InvestmentNews®

FEBRUARY 11-15, 2019

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2 FIRMS OFFERING BIG RECRUITING DEALS / 3 RETIREMENT BILL GETS BIPARTISAN SUPPORT / 17 FINRA TO PROBE EFFORTS AGAINST ELDER ABUSE / 21 UPDATING THE 4% RULE

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#UsToo

THE FINANCIAL ADVICE INDUSTRY IS NOT IMMUNE FROM SEXUAL HARASSMENT AND ITS DESTRUCTIVE CONSEQUENCES

PAGE 8

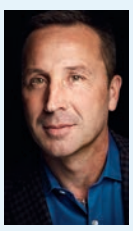
ACCURACY / EXCELLENCE / FAIRNESS / IMPARTIALITY / INDEPENDENCE

EDITOR'S NOTE

It's a problem

Since the New York Times reported allegations of serial sexual misconduct by movie mogul Harvey Weinstein more than a year ago, tens of thousands of people — men and women — have come forward to share their stories of sexual predation. Those stories run the gamut from lewd remarks to rape.

Despite being a male-dominated profession, financial advice has yet to face the full brunt of the #MeToo movement. So far.



FRED GABRIEL

But nearly 80% of financial advisers in a recent *InvestmentNews* survey said sexual harassment is a problem in the profession.

Thirty percent said they'd personally experienced sexual harassment, and more than half said they'd witnessed or experienced sexual harassment in the industry at least a couple of times.

The point of these statistics — and this week's cover story — isn't to bring shame upon a noble profession. Indeed, a similar survey aimed at many professions would likely yield similar results.

The point is to remind us that just because the financial advice profession hasn't experienced a reckoning on the order of magnitude brought down on Hollywood, it doesn't mean sexual misconduct isn't occurring.

The point is for us to stay vigilant in the fight to thwart sexual harassment. It must never be tolerated or swept under the rug.

I'd like to thank the 345 men and women who participated in our survey — especially those who took the time to share their stories. Let's hope your courage serves as a catalyst for change.

fgabriel@investmentnews.com
Twitter: @fredpgabriel

Big bonuses on tap for 2019 recruits

Seeking either to build on or create momentum with potential recruits, three large brokerage networks —

BRUCE KELLY
ONADVICE

Wells Fargo Advisors, LPL Financial and Cetera Financial Group — are beginning 2019 with substantial offers to lure brokers and financial advisers to change employers and move their businesses to a new address.

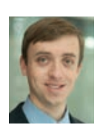
The offers come at a time when the largest, most dominant brokerage firms in the industry, Merrill Lynch, Morgan Stanley and UBS Financial Services Inc., have recently pulled back on recruiting, which is a costly and risky way of doing business. Instead, the three wirehouses are looking to grow assets internally and trying to focus their advisers on using technology intended to increase revenues.

As those three giants pull back from recruiting, there's a

CONTINUED ON PAGE 22

Vanguard touts value of active bond funds

Quick — what's the first word you associate with Vanguard Group Inc., the $5.1 trillion investing giant? Perhaps it's "indexing" or "passive," referring to some of the asset manager's largest fund offerings, such as its $577 billion Vanguard Total Stock Market Index Fund or the $154 billion Vanguard Total Bond Market II Index Fund.



GUESTBLOG
BRIAN CHAPPATTA

John Hollyer, global head of fixed income at Vanguard, would much prefer you use the term "low cost."

The distinction seems like semantics at first glance. After all, many tributes last month to Jack Bogle, the founder of Vanguard who died at age 89, interchangeably referenced the rise of index mutual funds and the decline in investor fees, sometimes in the same breath.

MORE
Former bond king Bill Gross retires.
PAGE 12

Yet, in what may be unknown to some, Vanguard has $1.3 trillion in actively managed funds, including $413 billion in active bond funds.

And Mr. Hollyer only expects that fixed-income figure to grow: The firm is building out a high-yield team to go along with its current roster, which includes specialists in U.S. investment-grade corporate debt and emerging markets, part of its push to extend its reach beyond the U.S.

"Vanguard isn't index versus active — it's low cost versus high cost," Mr. Hollyer said in an interview.

"We feel strongly that low-

CONTINUED ON PAGE 22

Vol. 23, No. 6, February 11, 2019. **InvestmentNews** (ISSN 1098-1837) is published weekly except for the first week of January, the first, third and last week of July, the second and fourth week of August and the last week of December by InvestmentNews LLC. The agent is Crain Communications Inc., 1155 Gratiot Avenue, Detroit, MI 48207-2912. Periodicals postage paid at Detroit, MI and additional mailing offices. POSTMASTER: Send address changes to InvestmentNews, Circulation Dept., 1155 Gratiot Avenue, Detroit, MI 48207-2912. U.S. subscription price: $89 a year.

