — both the regulators' and those of whatever firm you're affiliated with. Training is key to knowing what's safe and what can land you in hot water.

Just don't be like Elon.

rneal@investmentnews.com Twitter: @ryanwneal

PRACTICEMANAGEMENT

Financial planning to the rescue

BY RYAN W. NEAL

IF THE CURRENT market dip turns into an extended downturn, financial planning could help advisers hold onto clients and assets.

According to a new Cerulli Associates report, financial planning taps into deeply emotional and difficult financial decisions involving children, spouses, careers and caring for aging parents. Advisers who can skillfully navigate these conversations can build deeper relationships than an adviser focused entirely on collecting assets and beating the market.

This connection is not as easily dislodged in a market downturn, according to Cerulli research analyst Marina Shtyrkov. Even through significant volatility and corrections, knowing a plan is in place helps clients feel more secure.

"It all boils down to trust," Ms. Shtyrkov said. "The financial planning process is more likely to breed a stronger client relationship. From that comes trust and loyalty and a sense of security."

BAD MARKET DAYS

It's also beneficial for advisers on days like Oct. 10 when the market plunges. When a worried client calls and is fearful about their portfolio, a financial plan provides a road map the adviser can refer them back to, Ms. Shtyrkov said.

This can be especially helpful

for fee-based advisers working with aging clients. Cerulli's research found more than half of advisers' clients are between the ages of 50 and 69, and 48% are older than 60.

Forty percent of advisers' outflows consist of regular income withdrawals from retired clients, a steady drain on assets under management. A prolonged bear market could put even more pressure on the ability to collect fees.

It appears this is weighing on advisers' minds. Cerulli found that 52% of advisers are focused on downside protection over the next 12 months. Financial planning allows advisers to review clients' risk exposure across financial assets, real estate and insurance, Ms. Shtyrkov reported.

DOWNSIDE PROTECTION

Yves-Marc Courtines, principal at Boundless Advice, agreed, adding that providing planning for a separate fee helps provide value not tied to market performance, such as minimizing taxes, estate needs or helping maximize a client's business income.

"Your annual fee is therefore more protected in times where assets decrease," Mr. Courtines said. "If anything, in a downturn, a [client] who relies on you for actionable advice is even more likely to need hand-holding and answers to difficult questions as the economy gets harder for them."

Even with retired clients, there is opportunity to deploy financial planning as a way to connect with younger generations, Ms. Shtyrkov said.

"Intergenerational planning is a great opportunity for advisers to strengthen that relationship with the entire family, the entire household," she said.

This can help strengthen relationships with current clients as well as infuse the firm with fresh assets and younger clients.

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GUESTBLOG

Is AI just another bitcoin?

Machine learning is here, but it takes data

JOE DURAN

Bitcoin has fallen almost 70% from its peak last year, from around $20,000 to roughly $6,500 currently. Breathless commentary about how bitcoin could become the next global currency has given way to sentiment that it's just another disappointing idea that has lost a lot of money for investors.

Today the new fuss in the technology world is about artificial intelligence and how it will change the world, and the wealth management business.

'2001: A SPACE ODYSSEY'

First let's clear up some of the confusion around nomenclature. Artificial intelligence is the concept that machines think and process new ideas by themselves, like the sentient computer Hal in the movie "2001: A Space Odyssey."

Machine learning is the process by which machines are coded to adapt their programming based on new data and data analytics; think self-driving cars and Google's targeted "smart" ads that intuit what you might be interested in based on the sites you've visited.

While we are still quite far from AI and a machine making up its own mind, we can't ignore the impact that smart programs powered by machine learning are making on the world. So here are a few perspectives on how to think about the impact of this technology evolution and how it might affect you:

1. All new ideas go through the innovation wave. Revolutionary ideas and technologies are seldom born and adopted in a linear fashion. Adoption is far more likely to be wave-shaped: They launch to great fanfare, are typically expensive and underdeliver versus the expectations people have, leading to a period of disillusionment. Then over the next couple of years, the products get reimagined to be more effective. Eventually the best ones reach viable standards that lead to mass adoption.

