4 FACTIONS EMERGE IN FPA OVERHAUL / 5 IRS ISSUES AWAITED PASS-THROUGH REGS / 6 ADVISERS' ROLE IN FINANCIAL LITERACY / 7 REMEMBERING JOHN BOGLE

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JANUARY 21-25, 2019

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WHY FINANCIAL ADVISERS HATE THE FIRE MOVEMENT

PAGE 10

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Citigroup	C	4.54%
US Bancorp	USB	2.48%
CME Group A	CME	2.41%
American Express	AXP	2.39%
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Goldman Sachs	GS	2.07%

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ONLINE
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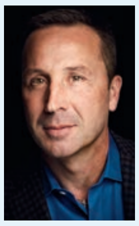
FINANCIAL LITERACY

Sharing knowledge

The financial advice profession has a significant stake in whether clients — or potential clients — are financially literate.

After all, clients who possess the knowledge, skills and confidence to make prudent financial decisions are better clients. They're less likely to be spooked by normal market fluctuations, more likely to recognize the value of a disciplined savings strategy, and more likely to recognize the value of professional financial advice.

SUZANNE SIRACUSE



FRED GABRIEL

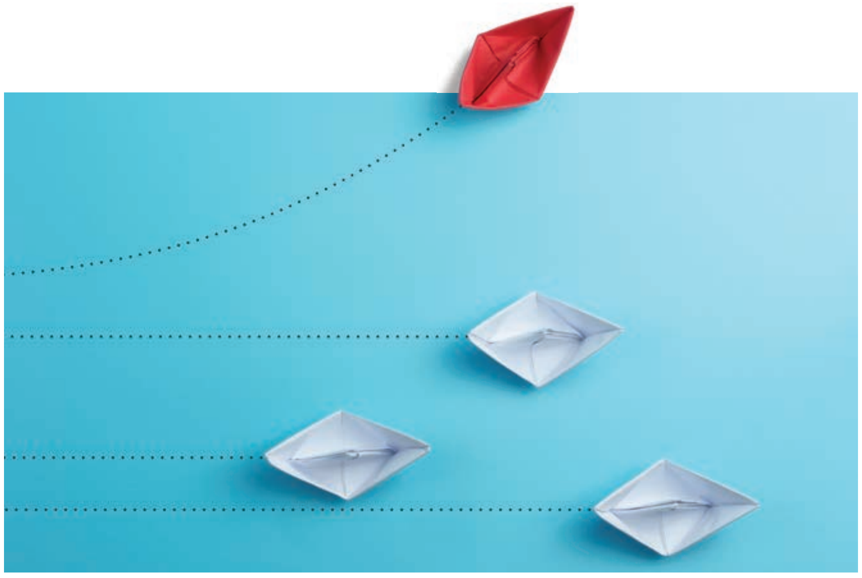
We know you care. In fact, 78% of advisers recently surveyed by *InvestmentNews* and BNY Mellon Pershing agreed that financial literacy is a critical issue. Yet, just 41% of those surveyed are involved in an initiative aimed at a solution.

With that in mind, we're pleased to announce a new effort aimed at providing inspiration, education and awareness around financial literacy. We'll begin our initiative by committing to publish content that will serve as a call to action and a valuable resource around this issue, including staff-written articles, profiles, video and webcasts.

We'll also publish thought-provoking columns on financial literacy from some of the brightest minds in the industry. On Page 6, for example, you'll find an outstanding column, "Our future impact hinges on education," written by Mark C. Tibergien, CEO of BNY Mellon's Pershing Advisor Solutions.

InvestmentNews is committed to improving financial literacy through financial advisers. We look forward to engaging with you in this conversation in the year ahead.

Suzanne Siracuse is CEO and publisher and Frederick P. Gabriel Jr. is editorial director of InvestmentNews.



Factions emerging in OneFPA overhaul

BY GREG IACURCI

KEY POINTS
- Proposed changes to FPA's structure and operations lead to disagreements among affected parties over the group's future.
- Proposal would alter relationship between national headquarters and local chapters.

FACTIONS HAVE emerged in the fight over the future of the Financial Planning Association, following a proposed overhaul of the group's structure and operations. Skeptics claim the FPA will wrest control and money away from local chapters, while proponents say chapters will retain control over their financial reserves.

The FPA, in a bid to counter what officials call an unsustainable and ineffective way of operating, proposed its OneFPA Network initiative in November. The proposal would alter the relationship between the national headquarters in Denver and its dozens of local chapters around the country by centralizing functions like finance, accounting and technology. Some view that as a power grab.

"I think for most of us, what we need to see is more productivity, competence and member benefits flowing out of national before we start making national

CONTINUED ON PAGE 20

Fund inflows drop sharply in 2018

BY JEFF BENJAMIN

INVESTORS RAN FOR cover in 2018, according to the latest data from Morningstar showing last year's level of net inflows into U.S. mutual funds. Net flows into ETFs were the lowest since 2008.

In a year that saw the S&P 500 Index finish down 4.4%, taking into account dividends, including a fourth-quarter drop of more than 12%, net flows into U.S. funds totaled just $157 billion. Last year's net flows are still huge compared to the $11 billion in net flows from 2008, but pose a stark contrast to the nearly $700 billion in net flows in 2017.

In line with that trend was the increase in flows to the relative safety of money-market funds, which saw $162 billion in net inflows.

"The money going to money-market funds just indicates that investors are cutting risks," Morningstar analyst Kevin McDevitt said.

And with $43 billion worth of net outflows, taxable bond funds represented more than half of December's net outflows for all funds.

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IRS issues pass-through regs

BLOOMBERG NEWS

BUSINESS OWNERS — and their accountants — can rest a bit easier: The IRS has given them the long-anticipated final word on how they can claim one of the biggest perks in the 2017 Republican tax overhaul.

The regulations detailing the new 20% deduction for pass-through business owners are of critical importance to the operators of such entities.

The guidance, issued last Friday, can cut those business owners' tax bills by as much as one-fifth. The rules would govern what many say is one of the most complex changes in the tax law.

The IRS made a series of changes to make it simpler for businesses to determine if they can or can't get the tax break, a senior Treasury official said on a call with reporters.

Veterinarians, for example, don't qualify for the deduction, but rental real estate owners who spend at least 250 hours a year involved with the business can get the deduction, according to the IRS guidance.

The rules make it clear that income from originating and selling mortgages is eligible for the deduction, said Alan Keller, first vice president of legislative policy at Independent Community Bankers of America, a trade and lobbying group. "That is favorable," he said.

Taxpayers had been worried that they wouldn't see final rules in time for the filing season due to the partial government shutdown, and that confusing parts of the original provision could leave them exposed to penalties plus interest on improperly reported income.

The IRS also released a proposal clarifying that shareholders of mutual funds with real estate investment trust investments can get the deduction. That change will affect about 15 million investors, according to a trade group representing REITs. The agency is still considering whether publicly traded partnership investments held through a mutual fund will qualify for the deduction.

The proposed regulations also provide guidance for taxpayers who hold interests in regulated

CONTINUED ON PAGE 20

EDITORIAL
Shutdown pain could spread.
PAGE 8

Wells Fargo loses another 106 brokers

BY BRUCE KELLY

MORE THAN TWO years after scandals engulfed its parent bank, Wells Fargo Advisors continues to see advisers walk out the door.

Last Tuesday during its earnings report, Wells Fargo reported it had 13,968 financial advisers across its various channels at the end of December. That's a decline in headcount of 106 for the quarter and 576, or 4%, for the year.

According to information tallied by *InvestmentNews*, Wells Fargo Advisors lost 30 individuals or teams in the fourth quarter, which represented $8.7 billion in assets under management.

Of those 30, eight individuals or teams moved to Raymond James Financial Inc., six went to Stifel Financial and four to Ameriprise Financial Inc.

Wells Fargo's problems started in September 2016 with the news that Wells Fargo bank employees had secretly created millions of unauthorized accounts in the names of customers without their consent. The bank was fined $185 million and then-CEO John Stumpf resigned abruptly.

The decrease of 106 advisers at the firm is the lowest quarterly decline for 2018. However, it is greater than the fluctuations in the second half of 2017, when the firm actually increased its number of advisers by 37 in the third quarter of that year and lost only 20 in the fourth quarter.

"Total financial adviser attrition in the fourth quarter slowed to its lowest level of the year, to 0.75% from the previous quarter," noted

CONTINUED ON PAGE 20

Fintech not just for kids anymore

BY RYAN W. NEAL

FINANCIAL ADVICE firms need to embrace digital technology to reach next-gen investors and attract young advisers, but that doesn't mean fintech is just for kids.

Existing technology vendors and startups are recognizing an opportunity to innovate the way in which advisers serve older clients nearing or in retirement, a market that could be even more profitable than coveted millennials.

As Orion Advisor Services' CEO Eric Clarke recently pointed out, the baby-boom generation holds a collective $26.2 trillion in investible assets compared to $1.6 trillion held by millennials. Tiburon Strategic Advisors expects baby boomers' wealth to grow to $40.7 trillion by 2027, while millennials are expected to amass just $10.5 trillion by the same year.

Modern medicine is enabling people to live longer than ever, meaning older generations will hold onto their wealth longer. Greater longevity also means increased demand for help making retirement savings last longer.

But Rob Foregger, co-founder of NextCapital, a firm that provides digital retirement technology to large financial institutions, said the initial fear and hype around robo-advisers led the industry to over-compensate and focus too much on millennials at the expense of older and wealthier generations, especially when as many as 10,000 baby boomers retire every day.

'EFFORT VERSUS OPPORTUNITY'

"I don't think it was a bad idea to focus on millennials; I just felt like the effort versus the opportunity at the time was over-indexed," Mr. Foregger said.

CONTINUED ON PAGE 20

8 expenses clients can still deduct on their tax return

The tax reform law increased the standard deduction, which is expected to eliminate itemized deductions for many taxpayers. But there are still a number of deductions taxpayers can take that will reduce their adjusted gross income, according to Morningstar.

1. IRA: Taxpayers can deduct up to $5,500 per person for contributions to individual retirement accounts.

2. STUDENT LOAN INTEREST: Taxpayers can deduct the lesser of $2,500 or the actual amount of student loan interest they paid.

3. ALIMONY: An individual who is paying alimony as the result of a divorce settled before Dec. 31 can deduct that payment from their income.

4. HSA: Taxpayers who contribute directly to an HSA, as opposed to having the contribution taken out of their paycheck, can deduct up to $3,450 for individuals and up to $6,900 for families.

5. SELF-EMPLOYMENT: Self-employed people pay both the employee's and the employer's share of Social Security and Medicare taxes. They can deduct half of the employer's share.

6. SELF-EMPLOYED RETIREMENT PLAN CONTRIBUTIONS: Self-employed people can deduct their contributions to retirement plans like SEP IRAs and SIMPLE IRAs.

7. SELF-EMPLOYED HEALTH INSURANCE: Self-employed persons and their spouses who aren't eligible for a company health plan can deduct the premiums for the policy for themselves and their dependents.