Retirement bill has bipartisan backing

BY MARK SCHOEFF JR.

LEGISLATION that would help small businesses offer retirement plans to their employees and ease the use of annuities in them was reintroduced in the House last Wednesday with bipartisan backing.

The Retirement Enhancement and Savings Act contains several provisions designed to increase the number of workers covered by workplace programs, according to a summary of the measure.

The bill would allow small employers to band together to sponsor plans, clarify how plan sponsors can satisfy their fiduciary duty surrounding the use of annuities in 401(k)s, expand auto-enrollment and auto-escalation, and provide lifetime income estimates.

HEARING ON SECURITY

The legislation was reintroduced with bipartisan authors, Reps. Ron Kind, D-Wisc., and Mike Kelly, R-Pa., as the House Ways and Means Committee conducted a hearing last Wednesday on retirement security.

KEY POINTS

- RESA contains provisions designed to increase the number of workers covered by plans.
- Bill eases use of annuities in 401(k) plans.

"Hopefully we can find an early date this year to move forward," Mr. Kind said at the hearing.

Companies that provide annuities and insurance industry lobbyists were strong proponents of the bill last year and are eager to support it again.

Roger Crandall, chairman and chief executive of Mass Mutual Life Insurance Co., was a witness at the hearing and said the bill would decrease the costs of offering retirement plans for small employers and give them more certainty when they include annuities.

"This is excellent bipartisan, bicameral legislation," he said.

In a recent letter to Mr. Kind and Mr. Kelly, the Insured Retirement Institute urged speedy action.

"RESA will provide Americans with common-sense measures to help them address the challenges and overcome the obstacles they face as they plan and save for their retirement," wrote Wayne Chopus, president and CEO of IRI. "We would urge you and all your colleagues in the House to advance this legislation quickly for consideration."

EDITORIAL
A new call for compromise.
PAGE 6

The committee chairman, Rep. Richard Neal, D-Mass., who has made increasing retirement savings a signature issue, called the bill a "solid starting point."

Last Wednesday's hearing "is a great example of how dedicated [Mr. Neal] is to retirement policy issues and to getting bills like this over the finish line," said Chris Spence, senior director of government relations at TIAA.

mschoeff@investmentnews.com
Twitter: @markschoeff

Wells Fargo outage puzzles IT experts

BY RYAN W. NEAL

WELLS FARGO WAS still experiencing some service outages last Friday, a day after an issue at one of the bank's facilities took much of the bank offline, including its website, mobile app, ATMs, credit and debit cards, and internal systems used by tellers.

As of last Thursday night, Wells Fargo ATM services had been restored, bank branches were operational after being shut out of the system, and customers were once again able to make purchases with credit and debit cards. Mobile and online banking were back up, but some features, such as the ability to check credit card and mortgage balances, remained unavailable. The contact center was also restored, but Wells Fargo cautioned customers that use of the phone system may have unusually long wait times.

The Wells Fargo Advisors website appeared to have remained active throughout the incident, causing no disruption to brokers or their clients.

"We continue to work on restoring all our services as soon as possible, and encourage customers to contact us if they have questions or concerns," the company said in a statement last Thursday.

'POWER SHUTDOWN'

The cause of the service outage was "a power shutdown at one of our facilities, initiated after smoke was detected following routine maintenance," according to the statement. But several IT experts interviewed for this story, most who gave comments on background, say that explanation raises more questions than it answers. Of chief concern: If this was a power outage, why wasn't a backup activated immediately?

> **"THERE WAS NO APPROPRIATE LEVEL OF BACKUP ... IN PLACE."**
> ALISSA KNIGHT, SENIOR ANALYST, AITE GROUP

CONTINUED ON PAGE 23

401(k) jargon to rephrase

Here is some of the most common retirement plan lingo, and easier-to-understand descriptions for clients.

ROTH
Craig Stanley, lead partner with Summit Group of Virginia, tells clients they can pay tax when they "plant the seed" (Roth) or pay tax when they "harvest their crop" (traditional).

DEFERRAL
Jason Chepenik, managing partner of Chepenik Financial, recommends using the term "contribution" instead.

DEFINED CONTRIBUTION
Advisers can substitute "workplace savings plan," said Steven Wylam, partner at Shepherd Financial.