Artificial intelligence might be real one day, but machine learning is already quietly altering the world today by changing the way we use information.

2. Machine learning is only as good as the data it uses. Computers can process data, test hypotheses and course-correct in ways no human can. But all machine learning is based on the underlying data. The more you have, the more you can test and optimize.

Companies like Amazon, Netflix and Google accumulate more data every day about individuals and their consuming patterns. The same will be true for the successful wealth management firms of the future, whether they are robos, custodians, large retail firms like Vanguard or the national wirehouses and banks. Forget bitcoin mining, data mining has become the new gold rush.

3. AI is far away but machine learning is today. Here are some of the ways in which machine learning could be used to help your clients and your business right now:

- Prepping for a client meeting, your system informs you of the three most likely concerns on your clients' minds, based on their current situation, before they have even come in.
- Machine learning can dynamically inform your clients of how the typical person has dealt with a challenge they are facing, and share what has worked best for people in their situation.
- Advances in machine learning can identify the ideal prospective clients before you have ever met them, based on their online behavior, and create a personalized offer that converts them into a client at the moment they should be working with a wealth manager.

While these examples and much more can feasibly be done today, there are two major impediments: Few firms have enough consolidated data, and the resources needed to invest in the technology are overwhelming.

STORING DATA

Typical independent advisers today still keep most of their notes on yellow pads and perhaps transcribe them into notes fields that aren't searchable or quantitative. Heck, many don't even have a consolidated warehouse for all their data.

Even if your firm does not currently have the budget to invest in data analytics and machine learning, it is important to start categorizing and storing data in one place so that it can be used in the future.

The sooner your firm collects detailed client data, the more prepared you will be when scalable, lower-cost tools become available. If you don't have the data in a manageable location, you will never be able to use machine learning to improve your relationship with clients and grow your business.

INTO THE FUTURE

Bitcoin might have been an intoxicating idea, but it's not anywhere as important as blockchain, the underlying technology that powers it.

The same is true about artificial intelligence. It's an exciting idea, but nowhere near as impactful today as the machine learning that powers it.

Get an early start on harnessing this technology now by turning your insights about your clients into data.

Joe Duran is founder and CEO of United Capital. Follow him @DuranMoney.

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REGULATORYACTION

Finra panel orders Credit Suisse to pay ex-broker

Brian Chilton moved to Morgan Stanley instead of Wells Fargo after firm closed brokerage biz

BY MARK SCHOEFF JR.

A FINRA ARBITRATION panel awarded $844,621 to a broker who sought deferred compensation from Credit Suisse related to the firm's shutdown of its brokerage operation three years ago.

The Financial Industry Regulatory Authority Inc. arbitrators ruled that Credit Suisse was liable to Brian Chilton for deferred compensation of $585,307, as well as $131,694 in interest and $146,326 in attorneys' fees.

But the arbitrators also decided Mr. Chilton owed Credit Suisse $18,706 for an outstanding loan balance and attorneys' fees. Credit Suisse must pay Mr. Chilton a net $844,621.

Mr. Chilton's job was eliminated when Credit Suisse closed its private-banking business in the United States in 2015. He is one of many former Credit Suisse advisers who filed arbitration claims against the firm for allegedly withholding money it owed them.

"This is a huge victory, not only for Mr. Chilton but also for all of the financial advisers who are suing Credit Suisse for their deferred compensation," said Barry Lax, partner at Lax & Neville, who represented Mr. Chilton.

FORM U5 CLARIFICATION

The Finra arbitrators also ruled that the reason for termination on Mr. Chilton's Form U5 filed by Credit Suisse on April 7, 2016, be changed to "terminated without cause on March 16, 2016." It had stated that he was voluntarily terminated.

Credit Suisse entered an exclusive recruiting agreement with Wells Fargo & Co. But Mr. Chilton moved to Morgan Stanley, where he currently works, according to BrokerCheck.

Credit Suisse spokeswoman Karina Byrne said a number of former Credit Suisse financial advisers — referred to as relationship managers in the firm's nomenclature — are seeking to be paid twice for deferred compensation that has already been paid to them by competitor firms.