8. JOB-RELATED EXPENSES: The Schedule A deduction for unreimbursed job-related expenses was eliminated, but people in certain professions, such as teachers, can still write off some expenses.

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Our future impact hinges on education

FINANCIAL LITERACY
MARK C. TIBERGIEN

What role should financial advisers play in supporting personal financial education for our country's youth?

We have our enlightened self-interest, of course, but we also have the opportunity to help consumers take control of their financial lives, to attract more young people to the profession and to promote our industry's reputation as a force for good rather than a source of evil.

Consider the challenges. First, helping people with their financial lives.

The statistics are stunning, no matter the source. According to Northwestern Mutual's 2018 Planning & Progress Study, 66% of Americans believe they will outlive their retirement savings; 21% of Americans have nothing saved at all; and a large percentage of retirees solely or primarily depend on Social Security for their retirement income.

CAREER CHOICE

The financial services industry is experiencing an acute talent shortage. Women and minorities in particular have avoided the business for a variety of reasons. We have an opportunity to replenish the advisory talent pool by exposing more young minds to the appeal of being an adviser. We can show them it's a career that is financially rewarding, intellectually stimulating and makes a meaningful impact on the lives of others.

INDUSTRY REPUTATION

For decades now, consumers have ranked financial services low rela-

CONTINUED ON PAGE 21

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CNC21435 11/18

Ex-Ed Jones rep wins $2M in claim of discrimination

BY MARK SCHOEFF JR.

A FORMER EDWARD Jones broker has won $2 million in a discrimination claim against the firm in Finra arbitration.

Financial Industry Regulatory Authority Inc. arbitrators decided Edward Jones was liable for back pay and front pay damages to Rodney Hunter Schurg for violating the Americans with Disabilities Act. The three-person, all-public panel, however, held that Mr. Schurg's claims of Family and Medical Leave Act interference and defamation were without merit.

Edward Jones said it will fight the ruling.

"Edward Jones strongly disagrees with the arbitrators' decision and award in this matter," firm spokesman John G. Boul said in a statement. "We are reviewing the arbitrators' decision and evaluating alternatives regarding the firm's response."

Neither Mr. Schurg nor his at-

CONTINUED ON PAGE 21

JOHN BOGLE 1929-2019

Vanguard founder John Bogle dies at 89

Pioneer of low-cost index funds changed the investing world

BY ELIZABETH MACBRIDE


BRAD TRENT

John "Jack" Bogle, the man who introduced low-cost, passive investments to the mutual fund industry and helped millions of small investors send their kids to college and retire better, died last Wednesday in Bryn Mawr, Pa. He was 89 years old. The cause of death was cancer.

Mr. Bogle, who was named an icon in *InvestmentNews*' inaugural Icons & Innovators issue in 2016, founded The Vanguard Group Inc. in 1974. It is now the largest mutual fund company in the world, and through it was introduced the first index fund to the market in 1975. The Pennsylvania-based giant had $5.3 trillion in assets at the end of September, and its low-cost, passive approach continues to force other companies in the mutual fund business to lower their fees.

That revolution might never have happened without Mr. Bogle.

"His values, his strategy, the culture he established are the reason Vanguard has prospered," said Princeton University economist Burton Malkiel, author of "A Random Walk Down Wall Street" and an early board member of Vanguard. "They are his, and uniquely his."

Mr. Bogle founded Vanguard after became its first chief executive after a career failure at Wellington Management Co. taught him a painful and valuable lesson: Always put the investor first, even above the company. This principle sustained him through the early days of index investments, when the young company was hemorrhaging money, and industry peers called the new funds "Mr. Bogle's folly."

Mr. Bogle's folly turned out to be wisdom: Index investing has become the dominant form of investing for mainstream investors. Between 2007 and 2014, investors poured $1 trillion dollars into equity index funds, while they pulled $659 billion out of actively managed funds, according to the Investment Company Institute. Vanguard itself, meanwhile, grew at an annual compound rate of 21% between 1974 and 2014.

INVESTORS FIRST

The investors-first principle led to Vanguard's unique nonprofit corporate structure, which has enabled it to continue to lower fees on its investment products. Vanguard's low fees have led to its market success.

"Jack Bogle made an impact on not only the entire investment industry, but more importantly, on the lives of countless individuals saving for their futures or their children's futures," said Vanguard CEO Tim Buckley. "He was a tremendously intelligent, driven and talented visionary whose ideas completely changed the way we invest. We are honored to continue his legacy of giving every investor a fair shake."

"He has always been the conscience of the industry," said Mike Clowes, former editorial director of *InvestmentNews*, who covered Mr. Bogle's career over the years. "He took the index fund out of the institutional world and gave individuals access to this very efficient investment vehicle."

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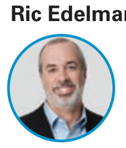
Adviser community gets social to commemorate a giant

Ric Edelman @ricedelman

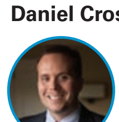


With great sorrow we note the passing of John Bogle. Jack and I have known each other for years, and he had a highly influential impact on our firm's growth and development. I thank him for his inspiration and leadership in our field. He will be missed but his legacy lives on.

Deborah Fox @DeborahSFox

Our industry just lost a giant — John Bogle, founder of @Vanguard_Group died at age 89. He revolutionized investing and led the charge in bringing ETFs and mutual fund prices way down. RIP.

Daniel Crosby @danielcrosby

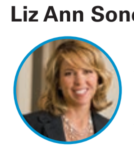


It's impossible to overstate the power of what Jack Bogle did for everyday people. He's the proof that finance can be a powerful force for good in the world.

Jonathan Stein @jonstein

We lost a great man today; I am thinking of Jack Bogle and his family. Started writing the moment I heard the news, stopped an hour later with over 2,000 words. He continues to inspire me, and always will.

Liz Ann Sonders @LizAnnSonders

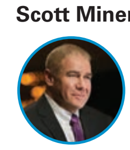


Just think about the conversations above: Jack Bogle, Marty Zweig and Louis Rukeyser ... legends in heaven.

Joe Duran @DuranMoney

We lost a brilliant visionary today who completely reshaped the wealth management industry. On behalf of clients everywhere, thank you, Jack Bogle. You will be missed.

Scott Minerd @ScottMinerd



Jack Bogle's innovation of low-cost index funds, borne of intellectual rigor and advocacy for individuals, lives on in virtually every investment portfolio in the world. His influence in investing is only exceeded by his gentlemanliness.

Kunal Kapoor @KK_Chicago

Jack Bogle: A force for all that is right about the investing world. A true North Star for all of us.

Skip Schweiss @Schweiss_TDA

Oh, my... RIP Jack Bogle. Wow, what a life of impact.

Industry remembers a legend

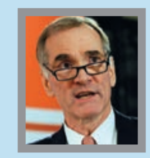
BLOOMBERG NEWS

John Bogle turned investing upside down.

By founding Vanguard Group, and persisting through the disappointing early years of running the first index mutual fund available to individual investors, he ended up slashing fees. In the end, fund investors may save more than $1 trillion, according to calculations by Bloomberg ETF analyst Eric Balchunas in 2016.

Prominent investors and executives who knew Mr. Bogle weigh in on his legacy and personality.

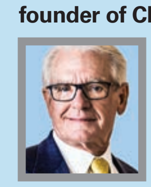
David Swensen, chief investment officer at Yale University



"Jack Bogle transformed the world for individual investors by providing a safe haven for their assets. Starting with an idea (articulated in his senior thesis at Princeton), Jack created Vanguard, which today manages trillions of dollars of assets, driven by fiduciary responsibility to millions of participants, not by profits ...

Jack did more to advance the interests of individual investors than any person in history."

Charles Schwab, chairman and founder of Charles Schwab Corp.

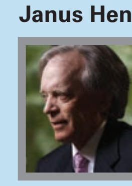


"Jack was a pioneer who brought the wisdom of low-cost, long-term investing to millions of people since founding Vanguard and extolling the power of index investing. Like all pioneers, he pushed into new territories, and we're all better off because of it."

Abby Johnson, chief executive of Fidelity Investments

"Jack Bogle was an icon in the mutual fund industry, he more or less singlehandedly popularized index funds. Jack was always a tough competitor of ours and kept us on our toes, and for that I am grateful."

Bill Gross, portfolio manager at Janus Henderson



"He was a giant in the past half century of investment strategy — not because he knew which way markets were headed at any one time, but because he hectored Wall Street and encouraged investors to keep more of what they earned ... Both his old and his new hearts were always with the small investor as opposed to Wall Street."

CONTINUED ON PAGE 22

OPINION

EDITORIAL / LETTERS / OP-ED / GUEST BLOGS

Shutdown creates problems beyond those of government workers

FINANCIAL STRAIN RELATED to the partial government shutdown, now beginning its fifth week, may seem remote to many advisers and their clients. But if the standoff drags on, more Americans will become entangled in its spreading net.

The monetary hit felt by the more than 800,000 federal workers not receiving a paycheck is immediate and will grow, but so will ripples that push off the work of government contractors and cause a general consumer malaise to settle in. While historical data on closures indicate little perceivable long-term impact to economic growth, this shutdown is already much longer than the average timespan of a couple of days to a couple of weeks. The real concern comes if this stalled period stretches to a point at which a quick bounce back to full productivity becomes difficult.

White House officials reportedly increased their estimate of the effect of the federal government closure on the U.S. economy last Tuesday. They said every week the shutdown persists will result in a 0.13 percentage point drop in GDP growth. Should that number extend over a full quarter of 13 weeks, the bite becomes noticeable, at 1.69 percentage points.

Beyond the macro implications, advisers will feel the pain in their own practices if the shutdown continues.

For starters, confusion about certain aspects of the 2017 tax law persists as accountants and financial advisers move whole hog into tax-filing season. Small-business owners, who have been awaiting guidance on pass-through allowances, must file business taxes by March 15. Just as this editorial was going to press, the Treasury Department issued final rules and new proposed guidance on which businesses are eligibile for the 20% deduction, among other issues. *InvestmentNews* will be poring over those pages to see where questions remain.

It was announced last week that the IRS will have about 46,000 of its more than 80,000 employees working during the shutdown. At about 57% strength, don't expect quick answers to questions that spring up while filing, nor a quick refund.

InvestmentNews also has reported lapses in Securities and Exchange Commission exams and the ability of advisers to file ADV forms. As our senior reporter in Washington, Mark Schoeff Jr., recently wrote, the partial closure has curtailed most SEC work. That includes enforcement.

BAD ACTORS

According to the agency's website, it has filed only a couple of "administrative actions" this month, as well as charges against participants of a previously disclosed hack to its EDGAR database — but no new complaints of firm mishaps or against bad actors.

> **THE REAL CONCERN COMES IF THIS STALLED PERIOD STRETCHES ON.**

The true north of our editorial board, when deciding what position to take on any issue, is that what is good for the investor is ultimately best for the financial adviser and the advice industry. With that in mind, senior columnist Bruce Kelly's recent opine is alarming: "The government shutdown means the bad guys are getting a pass." Investor protection, a key part of the SEC's mission, if not completely neglected, is at least debilitated. This at a time when, according to Mr. Kelly, "big-time investment fraud is back."