BASIS POINTS
Rather than say 35 basis points, or bips, for example, "say "35/100ths of 1% or $3.50 per $1,000 in your account," said Ellen Lander, principal and founder of Renaissance Benefit Advisors Group.

ASSET CLASSES
"Each fund is playing in a different sandbox, with different types of sand, texture and water," Mr. Stanley explains to clients." So it is unreasonable to compare the sand castle one manager built versus another ... Only comparing managers in the same sandbox with the same sand would be reasonable."

DOLLAR-COST AVERAGING
Mr. Chepenik expresses the concept of "investing each paycheck" rather than dollar-cost averaging.

RISK
Ms. Lander prefers to use the word "volatility" when it fits, quickly describing that volatility means "up-and-down movements."

VESTING
Mr. Stanley describes vesting as "ownership" of the money.

GLIDE PATH
Mr. Wylam uses dynamic or adaptive cruise control on a car to describe a glide path. Newer cars have cruise control that automatically slows it down the closer it gets to another vehicle, like a glide path does the closer one gets to retirement.

PORTFOLIO
"We try to say 'your account,'" Ms. Lander said.

Hundreds of advisers left Wall Street in 2018

BY BRUCE KELLY

LAST YEAR WAS another banner year for brokers and advisers leaving the Wall Street wirehouses and moving to financial advice platforms, where they typically receive higher pay and deal with fewer conflicts of interest when it comes to selling products.

According to *InvestmentNews* data, 235 individual advisers or teams with $61.5 billion in assets left a wirehouse, meaning Merrill Lynch, Morgan Stanley, Wells Fargo Advisors or UBS Financial Services Inc., last year to work at another type of firm, such as a stand-alone registered investment advisory, a hybrid firm, an independent broker-dealer or a regional brokerage.

However, last year's totals on advisers and assets leaving wirehouses declined somewhat from those of the year before. Compared with 2017, last year saw an 11.5% decline in the number of advisers and teams leaving wirehouses and a 23.1% drop in assets, according to *InvestmentNews* data, which does not capture all the moves of advisers and brokers but only those publicly reported by companies or news organizations.

235
MINIMUM NUMBER OF ADVISERS OR TEAMS WHO LEFT WIREHOUSES IN 2018

The decline might have been anticipated. In late 2017, two of the wirehouses, Morgan Stanley and UBS, took a major step to slow departures of advisers by withdrawing from an agreement known as the protocol for broker recruiting. That agreement makes it easier for advisers to leave a firm for a new employer. In the second half of 2018, Morgan Stanley and UBS saw the number of exiting brokers decline, according to *InvestmentNews* data.

Although last year's numbers were down from those of the previous year, "the reality is that these

CONTINUED ON PAGE 23

Maryland bill would impose fiduciary duty

BY MARK SCHOEFF JR.

LEGISLATION INTRODUCED last week by Maryland state lawmakers would raise investment advice standards for brokers and insurance representatives — marking an expansion of coverage compared to a Securities and Exchange Commission proposal.

The Financial Consumer Protection Act of 2019, introduced in the Maryland Senate last Monday and recently posted online, contains a short provision that would make brokers and insurance agents fiduciaries and would require them to act in the best interests of their customers "without regard to" their own financial gain.

The bill places the same requirement on investment advisers, who already meet a fiduciary standard.

CLOSER TO DEFUNCT DOL RULE

The inclusion of insurance agents makes the Maryland approach closer to that of the now-defunct Labor Department fiduciary rule that would have applied to retirement accounts. The move brought immediate resistance from the industry.

"We strongly urge the legislature to think twice about a bill that would do more harm than good to the Marylanders it is intended to benefit," Bruce Ferguson, senior vice president for state relations at the American Council of Life Insurers, said in a statement. "It will deny many savers in the state access to

CONTINUED ON PAGE 24

Proposed tax targets trades

BLOOMBERG NEWS

WALL STREET would bear the brunt of the latest tax proposal as Democrats jockey for the most progressive tax ideas with the approach of the 2020 elections.

Sen. Brian Schatz, D-HI, is working on a plan that would tax financial trades, according to his spokesman, Michael Inacay, who declined to provide details on how, exactly, it would be structured.

Financial transaction taxes typically place a levy of a fraction of a percent on the price of a securities trade. The idea has gained popularity within the Democratic Party as a way to curb high-frequency trading as well as raise revenue for progressive policies such as free college tuition.

Such a tax, however, remains a legislative long shot, especially with Republicans in control of the White House and the U.S. Senate.