Although she said Credit Suisse as a practice does not comment on pending litigation, she did point out that Mr. Chilton's award was smaller than the compensatory damages in the range of $1.9 million to $3.4 million he requested at the end of the arbitration hearing.

"We note that the arbitration panel in this case largely rejected the claimant's meritless claims, and simply ordered him to repay the amount he owed on his loan but had refused to pay, in addition to Credit Suisse's legal fees," Ms. Byrne said in a statement. "We note that a federal court in California most recently dismissed a similar case filed by an RM seeking to be paid the same money twice."

But Mr. Lax countered that the arbitrators largely ruled in favor of Mr. Chilton. "They didn't deny our claims," he said.

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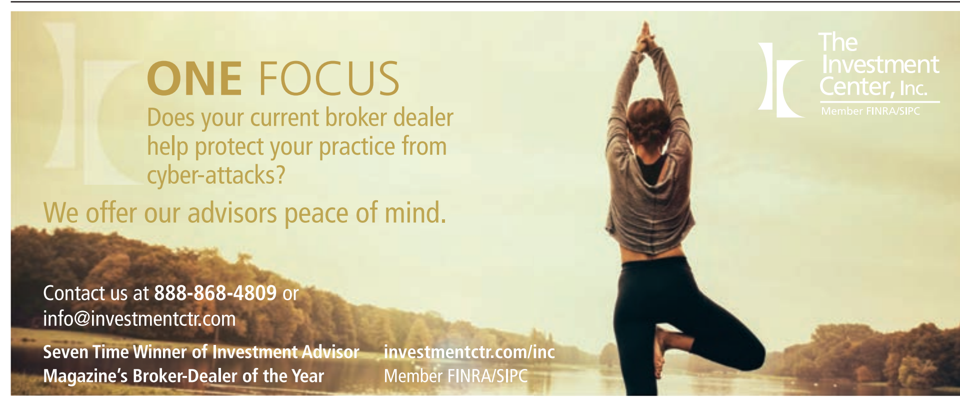

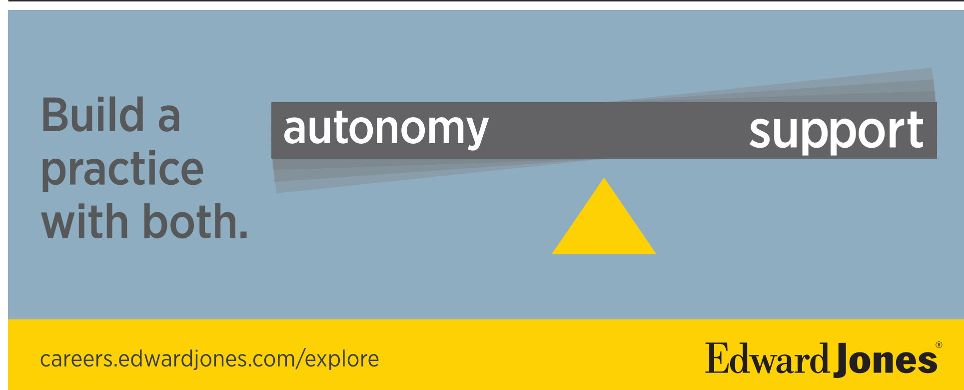

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FIDUCIARYFUTURE

Congress should address advice standard

SEC commissioner Stein suggests amending antiquated securities laws

Kara Stein

BLOOMBERG

BY MARK SCHOEFF JR.

SECURITIES AND Exchange Commission member Kara Stein said last Tuesday that Congress may have to get involved in raising investment advice standards.

The Democratic commissioner suggested amending securities laws that allow brokers to provide advice without registering as investment advisers as long as the advice is "solely incidental" to their sales recommendations.

"The commission must address the differing standards of conduct applicable to investment professionals and do so in a way that protects investors," Ms. Stein said in a speech at the Brookings Institution in Washington. "This is our mission. This may require action from Congress, but the consequences are too large for us not to get this right."