So, what's an adviser to do? Call your representative and senators (U.S. Capitol switchboard: 202-224-3121) and message or call the president (whitehouse.gov/contact or 202-456-1414). Really. They work for us, and they seem to be forgetting that. Use your clout as a financial adviser to drive home the importance of financial stability in the economy and financial security for individual actors within it.

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IS THE FIRE MOVEMENT IN HOT WATER?

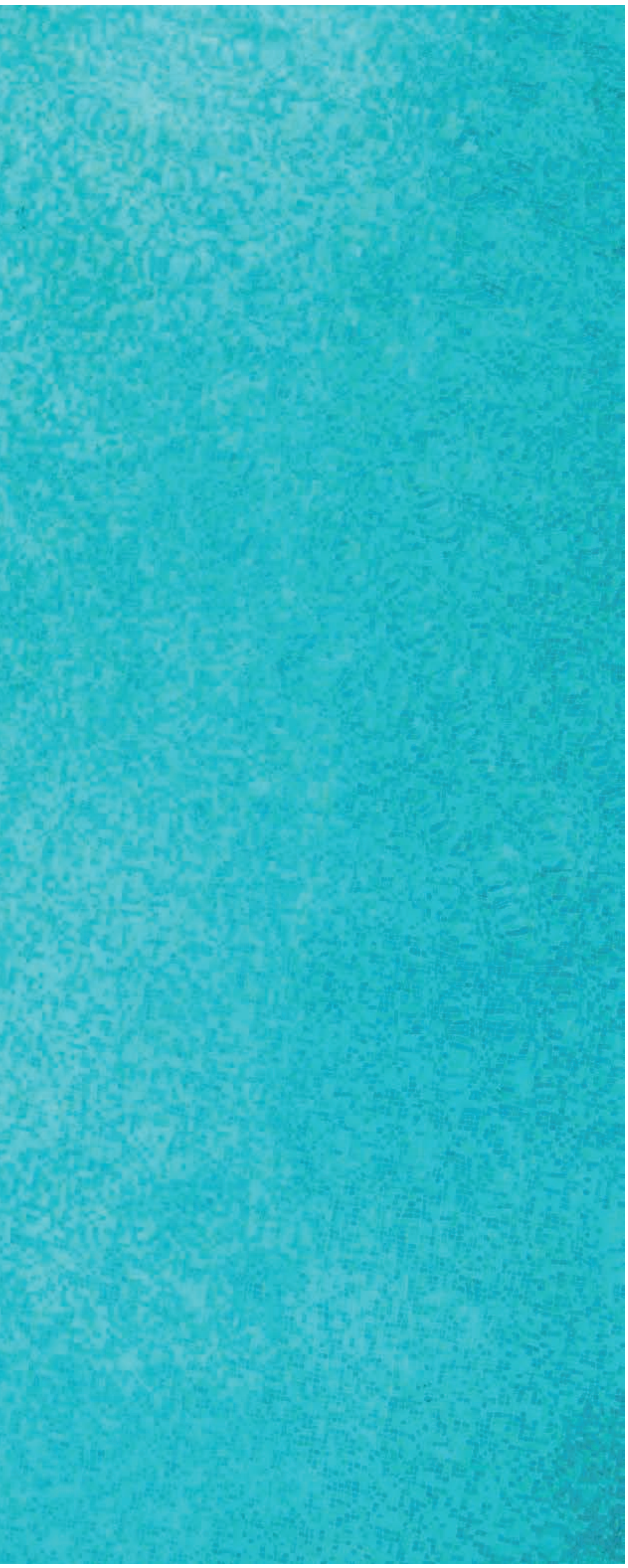
ADVISERS SAY EXTREME EARLY RETIREMENT IS A SUITABLE GOAL FOR ALMOST NOBODY

BY GREG IACURCI

The nearly decade-long bull market combined with the millennial generation's insatiable wanderlust are fueling the FIRE movement — and advisers' concerns about it.

Financial blogs, podcasts and internet message boards have sprung up to educate wannabes about "financial independence, retire early." There's even a documentary film in the works, "Playing with FIRE," set to be released this year.

Followers of FIRE amass savings voraciously and live on bare-bones budgets. They aim to stockpile enough money to fund a retirement lasting roughly double that of the average American.



But many financial advisers question the logic of the movement in the face of so many unknowns, which pose challenges even for traditional clients retiring in their 60s. One such variable, investment returns, has come into focus amid the stock market's recent volatility, leaving some skeptical of FIRE's long-term viability.

"For most people, it's going to turn out to be a terrible idea," said Jeffrey Levine, CEO and director of financial planning at Blueprint Wealth Alliance.

A millennial who lives to 100, he said, would have a retirement that's as long as the length of time between the Great Depression and the present day.

"It's entirely too long a period of time to leave yourself up to external factors," Mr. Levine said.

REWARD FOR SACRIFICES

FIRE followers often make large salaries beginning in their early 20s, save upwards of 50% of their income and have little student debt. The reward for their sacrifices, in theory, is a nest egg big enough to support full-out retirement or a transition to more rewarding work.

50%

PORTION OF INCOME FIRE FOLLOWERS SAVE YEARLY TO MEET THEIR GOAL

The austere lifestyle required (one Google engineer gained national attention for living in a box truck rather than paying rent for an apartment) often means foregoing the basics, let alone luxuries, in the name of a strict budget, and automatically deters most people.

According to Bureau of Labor Statistics data, the average 25- to 34-year-old today saves only 9.5% annually. The

CONTINUED ON PAGE 12

FIRE CHECKLIST

To help clients achieve extreme early retirement, advisers recommend focusing on these primary factors.

SAVINGS, EXPENSES, INVESTING
The primary driver of success for FIRE followers is an extremely high savings rate and managing expenses, advisers said. So FIRE is theoretically attainable for any client, not just super-high earners. But investments are also important. Advisers recommend relatively aggressive stock allocations: not less than 50/50 in stocks and bonds, and likely skewing toward 75/25.

HEALTH INSURANCE
Daniel Kenny, an adviser about to launch the firm FI-nancial Planner dedicated to FIRE clients, called the Affordable Care Act the "best thing" to happen to the FIRE movement. Clients can buy health insurance over an ACA exchange if they don't have access to employer coverage through a spouse, or through health-care share ministries, which help cover health-care costs for members with the same religious beliefs. If clients want to work part-time, they may be able to negotiate a lower salary in exchange for employer health coverage.

HOUSING
Renting is typically less expensive than buying a home, and changing location — perhaps even moving abroad — can substantially lower living expenses, taxes and health-care costs.

WITHDRAWING INCOME
Advisers may have to get creative with drawing down a client portfolio, as there's a 10% tax penalty for taking funds from IRAs and 401(k)s before age 59½. Advisers may have to rely more on nonretirement accounts in the intervening years. They may also withdraw contributions made to a Roth IRA free of tax and penalties.

ROTH CONVERSION
Paying taxes on retirement accounts over time to move them into a Roth IRA could help give investors access to assets sooner, Mr. Kenny said. Tax rules allow investors to convert a traditional IRA to a Roth account and withdraw the conversion principal tax- and penalty-free after five tax years — even if the investor is younger than 59½.

SUPPORT NETWORK
Have clients reach out to other FIRE adherents who've already retired to gauge their experience, said Linda Rogers, owner of Planning Within Reach. Did they get bored? Did having kids upend the plan?

REALISTIC EXPECTATIONS
Be honest about what could happen. Building in escape routes so clients aren't "walking a tightrope" is key, especially to help clients draw income during down markets, said Eric Roberge, founder of Beyond Your Hammock. That may include some sort of side income or passive income stream, such as real estate if a client is interested in being a landlord.

ANOTHER GOAL?
Figure out whether early retirement is really a client's goal or whether they're just trying to run away from something, said Roger Ma, founder of lifelaidout. What actions can be taken to achieve the life they want now? It may not be retirement.

— Greg Iacurci

CONTINUED FROM PAGE 11

average holdings in all Americans' retirement accounts was $229,000 in 2016, according to the Federal Reserve's most recent Survey of Consumer Finances. And just over half of American families save at all.

But beyond the Spartan lifestyle, financial advisers see many reasons FIRE is ill-advised.

'FLIES IN THE OINTMENT'

"The primary flies in the ointment? Health care, muted market returns for the next decade or more, and increased taxes and inflation," said Dennis Nolte, financial planner at Seacoast Bank.

High-flying stock returns in the decade since the financial crisis led investor optimism to reach a level in 2017 not seen since the beginning of the millennium. Swelling portfolios led to substantial wealth accumulation. Fidelity Investments, the largest retirement-plan provider, said there were 10 times more 401(k) millionaires last year than in 2008.

But the market's gravy train came to an end last year, with the S&P 500 losing 6.2%. This likely led some FIRE adherents to question their primarily do-it-yourself financial plans, advisers said. And the sequence-of-returns risk in stocks that's present for all retirees is compounded for those retiring early.

Early retirees will draw from their investments over a much longer period than traditional retirees, and will likely take larger distributions because they won't yet have the luxury of steady Social Security income — meaning big market drops early on could stymie a financial plan.

"You're much more reliant on your portfolio," said Daniel Kenny, founder of FI-nancial Planner, a firm set to launch in February that caters specifically to FIRE clients. "Sequence-of-returns risk may be the thing that really blows it up for you."

UNKNOWNS

Young people aiming for early retirement also often greatly underestimate health costs down the road, advisers said, whether caused by a health emergency or spiking health-care inflation. Leaving the workforce means a lack of employer-subsidized health insurance if the client is single or doesn't have an employer-covered spouse.

Furthermore, when clients in their 20s conceive of extreme early retirement, they naturally have a young person's mindset and worldview: often being single and paying low living expenses. It can be difficult to envision getting married, having kids and buying a home. Changing one's mind about something like having kids can be enough to upend the tight budgets of FIRE proponents, advisers said.

"It's a different ballgame," said Linda Rogers, owner of Planning Within Reach. "Are you going to tell your children they can't go to kids' birthdays, can't do ballet class?"

And banking on going back to work later to make up a shortfall may be trickier than anticipated if employers notice a long gap in unemployment.

Add in other unknowns, like tax rates and the state of entitlements like Medicare and Social Security, and many advisers view FIRE as a fanciful notion.

"It's not for almost anybody, frankly," said Hank Mulvihill, director and senior wealth adviser at Smith Anglin Financial. "It is a fad, overhyped by the experiential culture of high-earning 30- and 40-somethings."

DIRTY LITTLE SECRET

However, just because advisers don't think the idea is feasible for the vast majority of clients doesn't mean they hate the general concept of FIRE. If clients are unhappy in their careers and view retirement as a way to live a more meaningful life, it could be a worthy goal. The dirty little secret of the FIRE movement is that most adherents save enough to be financially independent and just change their career focus rather than retiring outright.

Take Sam Dogen, a former investment banker. He retired in 2012 at age 34 to get away from a Wall Street job he no longer found fun and the long hours it entailed.