For now, though, it adds to the array of progressive tax proposals Democrats could embrace to distinguish themselves from the GOP going into the next election season. A series of recent polls show a majority of voters like the concepts.

The tax plans come in various forms. Sen. Elizabeth Warren, D-Mass., has proposed an annual 2% wealth tax on net worth of more than $50 million. Sen. Bernie Sanders, I-Vt., advocates raising the estate tax rate to 77% for estates over $1 billion as well as expanding the number of fortunes liable for the levy.

$777B

10-YEAR REVENUE OF A TAX SET AT 0.1% OF A TRADE

The estate tax exemption was $3.5 million as recently as 2009. The 2017 tax overhaul, installed by Trump and the Republican-controlled Congress, increased it to $11 million for individuals through 2025, and some Senate Republicans are renewing an effort to repeal the tax entirely.

Sen. Kirsten Gillibrand, D-N.Y., has backed plans that would tax financial trades. The revenue of a tax set at 0.1% of the value of a securities trade is estimated to raise about $777 billion over a decade, according to the Congressional Budget Office.

Critics of such taxes say they would make capital more expensive for companies, meaning they'd raise less of it.

IN ON THE ROAD

Don't be afraid to raise advisory fees

BY JEFF BENJAMIN

IT'S TIME for financial advisers to get over their fear of raising their fees, and a good place to start would be introducing a minimum annual fee for clients.

Eliza De Pardo, a management consultant for TD Ameritrade Institutional, said her research shows that while advisers rarely raise fees, those who do don't usually suffer as a result.

"Advisers say they are afraid clients will leave, but clients don't actually have a problem when fees are brought up to a market rate," Ms. De Pardo said during her presentation last Thursday at TD's annual LINC conference in San Diego.

According to Ms. De Pardo's research, comparing firms that raised fees over the past two years with firms that did not shows client retention rates were virtually even, at just over 97%.

The client growth rate was actually slightly higher, at 8.6%, for firms that had raised fees over the past two years. The average client growth rate was 7.8% for firms that had not raised fees.

MORE
Ron Carson talks tech at LINC.
PAGE 24

The key to raising fees, Ms. De Pardo explained, is making sure clients understand the value that firms are providing, which can be difficult when fees are "bundled" under an asset-based pricing model.

For most firms, the primary issue is less about raising fees than it is about migrating away from asset-based fees, Ms. De Pardo said.

"Asset-based pricing reinforces investment management and it is the most empathetic model, because you are suffering when your clients are losing money," she said.

According to her research,

CONTINUED ON PAGE 24

TDAI LINC

© LILA PHOTO FOR TD AMERITRADE INSTITUTIONAL

TIM HOCKEY

TD Ameritrade won't compete with RIAs, executives say

BY JEFF BENJAMIN

WHEN TD Ameritrade rolled out its top-level executives last Thursday at its annual LINC conference in San Diego, they wasted no time in underscoring the big custodian's commitment to registered investment advisers.

"We believe RIAs are the best solution for families and individuals, and we are not going to try and compete in the same space as RIAs," said TD Ameritrade CEO Tim Hockey.

The statement, which was welcomed with enthusiasm by the audience of several hundred financial advisers, was part of a presentation about the company's effort to determine what the adviser community wanted.

"The message that came through loud and clear from RIAs was, 'Don't compete with us,'" Mr. Hockey said. "You deserve to work with a firm that

CONTINUED ON PAGE 24

OPINION

EDITORIAL / LETTERS / OP-ED / GUEST BLOGS

Politicians must rise above discord to tackle Americans' financial security

PRESIDENT DONALD J. TRUMP spent a good portion of his State of the Union address last Tuesday reminding Americans of a particularly proud moment in our history: the Normandy landings on D-Day in World War II and the subsequent liberation of the Dachau concentration camp.

Presidential commemorations of D-Day have abounded over the decades, from Franklin D. Roosevelt first calling on the nation to join him in prayer for the troops during the invasion, to President Dwight D. Eisenhower's recollection of the international unity required to pull it off (he'd organized the operation 10 years earlier), all the way up to Barack H. Obama's remembrance of sacrifice and courage on the 70th anniversary in 2014. And for many presidents in between, the action on those beaches has served as an archetype of America's potential for greatness. Mr. Trump agreed.

But it is not only heroics in war that can bring a country together — particularly when issues impacting a large portion of Americans day in and day out have viable solutions if only policymakers would come together. Surely there are things Republicans, Democrats and independents can agree on to improve the financial security of average citizens, for example.