In a Q&A session following her remarks, Ms. Stein said the financial world has changed since the 1930s and '40s when securities laws were written that govern brokers and investment advisers.

"THE CONSEQUENCES ARE TOO LARGE FOR US NOT TO GET THIS RIGHT."

KARA STEIN
SEC COMMISSIONER

Today, it may be necessary to revisit the laws to ensure advice from brokers — who are held to a suitability standard that many assert is weaker than advisers' fiduciary duty — is given in the best interests of customers, according to Ms. Stein.

She said the "solely incidental" language was for a less complicated investing atmosphere that "is very different from the one we live in now. So, that's why I say we might need congressional action that would change the underlying statute."

PROPOSAL PACKAGE

The SEC is working on an advice-reform proposal package that keeps broker and adviser regulation separate but requires brokers to act in the best interests of their clients. SEC chairman Jay Clayton asserts that the so-called Regulation Best Interest is a stronger broker standard than suitability.

The SEC is reviewing thousands of public comments on the proposal, and Mr. Clayton has not set a deadline for releasing a final rule.

Ms. Stein voted against releasing the proposal for comment, arguing that it simply maintains the broker status quo.

In her Brookings appearance, she said strengthening investment advice rules is crucial to protecting retirement savers from conflicts of interest that diminish their returns.

Most customers assume investment professionals put customers' interests first, Ms. Stein said. The SEC should concentrate on making that a reality in the marketplace.

"We can raise the duty for all investment professionals so that it meets investor expectations," she said. "Or, we can teach investors to treat the advice that they receive from certain professionals differently. However, educating investors about complicated legal duties is quite complicated in and of itself. My guess is that it would be easier to simply require that all persons actually giving investment advice put their client's interest first."

Ms. Stein's term on the commission expired last year, and she must depart by the end of the current congressional session, which likely will conclude in December with a lame-duck session. Her replacement has not yet been nominated by the Trump administration.

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Fidelity tool

CONTINUED FROM PAGE 2

a unique platform that helps them deliver greater value, differentiate themselves and seek to meet the high expectations of today's advisers and end-investors."

OPEN ARCHITECTURE

With the Integration Xchange, Fidelity Institutional moves even further away from a walled-garden strategy of proprietary technology in favor of an open-architecture approach that lets advisers pick and choose their own tools. Even with eMoney's integrations, Fidelity kept a more limited roster of integration partners. The Integration Xchanges moves Fidelity more in line with TD Ameritrade's Veo platform, which integrates with well over 100 tech vendors.

Fidelity isn't the only firm embracing this approach. Pershing's latest version of NetX360 supports more third-party integration, and Schwab Advisor Services is forming new integrations with Envestnet Tamarac and Orion.

Ms. Haskins said her firm understands advisers want to choose their own products, and Fidelity's goal is to both enable that independence and help optimize it. There's also a changing mentality about the role technology plays in financial services.

While tech used to be solely to drive business efficiencies, increasingly it's about creating client experiences, Ms. Haskins said.

"It's not just about the tools or products you're using, it's the purpose," she said.

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DOL rule

CONTINUED FROM PAGE 3

er Biddle & Reath, said the DOL may be developing one or more regulations that would replace the best-interest-contract exemption included in the deceased fiduciary rule. Those regulations would work in conjunction with an SEC rule.

"It appears that DOL and the SEC have coordinated their agendas so that the SEC's rules can be incorporated into a new exemption for prohibited transactions resulting from nondiscretionary fiduciary advice," Mr. Reish wrote in an email.

The similar timeframes for the SEC and DOL actions were welcomed by the Securities Industry and Financial Markets Association, which opposed the DOL rule and supports the SEC's proposal.

"We have always asked for coordination among agencies," said Lisa Bleier, SIFMA managing director and associate general counsel. "We remain hopeful we will see that in practice."

The vague language in the DOL's agenda leaves the agency a lot of leeway in its course of action. A DOL spokeswoman did not respond to a request for comment.

"Everybody is scratching their heads over this one," said Barbara Roper, director of investor protection at the Consumer Federation of America. "Nobody seems to know what is going on."