Starting his first month of work, Mr. Dogen saved 50% of his paycheck and 100% of his annual bonus. That savings rate eventually grew to 75% to 80%. He's now living in San Francisco and able to draw $221,000 annually from a portfolio of primarily passive investments to support his wife and 21-month-old child.

But Mr. Dogen also loves to write, which led him to start a financial blog, called Financial Samurai, in 2009. He makes more money blogging every year via advertising than he's drawing from his portfolio, which he socks into savings.

"I'm doing exactly what I want to do — no schedules, no bosses, absolute freedom — and it's awesome," he said.

FIRE's philosophy dovetails with that of the life-planning movement, which emerged in the 1990s. That movement is dedicated to helping a client achieve what gives his or her life the most vitality and fulfillment in as short an order as possible.

George Kinder, founder of the life-planning movement, said advisers whose clients approach them with a goal of FIRE have a fiduciary responsibility to make that goal come to life and need to put aside their biases.

"We have misunderstood fiduciary a lot in our profession to think it's only about how we charge and our transparency in terms of charges," Mr. Kinder said. "What it really means is to be on the side of the client."

Despite his doubts, Mr. Mulvihill did help one client achieve FIRE — a high-earning technology industry employee who retired at age 40 with $2 million. He started his plan right around the time of the financial crisis and benefited from the prolonged bull market that followed.

"It's my greatest success story for a young person," Mr. Mulvihill said. "He simply made a plan and stuck to it. It's a hell of a story."

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"IT IS A FAD, OVERHYPED BYTHE EXPERIENTIAL CULTURE OF HIGH-EARNING 30- AND 40-SOMETHINGS."

Hank Mulvihill, director and senior wealth adviser, Smith Anglin Financial

FIRE AS A NICHE

Daniel Kenny, a financial adviser, got hooked in college.

That's when the accounting and finance major discovered online forums dedicated to the so-called FIRE movement, whose followers share a common goal of extreme early retirement, often in one's 30s.

After graduating from the University of Maryland, Mr. Kenny began amassing savings with gusto, chopping expenses and maxing out his 401(k) in his first five months on the job. His goal: Retire in his mid-30s with $1.8 million.

Mr. Kenny, 31, is so dedicated to the FIRE approach to life that in February, he's launching an advisory firm, FI-nancial Planner, dedicated to people like him.

"Pursuing this stuff is where my heart lies," said Mr. Kenny, who lives in Sterling, Va. "Working with those people is super exciting for me."

Mr. Kenny and his wife, a school administrator, save 60% to 65% of their income. He was on track to retire by 36 or 37, but leaving his current fee-only advisory role to start his own firm sets back the income projection to age 40 to 42, he said. If his business is successful, he may hold off until his early 50s when his daughter goes to college.

Aside from his passion, Mr. Kenny is trying to capitalize on what he sees as the movement's increased popularity.

"In the past six months, I've seen 10 times more articles about FIRE than I've probably seen in the last five years combined," he said.

Many FIRE followers are strict do-it-yourselfers who educate themselves with crowdsourced information, said Mr. Kenny, who acknowledges the difficulty of tailoring a service to the FIRE client base. He's planning a fee-for-service arrangement, in which he will charge an hourly fee to answer one-off questions or develop a financial plan, for example.

"I imagine and I'm hoping that there are people on the fringes who've heard about FIRE but don't know where to start," Mr. Kenny said.

He also believes the recent stock market volatility will help business. FIRE proponents may see their growing wealth as a sure thing because stocks have been on autopilot for the past decade. But with a declining market, followers may wonder if their plan still works, he said.

"A bull market this long really compensates for a lot of mistakes," Mr. Kenny said. But it won't last forever.

— Greg Iacurci

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"IT'S DRIPPING WITH IRONY."
— DAVID BERMAN, CO-FOUNDER AND CEO OF BERMAN MCALEER, ON OHIO NATIONAL'S WARNING TO VA CUSTOMERS THAT BROKER RECOMMENDATIONS AROUND ITS BUYOUT OFFER COULD BE INFLUENCED BY THE FIRM HAVING CUT BROKERS' COMMISSION TRAILS.

Plan QCDs early to max savings

IRAALERT
ED SLOTT

The use of qualified charitable distributions, or QCDs, from individual retirement accounts has ballooned, but tax savings opportunities are still being lost because of some basic misunderstandings about how the QCD rules work. Plan these out early in the year to maximize the tax savings.

A QCD is a tax-efficient way to make charitable donations. It's a direct transfer from an IRA to a charity, and it's available only to IRA owners and IRA beneficiaries who are age 70½ or older. A QCD is different from a required minimum distribution, which clients must begin to take no later than the year they reach 70½. A client could take his first RMD prior to reaching age 70½, but he would not be eligible to do a QCD until he actually attains this age.

The QCD limit is large, and QCDs can be done in excess of the RMD amount. Each IRA owner is permitted up to $100,000 in QCDs annually. Spouses are allowed $100,000 each, but they cannot share the total (i.e., one spouse cannot make a $150,000 QCD if the other uses only $50,000). There is no carryover of any unused QCD allowance.

In 2018, the Tax Cuts and Jobs Act introduced a new, higher standard deduction that will be used by more filers. Some clients already missed the QCD boat for 2018, but you can help them take advantage of it now with early 2019 QCD planning. QCDs can effectively add to the standard deduction (or existing charitable deduction, if clients are still itemizing) by allowing direct donations made from IRAs to be excluded from income, thus lowering adjusted gross income — and the tax bill.

If your client meets the QCD eligibility rules, it is essential that you address QCDs early in the year, before any RMDs are taken. This will reduce the possibility of the QCD opportunity being lost or causing RMDs to be taxed as a result of poor timing.

FIRST-DOLLARS-OUT RULE

Once an IRA is subject to RMDs, the first dollars withdrawn during the year are deemed to count toward satisfying the RMD.

One of the key benefits of the QCD is that it can count toward satisfying the RMD, thereby excluding that income from taxation. But once the RMD is taken, a future QCD cannot offset that income.

For example, John is 75, takes his full RMD in February and deposits the funds into his bank account. In November, he wants to do a QCD. John cannot retroactively deem the February distribution to be a QCD. He must take an additional distribution if he still wishes to do a QCD for that calendar year. That income can be excluded, but that still won't offset the income from the RMD taken earlier in the year.

$100K
MAXIMUM ANNUAL ALLOWANCE FOR QCDs

This is why advisers should identify all clients who might be eligible for a QCD and contact them before they take any RMDs. Explain how using the QCD for the first IRA dollars withdrawn can count toward the RMD and exclude that income from taxation.

However, for first-time RMD clients, early QCDs may be a challenge, depending on when they actually turn age 70½. Remember that the QCD cannot be used until the IRA owner is actually 70½ years old.

MAKE HASTE

For example, if your client will turn 70½ at the end of December, the QCD cannot be taken until then. The client may have to move fast to have it count for 2019, but this haste should affect only the first QCD. The client can complete subsequent QCDs early in those years.

Here's another planning point for first-time RMD clients.

If an IRA owner turns age 70½ in 2019, the required beginning date for the first RMD is not until April 1, 2020. But if the owner waits until 2020 to take the first RMD, not only must he or she take the first two RMDs in 2020, but the QCD option will be lost for 2019 because no IRA funds were withdrawn in 2019. A 2019 QCD cannot be used to offset the RMD income if that 2019 RMD is taken in early 2020.

Ed Slott, a CPA, created Ed Slott's 2-Day IRA Workshop and Ed Slott's Elite IRA Advisor Group. For more information, visit IRAhelp.com.

1035 exchanges are about to get easier. Is that a good thing?

BY GREG IACURCI

INSURANCE COMPANIES aren't exactly known as pioneering when it comes to digital technology. Most are entrenched in paper-dominated transactions with consumers and their financial advisers.

Annuity providers, however, are making a synchronized effort to do business in a more 21st century fashion. That's especially apparent in the realm of 1035 exchanges: tax-free transfers from one annuity contract to another.

"I think the whole industry has decided this needs to happen," said Kevin Kennedy, head of individual retirement at AXA Equitable Life Insurance Co. "All the carriers have really stepped up."

Annuity products are often derided as being expensive, complicated products, a criticism that's compounded by cumbersome industry infrastructure that often creates a months-long exchange process. Technology can reduce the time line substantially, executives said, likely to within a week, start-to-finish.

There are four primary components in an expedited process, each one electronic: applications, signatures, fund settlement and transaction paperwork between insurers, according to Jeremy Kachejian, AXA's director of business technology and operations. He expects the bulk of insurers to phase in these components by the end of 2020.

There are tangible benefits to be had for insurers from this exercise. The Insured Retirement Institute, an annuity trade group, said in its recent state-of-the-industry report that measurable improvements in transaction efficiency can "help maintain or improve profitability levels in a lower compensation environment."

Overall annuity sales of $203.5 billion in 2017 were the lowest in 16 years. Figures for 2018 haven't been released yet, but sales were expected to improve on the back of higher interest rates and the death of the Department of Labor's fiduciary rule.

IMPROVE EFFICIENCIES

IRI has formed a working group to examine all annuity transactions, which include 1035 exchanges, to determine where technology can improve efficiencies, said spokesman Dan Zielinski.

But observers see a potential risk in speeding up 1035 exchanges: an increase in conflicted sales. Some brokers have used 1035 exchanges as a way to "churn" clients' annuity contracts, as brokers make a new commission with each exchange.

The Financial Industry Regulatory Authority Inc. said in a recent report detailing exam findings that it uncovered deficiencies around variable annuities, including unsuitable and "largely unsupervised" recommendations relative to annuity exchanges. With streamlined processes comes greater volume and the potential for more abuse, some experts fear.

"Maybe more bad actors would get missed," said Sheryl Moore, president and CEO of consulting firm Moore Market Intelligence.

But the industry also wants to improve the client experience, thereby improving the adviser experience as well, Mr. Kennedy said.

The broader life insurance industry also is undergoing a digital renaissance of sorts. Some insurers have started using algorithms to speed up policy underwriting for consumers — to just a few weeks. A handful of more cutting-edge players, such as Haven Life and Protective Life Insurance Co., are using what's called "accelerated underwriting" to deliver policies to consumers on the spot without a medical exam.

Ms. Moore said although annuity business today is done primarily through broker-dealers, insurance agents and banks, she sees the future as being direct-to-consumer, which requires insurers to automate 1035 exchanges.

"I think every company that sells a financial services product is looking at that as a potential reality," said Mr. Zielinski of IRI.

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Seniors need travel insurance

When your newly retired clients chat about their plans for an upcoming dream vacation abroad, are you prepared to raise the topic of travel insurance?

Younger clients might dismiss the added expense as unnecessary, but older clients should seriously consider such protection. Why? Travel insurance protects against more than lost luggage and weather-related travel delays. It includes coverage for medical care in a foreign country and, if necessary, medical evacuation.

> **KEY POINTS**
> - Medicare stops at the U.S. border.
> - Travel insurance includes coverage for medical care.
> - It's best to purchase travel insurance as soon as you book a trip.

That's critical because Medicare, the primary insurance for Americans age 65 and older, stops at the U.S. border, and even the most generous supplemental Medigap policy provides limited coverage overseas.