> **"WE HAVE ALWAYS ASKED FOR COORDINATION AMONG AGENCIES."**
> LISA BLEIER, MANAGING DIRECTOR, SIFMA

Agencies don't have to follow the deadlines on the regulatory agenda. Most observers anticipate the SEC will issue a final advice proposal by Q2 next year.

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History

CONTINUED FROM PAGE 3

was overthrown in a coup d'etat in 1973.

At that time Ms. Lagomasino spent two weeks out of every six in Chile, where she ate Sunday dinner with clients and got to know their children. Because her own family had gone through similar upheavals in Cuba, she connected all the more with her clients' concerns.

"It was what everyone was afraid of. We all knew, we all talked about it," Ms. Lagomasino said. "I was trying to make sure that they had a safety plan."

As an undergrad, Ms. Lagomasimo studied French literature. Before starting at Citibank, she earned a master's degree in library science from Columbia University and worked at the United Nations. By the time she arrived at Fordham University for a second master's program, she was ready for a career change. Her aptitude tests recommended a career in business.

She attained her MBA in 1978 and over the next several decades, she was appointed to C-suite positions up and down Wall Street. She became chairwoman and chief executive at JPMorgan Private Bank in 2001. In 2005, she took the CEO spot at GenSpring Family Offices, a private wealth management firm for SunTrust.

FAMILY OFFICE

In 2013, she founded WE Family Offices, which helps about 70 ultrahigh-net-worth families manage their wealth like businesses, advising them on investing, governance and risk management. It advises and reports on more than $9 billion in assets.

"She's totally dedicated to the clients. She loves her clients, she worries about them, she worries for them, and their needs come first for her," said Marlene Hess, chair of International Women's Health Coalition. The two have known each other for nearly 30 years and met at JPMorgan Chase & Co.

"And she brings it out in all the people who work with her and for her," Ms. Hess said.

Ms. Lagomasino says being a Latino woman has helped her stand out with clients, and she believes being a female in the business has been more of an asset than it ever was a liability.

"When people thought of who was helping them in the bank, I was more memorable than my colleagues," she said.

Today she serves on the boards of both The Walt Disney Company and The Coca-Cola Company. She also co-founded the Institute for the Fiduciary Standard.

> **KNOW SOMEONE?**
> Do you know a successful adviser from a diverse background who has an inspirational story to tell? If so, email special projects editor Liz Skinner at lskinner@investmentnews.com.

BACK TO CUBA

Ms. Lagomasino returned to Cuba for the first time in 2012, 52 years after having fled with her parents. She took her niece and has since brought other family members who had never been there before to help them connect missing dots.

When she arrived at the José Martí International Airport in Havana in 2012, Ms. Lagomasino was worried that her American passport might be taken away. When an immigration official asked if she had left in 1960, Ms. Lagomasino nodded affirmatively.

Recalling the moment, Ms. Lagomasino said the official "got up and she put her arms around me and said, 'Welcome home.'"

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New Jersey

CONTINUED FROM PAGE 3

best interests of their clients, is too weak.

"In light of these federal developments, investors remain without adequate protection from broker-dealers, who, under the suitability standard, are permitted to consider their own interests ahead of their client's interest when making investment recommendations," the document states.

The pre-proposal, which only runs for nine paragraphs, does not provide details of what a New Jersey uniform fiduciary standard would contain. But by putting out the request for comment, the state has vaulted into a leadership position on investment advice reform.

The pre-proposal argues that a uniform fiduciary standard will "reduce investor confusion and harmonize regulatory enforcement." It also states that a "regulatory gap" exists that leaves investors "often unaware of whether and to what extent those they trust to make financial recommendations are receiving undisclosed financial benefits in exchange for steering their clients to certain products."

New Jersey regulators may have used that language to get the SEC's attention.

SENDING 'A SIGNAL'

"This could be a way to send a signal to the SEC in terms of what they'd like in a final rule from them," said George Michael Gerstein, counsel at Stradley Ronon Stevens & Young. "There is no indication at this point that a proposal will ultimately be made."