Michael Kirsh, a financial planner specializing in retirement, has personal experience with travel-related medical costs. When his elderly father-in-law took a trip to Hong Kong eight years ago, he became seriously ill and was hospitalized for over a month.

MARY BETH FRANKLIN

ONRETIREMENT

Far from home and without medical insurance, Mr. Kirsh's father-in-law had to pay for his care on a weekly basis with a credit card. The final tally was more than $100,000.

It is a lesson that Mr. Kirsh has taken to heart and incorporated into his financial planning practice. So has his wife, Marcia Kirsh, who runs a luxury travel agency. She uses the story of her father's health-care nightmare as a cautionary tale when discussing international travel plans with older clients.

"People don't realize that they are not covered when they travel abroad," said Ms. Kirsh, travel advisor with Travel Experts.

"I ask every one of them if they want to purchase insurance," she said. "Some of them buy it. Others say they are willing to take their chances."

MEDIGAP, PLAN F

For people 65 and older, it's a sure bet that Medicare does not cover medical expenses outside the U.S. Even the most generous Medigap policy, Plan F, provides limited coverage abroad.

A married couple who are both 65 or older could buy a travel insurance policy for a two-week, $10,000 trip to Europe for less than $800, according to TravelInsurance.com.

For example, a policy from Travel Insured International last year included $1 million of medical evacuation coverage per person and $100,000 of medical coverage per person with no deductible. It also included trip cancellation coverage for 100% of the insured cost of the trip, trip interruption protection for up to 150% of the trip cost and $1,000 per person lost luggage protection.

That same couple could buy a medical-only travel insurance policy with $1 million of medical evacuation coverage per person and $1 million of medical coverage per person for less than $400. Or, for as little as $145, the couple could buy $100,000 of medical evacuation coverage per person and $50,000 of medical coverage per person. That could be a good, low-cost option for someone who's enrolled in a Medicare Advantage plan that offers no medical coverage abroad or who has original Medicare and a Medigap supplemental policy that does not offer any medical coverage outside of the U.S.

Travel insurance is a time-sensitive purchase. It's best to purchase as soon as you book a trip.

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

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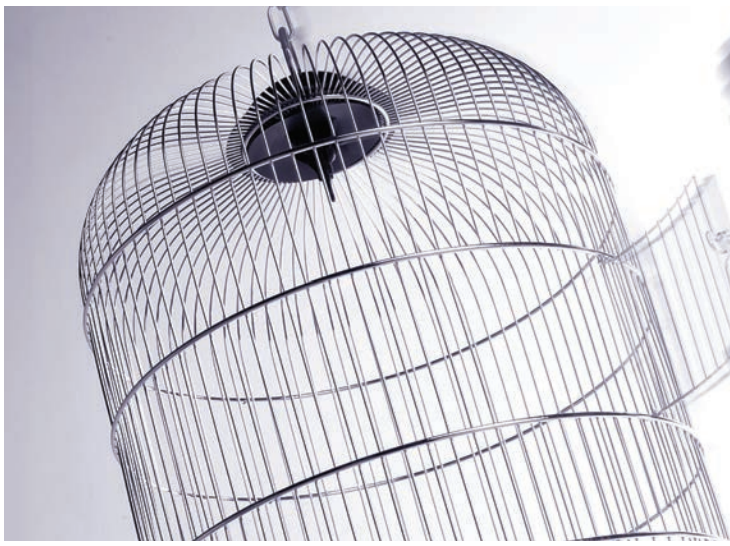

RIA world mirrors wirehouses

DANNY SARCH

ONRECRUITMENT

For those of us who have been in the wealth management industry for many years, the new reality of top advisers fleeing the wirehouses to go independent as opposed to the decades-long wirehouse to wirehouse "prisoner exchange" is as strange as Vietnam becoming a popular tourist destination. Yet, here we are.

There are many factors that account for this trend. Some are "push factors" that are driving advisers away from the wirehouses, such as annual payout changes, relentless reorganizations, and managing all advisers the same, regardless of compliance history, productivity or client satisfaction. Independence is attractive because it solves for these problems, for this aggravation.

KEY POINTS

- Top advisers are fleeing wirehouses to go independent, as opposed to decades of wirehouse "prisoner exchange."
- RIA buy/sell frenzy is mimicking wirehouse excesses.
- Factors to consider: Is transaction good for client? Are buyers overpaying? Is there a succession plan?

Top candidates at wirehouses now are reluctant to move to another wirehouse because even with a big payday, moving from one large firm to another usually does not solve these "push" factors. More importantly, these traditional moves are increasingly harder to justify to clients as being better for them.

And these big paydays are far off their highs. In the halcyon days of the recruiting wars, top deals came close to 400%. That means a total package for a top-level adviser would be four times his or her annual revenue in the form of a forgivable loan. There were caveats, contractual obligations and hurdles, but the extended bull market of the past 10 years made it more likely that a larger percentage of advisers who took those deals met those conditions than at any other time in my 30-plus years in the industry.

Today, few firms are giving as much as 300%. Critics of these deals logically question how the recruiting firm would ever make its money back with even these types of multiples. In their latest quarterly earnings calls with analysts, wirehouse CEOs now proudly tout increased profits with more and more forgivable loans falling off their books.

SALES AS COMMON AS RECRUITING

The other significant driver of the independent movement is the ability to build equity in a business that can ultimately be sold. News of RIA sales in the trade press is at least as common as recruiting moves.

But the RIA world, always critical of the wirehouse prisoner exchange, ironically is now paying a similar, if not greater, multiple because of competition driving acquisition prices higher. The numbers are arrived at differently but the net result is about the same. So, if a $5 million-dollar-revenue RIA firm with 50% free cash flow sells for as much as eight times that cash flow, the total selling price will be $20 million. What a coincidence! It's the same as four times the revenue, derided by the RIA world as overpaying. Yes, the RIA acquirer will have similar caveats in terms of performance and not all the money is paid up front.

APPEALING MULTIPLES

The top wirehouse teams are paying attention to the multiples. Not only does going independent solve the cultural issues that can make being a wirehouse adviser so unpleasant, the equity built into an adviser-owned practice can be rewarded with a big payoff when the business is sold. Furthermore, the seller is taxed at capital gains rates, not as W2 income like a recruiting check.

Yet, I see a risk that the RIA buy/sell frenzy is mimicking the same troubling behavior of the decades old wirehouse prisoner exchange. Here are some things to consider:

1. Is the transaction good for the client? Of course, both buyer and seller want to make money. But the benefit to the clients whose successful transition is the key to a successful transaction is often unclear.

2. Are buyers overpaying? It's hard to imagine that the next decade will be as good for the wealth management industry as the decade since the financial crisis.

3. Is there a succession plan since the driver for the seller is often an end-of-career payday? Succession planning is the biggest challenge facing the industry over the next 10 years. RIA sales do not automatically address the retirements of a generation of advisers who have very personal relationships with their clients. If the clients flee after their adviser has retired, then the acquirer owns a business without clients.

Danny Sarch is the founder and owner of Leitner Sarch Consultants, a wealth management recruiting firm.

Advisory firm M&A sets another record

BY JEFF BENJAMIN

THE FINANCIAL market volatility that picked up in earnest last year was not enough to derail the pace of consolidation among registered investment advisers.

Echelon Partners reported last Monday that merger-and-acquisition activity in the RIA space posted its sixth straight year of record growth in 2018.

There were 181 deals last year, 13 more than the record set in 2017. The full-year deal count was more than double the 90 acquisitions tracked by Echelon in 2013, when it began tracking this kind of activity.

STEADY QUARTERS

The quarterly pace of deal activity was steadier than in prior years, including 44 deals in the fourth quarter, which marked the best final quarter of the year since 2013.

Last year also marked another milestone: There were more than 40 deals in each quarter, including 43 in the third, 48 in the second and 46 in the first quarter.

The average deal size of $1.3 billion last year was also a record and was up 31% from the average deal size in 2017. Last year also marked the third consecutive year with an average deal size above the $1 billion mark.

In terms of the acquiring firms, strategic buyers and consolidators were responsible for 47% of the activity, followed by RIAs at 28%.

Over the past five years, the trend has seen consolidators make up a larger share of deals, while the RIA share has declined. RIAs peaked in 2013, when they made up 47% of buyers, while consolidators made up 31%.

$1.3B

AVERAGE RIA DEAL SIZE IN 2018

Breakaway broker activity also continues to trend higher, according to Echelon.

The 147 breakaways in the fourth quarter was the highest level since the outlier of the second quarter of 2016, when 176 brokers left wirehouses for the RIA channel.

The fourth-quarter breakaway activity represents a 35% spike above the historical average for breakaway activity and followed 139 moves in the third quarter, Echelon reported.

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Advocates seek tax breaks for fees, income

BY MARK SCHOEFF JR.

ADVISER ADVOCATES are playing a long game in trying to secure tax changes that would benefit investors and the advisers who serve them.

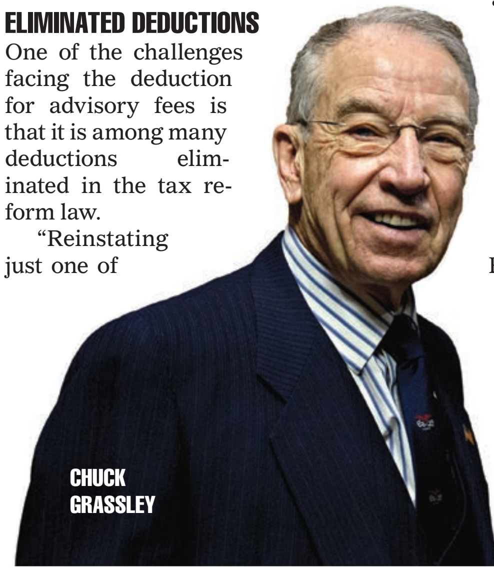
Charles Schwab & Co. and the Investment Adviser Association are approaching the new Congress where they left off with the previous one: trying to convince lawmakers to revisit the 2017 tax law to restore deductions for advisory fees and other investment expenses that exceed 2% of adjusted gross income. They also want to expand a provision of the measure providing tax breaks for pass-through income to include financial advisers.

"As you might expect, these will be difficult matters to resolve favorably, but we have to try for the sake of fairness," Jeff Brown, Schwab senior vice president for legislative and regulatory affairs, wrote in an email.

ELIMINATED DEDUCTIONS

One of the challenges facing the deduction for advisory fees is that it is among many deductions eliminated in the tax reform law.

"Reinstating just one of those wouldn't have the desired effect," said Timothy Steffen, director of advance planning at Robert W. Baird & Co. "You need to reinstate all miscellaneous deductions."



CHUCK GRASSLEY

Bringing back federal tax breaks for state and local taxes might be easier because this affects both Republican and Democratic districts. Rep. Nita Lowey, D-N.Y., has introduced a bill that would restore the so-called SALT, or state and local tax, deductions. But that bill could pit high-tax states against low-tax states.

Amending the pass-through deduction also would be complicated. Engineers, architects, insurance brokers and mortgage brokers qualify, but stock brokers and investment advisers do not.