The comment period on the New Jersey pre-proposal ends Dec. 14. The state also will hold two conferences to "gather facts to inform a rulemaking." Those sessions will be held in Newark on Nov. 2 and Nov. 19.

The state is certain to hear from the American Retirement Association that its fiduciary rule would be superseded by federal retirement law: the Employee Retirement Income Security Act, which sets investment advice requirements for 401(k) plans.

"There already is a fiduciary standard," said Brian Graff, chief executive of the American Retirement Association. "We don't need a different standard in New Jersey or any other state."

Nevada enacted a fiduciary duty law in 2017, but has not yet promulgated regulations to implement it. Mr. Gerstein said most states are in a wait-and-see mode on a final SEC rule.

"I don't have the sense that most states are going to go down the path of introducing their own uniform fiduciary rule," he said.

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Wells Fargo

CONTINUED FROM PAGE 3

visers, including the two who filed the complaint, "to keep existing customers, bring in new customers, and secure customer referrals from influential members of the public, crucial" to building the advisers' business, the complaint alleges.

MORGAN STANLEY ALUM

The two advisers are part of a team and had both worked at Morgan Stanley from 2009 to 2015 before moving to Wells Fargo.

Mr. Perry produced close to $1 million in fees and commissions annually while at Morgan Stanley, but his business "nosedived" by about 50% while he worked at Wells Fargo, even though this was during a bull market when his production should have been "sky-rocketing," according to the complaint.

> **50%**
> AMOUNT JOHN L. PERRY SAYS HIS BUSINESS FELL WHILE WORKING AT WELLS FARGO

While some Wells Fargo executives and advisers have sought to minimize the effect the bank's scandals have had on their adviser workforce, a recent close examination by *InvestmentNews* documented a massive outflow of hundreds of brokers and billions of dollars in client assets over the past two years.

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- Why all stress isn't necessarily bad stress
- How advisors can implement the right structure for gains in their personal wellness portfolio.

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GUESTBLOG

'Cheap' is great, but 'free' will usually cost you

'Free' in financial services invariably entails concealed charges and expenses

BARRY RITHOLTZ

There is a basic, fundamental foundation upon which all of economics is built: Everything has a cost. The effort to get around this concept is described informally by the phrase: "There's no free lunch."

What is a free lunch? The notion historically springs from the saloon owners' offer of a free meal to customers. Of course, the price of the lunch is included — hidden, if you will — in the cost of the drinks.

Which brings us to today's discussion of "cheap" versus "free."

"Cheap" is simply less expensive than dear. We understand cheap and appreciate all of its advantages. Experience teaches us that cheap is good for investors, as costs compound over time and act as a drag on returns.

"Free," on the other hand, when offered by any for-profit company, should be approached warily. "Free" rarely means costless; it invariably entails concealed charges and expenses. "Free" requires you to read the fine print, where you learn that free can be very expensive. "Free," in some areas such as mutual funds, is a form of marketing, a loss leader. It can also be a set-up for a bait and switch, in which a free product is swapped out for a higher-cost substitute.

To be sure, some things really are free. In a soup kitchen, the meals are free. "Free" is the core principle of charity, where the concept of imposing the costs on the beneficiary would upend the entire equation. There is a cost, but the donors bear it.

In the financial services industry, "free" simply doesn't exist. It can't, because the goal isn't to give away products or services, it's to make money.

Do you doubt this truism, which often is overlooked by so many in their rush to pay less?

Perhaps a few examples might bring you around, and these are from companies that have a deep selection of worthwhile products and services for which they charge a fair price (more or less).

SELLING INFORMATION

The mobile-app broker Robinhood Financial is a favorite with millennials for its free securities trading. The name obviously evokes the idea of stealing from the rich to give to the poor (or, in reality, the young, well-educated and upwardly mobile). As Bloomberg News reported last week, Robinhood derives "more than 40% of its revenue from selling its customers' orders to high-frequency trading firms."