"No matter how you draw the line, it's going to be very confusing," Mr. Steffen said. "Cherry-picking preferred professions is going to be tough to do."

To build support for the adviser tax breaks, the IAA is increasing the number of representatives it will support with campaign donations. The group is going beyond targeting lawmakers with oversight of adviser issues and reaching out to the House Ways and Means and Senate Finance committees.

"We are considering making contributions to members of the tax-writing committees as part of our effort to gain reform of the tax code," said Neil Simon, IAA vice president for government relations.

But securing victories will be tough in the new congressional landscape. Democrats, who opposed the 2017 tax overhaul approved by a Republican Congress, have taken over the House. Enough Democrats also remain in the Senate to halt tax legislation that has GOP backing.

The forecast is for tension and gridlock.

"It's far from clear that this Congress will enact any meaningful tax legislation," Mr. Simon said. "We are going to be laying the groundwork for making these changes to the tax code, but it may be a future Congress that gets around to doing it."

That seemed to be the outlook from one prominent lawmaker.

In a media gathering in his Capitol Hill office Jan. 9, Sen. Chuck Grassley, R-Iowa, chairman of the Senate Finance Committee, indicated that technical corrections are likely to be the only changes considered to the 2017 tax cuts.

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Garrett Planning Network expanding into India

BY JEFF BENJAMIN

THE GARRETT Planning Network, which promotes making financial planning available to the masses by charging hourly fees, is slated to launch a version of the network in India this year.

While fee-based advice is just catching on in the country of more than 1.3 billion people, and hourly pricing for advice is virtually unheard of, Sheryl Garrett, founder of the network, believes the time is ripe for international expansion.

The India version of the Garrett Planning Network leverages a long-term friendship between Ms. Garrett and Partha Iyengar, co-founder and chief executive of Bombay-based advisory firm Life & Money.

Ms. Garrett, who founded the network in 2000 and has grown it to more than 250 registered investment advisers who subscribe to her hourly-fee mantra, plans to visit India for the official launch.

"The network is to launch in the March-April time frame, but a lot of things will be coming together about this venture between now and then," she said.

Initially, the network in India will focus primarily on providing a gateway for recruiting women to join the country's fledgling fee-based financial planning market.

Mr. Iyengar said they will be specifically targeting women who have been working in the financial services industry for less than five years, and women who have been out of the workforce for a few years.

COMMISSIONS-BASED

According to Mr. Iyengar, who has subscribed to Ms. Garrett's fee-based philosophy since 2010, of the roughly 2.5 million financial service professionals in India, more than 80% work on commissions.

"We want to build a network just like Sheryl Garrett did," he said.

"India just started charging for planning 10 years ago, but there are 440 million millennials here, and I believe hourly fees will happen here in five years."

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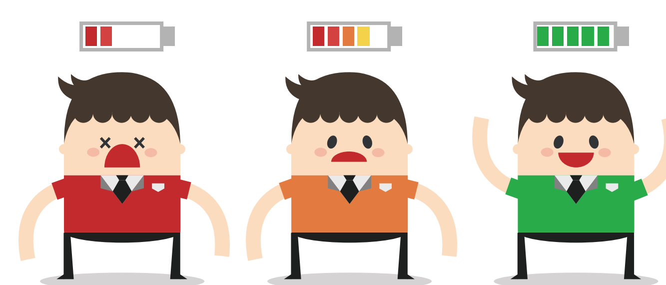

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SOURCE: CERTIFIED FINANCIAL PLANNER BOARD OF STANDARDS INC.

Bold (and completely accurate) fintech predictions for 2019

With world events as chaotic and random as they are today, making predictions is a fool's game. Anyone claiming to know for certain what the future holds probably has a bridge to sell you.

That said, I have some predictions to make about the upcoming year in adviser technology! These are guaranteed accurate with no chance any will be completely ridiculous by the end of 2019.

The last time I made predictions for *InvestmentNews*, I said 2018 would be the year large financial institutions adopted blockchain technology, "Solo" would be the first Disney-era Star Wars movie to disappoint critics, and both the San Francisco Giants and the 49ers would make the playoffs.

> **KEY POINTS**
> - Demand for financial planning will soar if market tanks.
> - Robos are here to stay and going public.
> - Regulators to focus on cybersecurity, may consider crypto-ETF.

These predictions turned out to be ... not great. The Han Solo movie disappointed moviegoers while critics kind of liked it, but the rest were dead wrong. I'll give myself 0.5 points out of four.

Oh well, we soldier on. After all, past performance is no guarantee of future results. This time I'll stick to adviser fintech, and improve my prediction success rate.

RYAN W. NEAL

ONTECHNOLOGY

FINANCIAL PLANNING GOES MAINSTREAM, AND MANDATORY

Financial planning has been gaining momentum for years, but 2019 will be a turning point in its availability throughout the brokerage and advice industry. In fact, I expect at least one large firm to make financial planning a requirement for all new accounts before the end of the year.

Technology has removed many of the obstacles that traditionally kept advisers from offering planning services, which clients will increasingly demand. Millennials like myself are far too jaded about stock markets to be swayed by investment performance alone. But a strategy to pay off student loan debt, buy a car and optimally save for retirement while still having a fun and fulfilling life sounds like something worth paying for.

If this historically long bull market is indeed at an end, financial planning can keep clients from running. As one tech executive put it to me, "It's a lot easier to sell people on progress toward goals than on investment performance when markets are bad."

ROBO IPOs AND CONSOLIDATION

First of all, robo-advisers aren't going anywhere. Even if markets completely tank, Betterment and Wealthfront are large enough to survive, and traditional institutions have no reason to pull the plug on copycat services they've spent time and money developing.

That doesn't mean the venture capital community will keep making it rain. Investors are going to demand a payday eventually, especially if markets get shaky. Smaller digital startups will follow Hedgeable and WorthFM's lead and close up shop.

Neither Betterment nor Wealthfront have been shy about their intentions to go public eventually, and 2019 could be the year one or both do it.

But if I could bet on any fintech startup making an IPO this year, I'd pick Robinhood. Regulator concerns be damned, the firm has been aggressively expanding its products and services, and said publicly it's looking to hire a CFO who can put the company on the path to a public listing.

CYBERSECURITY ENFORCEMENT TO HIT NEW BAR

For years, the Securities and Exchange Commission issued guidelines and stern warnings to the financial services industry to take cybersecurity seriously.

In 2018, the gloves came off. The SEC named cybersecurity as a top priority, hired four new staff members devoted to it and filed charges against Voya Financial Advisors, resulting in a $1 million settlement.

More is coming, and some believe the SEC is looking to send a message. Expect more enforcement actions with hefty price tags, and not just from the SEC. Finra and state regulators also are looking to prove their commitment to the cause.

CRYPTO-ETF HITS THE MARKETS

SEC chairman Jay Clayton said cryptocurrencies are not securities, but that doesn't mean a crypto-ETF is out of the question. Ethan Silver, attorney with Lowenstein Sandler who works with a lot of companies in the cryptocurrency space, said the SEC is still figuring out all the pieces when it comes to market manipulation and custody.

"How to verify these securities exist, rightful ownership, things like that. I think it's trying to take this new technology and fit it in within the existing SEC rule set," Mr. Silver said. "That is still the lynchpin that they are hesitating on approving."

But plenty of traditional financial players are jumping in and could help Mr. Clayton's agency feel more comfortable. For example, Fidelity launched a new company to custody cryptocurrencies.

Cryptocurrencies are arguably the most popular alternative investment among consumers. If traditional markets continue south in 2019, bitcoin and its peers could experience a renewed wave of interest.

If that happens, you can bet firms like Fidelity will put pressure on the SEC to figure things out.

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RIAs use mandatory arbitration too

BY MARK SCHOEFF JR.

REQUIRING CLIENTS to use arbitration to settle disputes is most often associated with brokers. But registered investment advisers rely on similar language in their customer agreements. There's no recent data, but, anecdotally, the number seems to be rising.

"In my experience it's fairly typical," said Barry Temkin, partner at Mound Cotton Wollan & Greengrass. "I've seen it often."

Although a decision on a claim can be made more quickly through arbitration than in the court system, discovery is more limited in arbitration, which is seen as an advantage for the defendant. Discovery allows one side in a lawsuit to obtain evidence from the other before the trial through depositions and documents, for example.

"RIAs have figured out the arbitration hustle," said Andrew Stoltmann, a Chicago securities attorney. "It's far better having these cases adjudicated in the darkness of arbitration without a judge overseeing discovery."

ROLE OF FINRA

Brokers use the arbitration system run by the Financial Industry Regulatory Authority Inc. Finra only hears arbitration cases against standalone RIAs if both sides agree to use the Finra forum. Also, Finra can't discipline an RIA if it doesn't pay an arbitration award, because RIAs are overseen by the Securities and Exchange Commission. Customer claims against RIAs usually are heard by the American Arbitration Association or other groups.

Finra tends to be more affordable though. For instance, in a case involving a claim of between $100,000 and $500,000, Finra assesses an initial filing fee of $1,425, according to the regulator's fee schedule. For a claim between $300,000 to less than $500,000, AAA charges an initial filing fee of $4,400 and a final fee of $3,850, according to its fee schedule.

$4,400
AMOUNT OF INITIAL FILING FEE FOR COMMERCIAL ARBITRATION WITH AAA

Finra charges a hearing session fee for a case between $100,000 and $500,000 of $450 per session with one arbitrator and $1,125 per session for a hearing with three arbitrators.

The AAA doesn't list hearing fees. A spokesman for AAA didn't respond to a request for comment.

Mr. Temkin said parties in the AAA forum are responsible for an arbitrators' hourly fee, which can range between $400 and $500 an hour for commercial disputes in large metropolitan areas.

Whether an arbitration is defined as commercial or consumer makes a big difference in AAA.

In consumer arb, the initial filing fee is $200 for the consumer. There is a hearing fee of $500 and arbitrator compensation is set at $2,500 per hearing day per arbitrator.

But consumer claims often revolve around credit card charges and other small-dollar disputes, according to Mr. Stoltmann. When a customer files a claim against an investment adviser, it is most often defined as a commercial dispute by AAA — and some customers can't afford the forum.

A former president of the Public Investors Arbitration Bar Association who has often called for Finra arbitration reform, Mr. Stoltmann nonetheless said it may be the best forum for RIA disputes.

"I can't believe I'm saying this, but the SEC should consider a rule making the Finra arbitration forum mandatory for RIA customers," Mr. Stoltmann said.

But RIAs who have mandatory arbitration clauses in their customer contracts may not be fulfilling their fiduciary duty with respect to disputes, according to Knut Rostad, president of the Institute for the Fiduciary Standard, because clients are "giving up a right that they shouldn't have to give up."

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10 things advisers should avoid with millennial clients

There are some things that advisers just shouldn't say to millennials when they are discussing financial planning, according to Douglas A. Boneparth, president and founder of Bone Fide Wealth and co-author of "The Millennial Money Fix." He recommends advisers stay away from doing any of these

1. Ask why we aren't saving for retirement. Short-term goals, like student-loan debt, cash reserves and home buying, are higher up on the priority list.

2. Say, "When I was your age ..." The last thing they want is for you to remind them of their parents talking down to them.

3. Call us "millennials." I am pretty sure millennials didn't coin the word, so don't assume we're embracing it.

4. Fail to relate to our financial situation. If you are not a millennial, don't pretend to be. It's more important that you understand our financial needs.

5. Constantly bring up that one thing we have in common. That's good you've found a connection, but don't overkill it.

6. Forget to show us value. Millennials are happy to pay, we just want to know what we're paying for.

7. Try to sell us something or push products. It's better to clearly explain the who, what, where, when, why and how behind your recommendations and allow us to think them over.

8. Use industry jargon. If you think you're being clever with terminology, think again. No one wants to feel stupid, especially millennials.

9. Assume every millennial wants socially responsible investments. While millennials are more socially conscientious than any other generation, don't assume that ESG or SRI investing is our catnip.

10. Call us entitled. With a financial reality that's radically different than other generations, the only thing that we're entitled to is not to settle.

MoneyGuide expands software

BY RYAN W. NEAL

PIETECH IS launching two new versions of its popular MoneyGuide financial planning software to expand its user base of advisers.

In addition to its core MoneyGuidePro product, PIEtech will now offer a simplified, less-expensive version called MoneyGuideOne for advisers new to financial planning or who work with clients with basic planning needs.

For advisers on the other end of the spectrum, PIEtech will offer MoneyGuideElite, a more advanced product with features beyond what's available in Pro.

"We're trying to get beyond the traditional user of MoneyGuide, that mass-affluent person," said PIEtech chief growth officer Kevin Hughes.

MoneyGuidePro has a "fast planning" feature for basic plans, but firms have to pay the full price for the technology, which can cost $125 per month, even if they don't use the more advanced features. MoneyGuideOne costs $50 per month or $500 for a year.

With MoneyGuideElite, the company is hoping to go up-market and help advisers deliver plans for older and wealthier clients. Elite can illustrate income distribution, analyze annuities and provide methods to protect retirement income. The product is integrated with insurance providers.

"The facts are real simple: The majority of advisers don't actually cover life insurance," Mr. Hughes said. "It's an opportunity for advisers and clients too."

The new products will help advisers "move up the value chain," he said.

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FPA OVERHAUL

CONTINUED FROM PAGE 4

more powerful," said Bob Veres, publisher of the Inside Information newsletter for financial planners.

The big sticking point in the endeavor, slated to go into effect for all chapters in 2020, seems to be money-related. There are 86 FPA chapters nationwide, each structured as its own separate legal, nonprofit entity that has its own cash reserves and does its own accounting and budget-setting.

The OneFPA proposal would dissolve those entities; the local chapters would be incorporated into the national entity. That's led some FPA members to fear an infringement on chapters' autonomy to raise and spend money as they see fit.

Michael Kitces, partner and director of research at Pinnacle Advisory Group, is concerned the OneFPA Network is primarily "about the raw money itself," including what he estimates to be chapters' current $4 million in reserves, as well as future surpluses, chapter dues assessments and sponsorship arrangements. That would help make up for a 35% dip in FPA national's revenue over the past decade, Mr. Kitces said in a recent blog post.

CONCERNS OVERBLOWN

But Evelyn Zohlen, president of the FPA, said concerns around money are overblown. She said chapters will be responsible for their existing and future reserves and will have autonomy from a budgeting perspective. Centralizing finances, while keeping reserves earmarked for each chapter, will help make local-chapter finances more efficient because they won't have to do their own accounting and submit annual tax forms, for example.

But Mr. Kitces wondered whether some chapters might "try to preemptively leave the FPA with any excess operating reserves" and affiliate with another organization , such as the National Association of Personal Financial Advisors or the Investments & Wealth Institute.

Not all FPA members are concerned about the proposal. Scott Kahan, chair of the FPA of Metro New York, said he thinks members will benefit from some of the operational efficiencies that will be put in place.

"I'm not sure what the problem with this is," he said. "I think there's a lot being made of national taking over. I don't see that at all."

> **"THE QUESTION IS CAN THEY PULL THIS OFF. THIS IS A MAJOR, MAJOR ENDEAVOR."**
>
> SCOTT KAHAN, CHAIR
> FPA OF METRO NEW YORK

The FPA of Metro New York could be a barometer of sorts for the future success of the OneFPA initiative. The chapter's predecessor, the FPA of New York, was dissolved and brought under the national umbrella following an allegation of unethical behavior leveled at members of the board. FPA assumed control of the chapter's assets as well.

Mr. Kahan, who took over as head of the chapter, said FPA hasn't impeded the chapter's autonomy or control over its finances and programming.

Other observers point to the FPA's democratic olive branch. Chapter leaders haven't previously had input into the FPA's strategic direction or leadership, but the new initiative would create a council — the OneFPA Council — allowing a greater level of participatory governance. It would have a representative from each chapter as well as internal groups like NexGen.

DECISION-MAKING AUTHORITY

However, some FPA members say the structure doesn't provide any governance authority to the council, since the board of directors still retains ultimate decision-making authority.

"Why are they afraid of democracy?" asked Michael Ross, former president of FPA of South Florida. "They believe they have a superior vision and we are a bunch of idiots."

Ms. Zohlen said the national board of directors serves as the fiduciary for the organization, while the OneFPA Council does not, which is why it must retain final decision-making authority.

"The buck must stop with the FPA's board," she said. "But the board is listening intently and wants input from the council."

FPA officials are about halfway through a nationwide listening tour, which runs through February, to get feedback about the proposal. The FPA has publicly acknowledged the criticisms it's heard from stakeholders to date and says the OneFPA initiative is merely a proposal that is subject to change based on feedback.

"The question is can they pull this off," Mr. Kahan said of officials overseeing the OneFPA initiative. "This is a major, major endeavor. Time will tell."

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FINTECH FOR ALL

CONTINUED FROM PAGE 5

Now he sees "more sober and holistic thinking" at financial institutions when it comes to technology. Instead of deploying something exclusively for millennials, firms want to offer a unified technology platform for all clients and then provide segmented services.

NextCapital, for example, provides advice that spans a client's financial lifecycle — from early saving to rolling over an account to personalized decumulation.

Another example is MoneyGuide, which recently launched an "elite" version of its financial planning software with features to help advisers with estate planning, retirement income and annuities.

"Everybody is going to want to have a digital advice platform," Mr. Foregger said.

Rhian Horgan, a former managing director at JPMorgan Asset Management, sees this as an opportunity for a new digital adviser.

Her company, Kindur, is built to help baby boomers navigate modern retirement with advice on savings, spending and health-care costs.

Even Betterment, often pegged as a paragon of millennial-focused fintech, offers retirement income portfolios and automated withdrawals for older investors.

According to Joe Ziemer, vice president of communications, 30% of Betterment's business comes from customers above age 50.

"At the end of the day, there's certainly a desire for a better user experience and automated tools that should just apply to everybody," Mr. Ziemer said. "The older demographic doesn't get enough credit for their use of technology."

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WELLS FARGO

CONTINUED FROM PAGE 5

Wells Fargo Advisors spokesperson Kim Yurkovich in an email. "Year-over-year head count is off 4%, or 576 less, with peak attrition in August."

"The average productivity of the advisers who left this year was only about half that of our current average adviser," she said. "The average production of the advisers we hired in the fourth quarter was the highest it has been in two years," Ms. Yurkovich added, declining to comment on specific recruiting figures.

One recruiter who moves advisers from Wells Fargo to competitors said that the interest among advisers to leave the firm has not fully abated.

"From the recruiters' standpoint, the sell cycle is much shorter with Wells Fargo advisers than what it used to be," said Casey Knight, executive vice president and managing director at ESP Financial Search, a recruiting firm. "It typically takes nine months to move an adviser from a wirehouse. That's been cut to six months or three months or sometimes less than that with current Wells Fargo people. Advisers are saying that some of their key clients, a handful, are coming to them and asking if they are thinking about making a move."

Fourth-quarter revenue totaled slightly less than $4 billion at the wealth and investment management group, which includes Wells Fargo Advisors, representing a decline of $376 million, or 9%, compared with a year ago, according to the company's earnings release.

For top news from two other wirehouse earnings calls last week, visit InvestmentNews.com/merrillearnings and InvestmentNews.com/morganearnings.

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FINANCIAL CONSULTANTS ASSOCIATION

PASS-THROUGHS

CONTINUED FROM PAGE 5

investment companies, charitable remainder trusts and split-interest trusts, the IRS said in a statement.

The pass-through deduction was included to give a tax break to businesses whose owners pay the taxes on their personal tax returns — partnerships, limited liability companies, and S corporations.

All taxpayers who earn less than $157,500, or $315,000 for a married couple, can deduct 20% of the income they receive via pass-through businesses from their overall taxable income. If taxpayers earn above those amounts and aren't service professionals, such as lawyers or accountants, they must meet certain tests to take the full deduction. The size of their deduction depends on how much they pay in employee wages or how much they've invested in capital like real estate.

For service professionals, the break fully phases out if they earn more than $207,500 if they're single, or $415,000 if they're married.

The rules make clear that companies can't use a tax planning technique called "crack and pack" to avoid limits on the new tax break. Professional service providers had eyed the break to get around the income limits set for owners of pass-through businesses.

The strategy would have allowed them to split their firms into different entities to lower their tax bills.

SEPARATE BOOKS

But companies with some income that qualifies and some that doesn't can still delineate those different activities, such as through separate accounting books, to get the deduction on the eligible income. For example, banking activities qualify for the deduction but wealth management advising doesn't, so a bank with some investment advising can separate the bookkeeping for those two units and still get the deduction on the qualifying income.

> **$315K**
> AMOUNT UNDER WHICH A COUPLE CAN DEDUCT THE 20%

The rules retain a provision meant to simplify record keeping if companies only have a small amount of income from ineligible activities, such as health or law. If less than 10% of the income is from ineligible sources, the company can still get the full deduction on all its profits.

Despite Treasury rules making it more clear how the law is implemented, the deduction isn't available evenly, even within industries, said Mike Greenwald, partner at accounting firm Friedman. A long-time building owner may not be able to get the tax break, while newer buyers might be able to get the deduction because they've invested more capital in the building, he said.

Donald Susswein, a pass-through tax specialist who's a principal in the Washington national tax unit of RSM US, said the final rules allow taxpayers to choose whether to use prior proposed regulations or the final regulations when preparing their returns.

Ordinarily, final rules supersede earlier rules, but this time the Treasury Department made an exception because many taxpayers had already put their accountants to work for the filing season. "It's unusual," Mr. Susswein said.

EDUCATIONAL IMPACT

CONTINUED FROM PAGE 6

tive to other professions. While the catchall category of financial services includes bankers, brokers, advisers and agents, the average consumer sees people who work with money for a living as part of the same cohort.

Now consider the opportunities.

Consumers cite many reasons for not having savings, but the vast majority state they do not make enough money to save. Some believe they will not need retirement savings because of Social Security or a company retirement plan.