> **40%**
> MINIMUM AMOUNT OF REVENUE EARNED BY ROBINHOOD FROM SELLING CUSTOMER ORDERS TO TRADING FIRMS

In other words, it sells trade orders to businesses its customers may not feel great about doing business with themselves. The company claims otherwise.

Here's the key point to remember: This business model may not ensure that customers get the lowest price. The firms that buy Robinhood's orders need to make money themselves and thus take a tiny slice off each transaction — money that would otherwise stay in customers' pockets. That's why those firms are able to justify paying for orders in the first place. Cheap is cheap, but free usually has a cost.

My Bloomberg Opinion colleague Nir Kaissar explained how Fidelity Investments "unleashed the power of free." The big mutual and exchanged-traded fund company recently began offering two no-fee ETFs: One tracks the 3,000 largest U.S. companies by market value, and the other holds the top 90% of stocks within various developed international and emerging countries.

As Mr. Kaissar pointed out, the company has "more than 1,000 Fidelity mutual funds, including the various share classes, with close to $1.9 trillion in assets and an asset-weighted average expense ratio of 0.46% a year."

Those two ETFs may be free, but the rest of the offerings are not, bringing in $9 billion in annual revenue. Fidelity is betting that once it gets zero-fee customers in the door, it will find a way to sell them something that makes money for the firm.

The discount-brokerage firm Charles Schwab offers its Schwab Intelligent Portfolios as a robo-adviser for customers at no charge. As with all of the other free lunches, this, too, comes with strings attached.

USES OWN FUNDS

It uses its own funds, which may not be as cheap as equivalent Vanguard Group or BlackRock Inc. funds.

But more controversially (especially to its competitors), it carries a big cash balance of about 9% of assets, making money on the spread it collects in interest versus the tiny return it pays to customers. During a bull market, with almost one in 10 dollars not invested in equities, money held in the robo-adviser probably will underperform. But hey, it's free!

One last point: It isn't just in finance where we see the free-lunch calculus. All it takes is a quick look at the internet.

Facebook and similar social media platforms are free, but not cheap. Facebook, for example, uses what would otherwise be private user information to help advertisers target consumers — and that's not to mention findings that heavy social media users have higher rates of life dissatisfaction and that Facebook contributes to compromising some of our most sacred democratic traditions.

And let's not even get into Google, which probably knows more about more people's web habits than any company on earth. How do you think it managed to generate $110 billion in revenue last year?

All of this free stuff turns out to be really expensive.

Barry Ritholtz, founder of Ritholtz Wealth Management, is a Bloomberg Opinion columnist.

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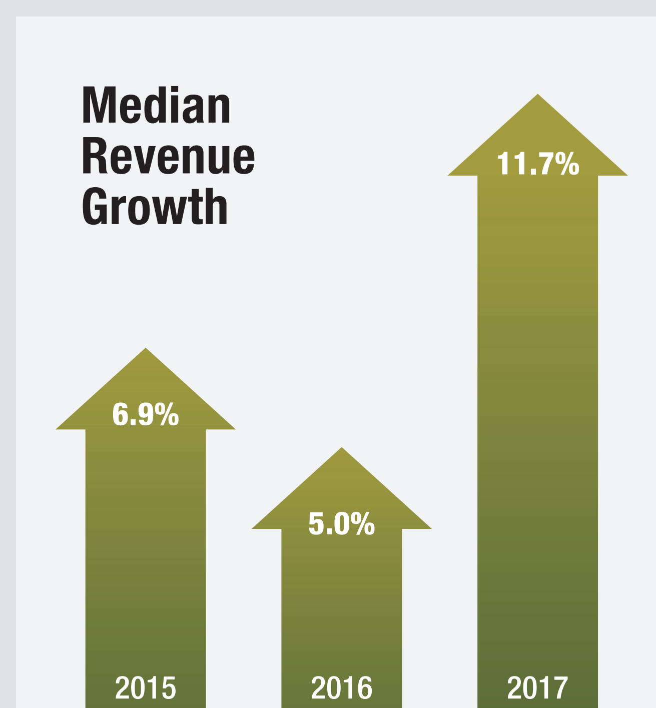

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