FINANCIAL CHOICES

Other consumers prioritize paying down debt, struggle to pay monthly bills or have depleted their savings for an emergency. According to the National Endowment for Financial Education, two-thirds of U.S. adults admit to experiencing an unexpected financial setback in 2018. Emergency medical care and housing and car repairs represent the majority of these crises. The Bureau of Labor Statistics supports NEFE's research by observing that 62% of the average American's expenses go to three things: housing, transportation and food. The choices consumers make may be almost as important as their income.

Most Americans are not taught how to make good financial choices, including how to prepare for life's surprises. Our society and economy depend on consumption and instant gratification. Many people may not comprehend the details of leasing over buying, depreciation versus appreciation, cash flow and credit card debt — yet these are among the many financial choices they make each day.

For the most part, our schools do not teach financial literacy. Imagine if we taught young people how to make good decisions around the concepts they will navigate as adults before they were actually confronted with such choices on their own. What if they learned to budget for grocery shopping and other purchases, how to open a bank account, and strategies for buying a car, planning a trip or saving for higher education or training.

GETTING STARTED

Financial advisers have an opportunity to change lives by taking a leadership role in financial literacy education. Many programs exist to help financial professionals engage with schools. The first step requires a commitment:

1. Influence your school board to provide the education.
2. Sponsor a financial literacy summer camp for elementary school students.
3. Adopt your high school to provide an accredited class on personal economics.
4. Provide scholarships to those who excel at the coursework.
5. Invite students to be interns in your firm, where you also teach them the basics of personal finance.

It is tempting just to write a check — but experiencing how transformative it is for kids to learn the basics of personal finance will feed your motivation and commitment.

You can make a meaningful impact. Isn't that one reason you chose to be in this profession in the first place?

Mark C. Tibergien is CEO of BNY Mellon's Pershing Advisor Solutions. He sponsors his former high school's personal economics class for seniors and a summer camp for elementary students in Michigan's Upper Peninsula.

DISCRIMINATION SUIT

CONTINUED FROM PAGE 6

torneys responded to requests for comment.

Mr. Schurg worked for Edward Jones for 14 years until he was terminated in July 2016, according to his BrokerCheck profile. For the last two months of his tenure, he was on medical leave. The arbitration award does not explain the reason for Mr. Schurg's medical leave.

he couldn't execute that order because his medical leave started shortly after his meeting with the client, and he was prohibited from conducting business while away from the office.

He said he was assured by Edward Jones that someone would take care of his clients in his absence but that the firm failed to follow through.

"I was surprised to learn that the money was not invested," Mr. Schurg wrote. The client's claim

> **"I WAS SURPRISED TO LEARN THAT THE MONEY WAS NOT INVESTED."**
>
> RODNEY HUNTER SCHURG
> FORMER BROKER, EDWARD JONES

A customer dispute involving Mr. Schurg occurred at the time of his absence from the Edward Jones office in Lander, Wyo. The client alleged that he failed to invest in 10 equities on her behalf in May 2016.

FAILURE TO FOLLOW THROUGH

In a statement on his BrokerCheck profile, Mr. Schurg said

was resolved for $550.

Mr. Schurg has been an investment adviser representative for LPL Financial in Lander since 2016, according to a public disclosure with the Securities and Exchange Commission.

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VOYA FINANCIAL ADVISORS

JOHN BOGLE

CONTINUED FROM PAGE 7

Thrifty, irascible and courageous, Mr. Bogle was a personal example to many. He was born into a well-to-do family but his father was an alcoholic and his parents divorced; his mother worked retail jobs to support the family.

After attending Blair Academy, a private and, at the time, all-boys' school, on a full scholarship, Mr. Bogle worked his way through Princeton University. He married his wife, Eve, in 1956. The couple had six children, raising them in a four-bedroom house in suburban Philadelphia.

"CASINO MAY BE TOO KIND A TERM TO DESCRIBE THE WALL STREET OF TODAY'S MARKETPLACE."
JOHN BOGLE

Mr. Bogle said he tried to teach his children the value of hard work, but regretted that they didn't have the kind of hard-knocks experiences he had as a child.

"I feel sorry for kids who grow up never taking a job because they have to," Mr. Bogle said to *InvestmentNews* in January 2015.

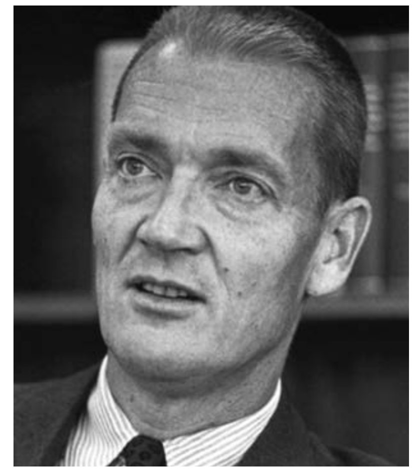
Mr. Bogle is survived by his wife, and his children: Andrew Armstrong Bogle, Barbara Bogle Renninger, Jean Bogle, Nancy Bogle St. John, Sandra Hipkins Bogle and John C. Bogle Jr.

HEART TRANSPLANT

He survived a heart transplant in 1995, 35 years after doctors told him he might not live to the age of 40. He ignored what the doctors said and continued to work and play squash.

After Vanguard's mandatory retirement age forced Mr. Bogle to retire — a move he resisted — he became an investor advocate and fierce critic of the investment industry.

"Casino may be too kind a term to describe the Wall Street of today's marketplace," he said in his characteristic raspy voice during a speech in 2014 to hundreds of people at the Bryn Mawr Presbyterian Church, near his home. He railed against the "croupiers" of the investment industry, people who took fees for services that added little value to investors.



John Bogle in his early days.

CONFLICTED INDUSTRY

He thought the industry was hopelessly conflicted because most fund companies are owned by conglomerates that demand profits that necessarily have to come from fees on investors.

Mr. Bogle had one central message for individuals: that in the long term, they were better off trying to mirror the market than beat it. His argument was that it is too difficult to find good funds, and nearly impossible to find one that continued producing higher-than-average returns. After fees, the math never made sense to Mr. Bogle.

"The investment business is 80% luck and 20% skill," he said. "We know that skill does not abide."

At Princeton, he took various jobs, including one at the local post office and managing the football team's ticket office.

A paper he wrote in college on the nascent mutual fund industry led to a job at Wellington. Mr. Bogle credited its founder, Walter L. Morgan, with being his mentor. Within a decade, Mr. Morgan handed the reins to Mr. Bogle.

In an effort to ramp up the company's faltering returns, Mr. Bogle merged it with Thorndike Doran Paine and Lewis, a Boston-based consulting group. By 1974, Wellington's investing style began to fail and Mr. Bogle's partners forced him out.

In the struggle afterward, Mr. Bogle had plenty of time to think. He realized what he had done wrong.

"To save the management company, which as a business was falling apart, I had to do things that were not in the interests of the funds' shareholders."

VANGUARD IS BORN

And thus was born the idea for Vanguard. The name came to Mr. Bogle from a visit with an antiques salesman. To furnish his new office, Mr. Bogle bought some prints for the walls. The salesman happened to have a copy of a book describing Admiral Horatio Nelson's battles. There was a picture of the Duke of Wellington on His Majesty's ship, the Vanguard, and Mr. Bogle knew he had his name.

"If I had spent $10 million on it, I could not have come up with a better one," he said.

The book was still on the coffee table in his office in 2015.

Vanguard was not an immediate success, the years between 1974 and 1981 were a struggle. The idea of index investing took hold with institutions first.

It even took the SEC four years to approve the corporate structure that created Vanguard. The first index fund crossed the $1 billion mark in assets 15 years after its founding, Mr. Bogle reported in his book "Common Sense on Mutual Funds" (Wiley, 1999).

NOT KEEN ON ETFs

His career at Vanguard included controversies. In 1991, he turned down a chance for the company to get involved with the first exchange-traded funds. The product's inventor, Nathan Most, offered the concept to Vanguard first before taking it to State Street Global Advisors.

Mr. Bogle's conviction that investors are best served by long-term, passive investing was offended by the new products, which can be traded intraday. He thought the product would encourage too much trading by individuals without the skill to pick stocks.

"Why do I want to do something that hurts investors?" Mr. Bogle said in the interview. "You bring out something that is going to be very marketable. So say you get to $4 trillion in 2018, just for the fun of it. If you do nothing, you're going to get to $4 trillion in 2020.

"So what's the hurry? What difference does it make?"

To read the full obituary, visit InvestmentNews.com/Jack.

Elizabeth MacBride is a freelance writer.

INDUSTRY REACTION

CONTINUED FROM PAGE 7

Sallie Krawcheck, CEO of Ellevest

"It's certainly the end of an era. Everyone in the industry today is standing on the shoulders of that giant. In addition to building his own company and being an innovator in the industry, he also played the role of its conscience."

Mohamed El-Erian, chief economic adviser at Allianz

"He will be remembered not only for leaving a huge mark on the investment management industry ... but also for his admirable graciousness, impressive wit, strong communication skills and consistent thoughtfulness."

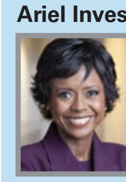
Brian Moynihan, CEO of Bank of America

"He was a great American innovator who taught us the value of long-term thinking. We will miss him."

Rob Arnott, founder of Research Affiliates

"He was as disruptive to the investment business as Steve Jobs was to the computer world. He wasn't the first to do an index fund but he was the first to do it in a fashion that regular people could invest in."

Mellody Hobson, president of Ariel Investments



"I had the privilege of meeting John Bogle early in my career at Ariel. I was a pip squeak and he was an industry icon who always put the customer first — full stop. In each and every encounter, he pushed me and made me better. He did the same for our industry."

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1. Source: Morningstar®, 12/31/18. Morningstar Ratings measure risk-adjusted returns. The Overall Morningstar Rating™ for a fund is derived from a weighted average of the performance figures associated with its 3-, 5- and 10-year (if applicable) rating metrics. For each mutual fund and ETF with at least a 3-year history, Morningstar calculates a Morningstar Rating™ based on how a fund ranks on a Morningstar Risk-Adjusted Return measure against other funds in the same category. This measure takes into account variations in a fund's monthly performance, and does not take into account the effects of sales charges, placing more emphasis on downward variations and rewarding consistent performance. The top 10% of funds in each category receive 5 stars, the next 22.5% receive 4 stars, the next 35% receive 3 stars, the next 22.5% receive 2 stars and the bottom 10% receive 1 star. The Fund's Advisor Class was rated against 463, 367 and 261 Allocation—30% to 50% Equity funds and received a Morningstar Rating of 5, 3 and 5 star(s) for the 3-, 5- and 10-year periods, respectively. Morningstar Rating™ is for the named share class only; other classes may have different performance characteristics. **Past performance is not an indicator or a guarantee of future performance.** © 2018 Morningstar, Inc. All rights reserved. The information contained herein is proprietary to Morningstar and/or its content providers; may not be copied or distributed; and is not warranted to be accurate, complete or timely. Neither Morningstar nor its content providers are responsible for any damages or losses arising from any use of this information.

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