InvestmentNews senior reporter Mark Schoeff Jr. spoke with advisers last week to learn what they most hoped to hear from the president in his address to a divided nation. A few wanted him to celebrate the strong U.S. economy, with its low unemployment and surging stock market. He did do that.

Others wanted to hear Mr. Trump express real urgency and a commitment to addressing persistent financial pain points that both parties seem willing to broach. The president acknowledged that many people in the chamber that night, from both sides of the aisle, had campaigned on such promises as reducing the price of health care and prescription drugs and keeping the pre-existing conditions protection from the Affordable Care Act. The administration did float a proposal Jan. 31 to overhaul prescription drug pricing to square the fact that rebates are offered to insurers and other "middlemen" but not to individuals. If enacted, the rule would apply to federal health programs like Medicare.

Mr. Trump also mentioned including in his budget a plan for nationwide paid family leave for parents of newborns. According to a Pew Research Center analysis of data from the Organization for Economic Cooperation and Development, the U.S. is the only country among 41 developed nations that does not offer some form of paid parental leave.

TAX SQUABBLES

The president mentioned taxes only briefly, including the estate tax, whereas in the Democratic response, Stacey Abrams, who ran a close campaign for the Georgia governorship in 2018, called the Republican tax bill "rigged." She also said wages were struggling to keep up with the cost of living for many working people. One adviser suggested Congress needs to revisit the limit on the state and local tax deduction. While this wasn't mentioned in the State of the Union, Mr. Trump did say to reporters last Thursday that he was open to considering changes to SALT — though the Senate Finance Committee was quick to respond that it will not revisit the current allowances under any circumstances.

Another development that surfaced the day after the State of the Union looks more promising in terms of partisans coming together to improve Americans' financial situation. As reported by Mr. Schoeff, the Retirement Enhancement and Savings Act was reintroduced last Wednesday by bipartisan authors, Rep. Ron Kind, D-Wisc., and Rep. Mike Kelly, R-Pa. The legislation would allow small employers to band together to offer workplace plans, clarify how plan sponsors can meet their fiduciary duty when using annuities in 401(k)s, expand auto-enrollment and auto-escalation, and provide lifetime income estimates to investors. The new chairman of the House Ways and Means Committee, Rep. Richard Neal, D-Mass., called the bill a "solid starting point."

A LACK OF EFFORT TO FIND COMMON GROUND IS HOLDING US BACK.

So, there is at least some hope that our elected officials are finally hearing our frustration with the gridlock born of extreme ideologies on both sides of the aisle, which hold hostage even the issues we agree on.

"Together we can break decades of political stalemate," Mr. Trump said at the State of the Union. "We can bridge … old divisions, heal old wounds, build new coalitions, forge new solutions and unlock the extraordinary promise of America's future."

Hold the president and your lawmakers to this promise, especially as opportunities arise for bipartisan action to better the personal financial situation of Americans.

WE WANT TO HEAR FROM YOU. Send a letter to the editor with your thoughts about a story we've published, and include your name, title, company, address and telephone number for verification. Keep your letter under 250 words, and email it to Frederick P. Gabriel Jr. at fgabriel@investmentnews.com. All letters will be edited.

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The Leading Information Source for Financial Advisers
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CEO/Publisher: Suzanne Siracuse
ssiracuse@investmentnews.com

EDITORIAL
Editorial Director: Frederick P. Gabriel Jr.
fgabriel@investmentnews.com
Deputy Editor: Robert Hordt
Managing Editor: Christina Nelson
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ADVERTISING
National Sales Manager:
John Bubello, Jbubello@investmentnews.com
978-534-5635
Senior Client Relationship Manager, Western Region:
Rich Kiesel, rkiesel@investmentnews.com
415-538-0206
Client Relationship Manager, Midwest Region:
Sarah Haase, shaase@investmentnews.com
312-504-8755
Client Relationship Manager, East Region:
Nicole Casement, ncasement@investmentnews.com
212-210-0167
Client Relationship Manager, SouthEast Region:
Kevin Reardon, kreardon@investmentnews.com
212-210-0476
Client Relationship Manager, NorthEast Region:
Lauren DeRiggi, lderiggi@investmentnews.com
212-210-0154
Strategic Project Sales Manager:
Julie Parten, jparten@investmentnews.com
952-495-0422
Manager US Event Sales:
Dan Rubinetti, drubinetti@investmentnews.com
212-210-0432
Reprint Manager: Laura Picariello,
lpicariello@investmentnews.com 732-723-0569
Ad Operations Manager: Letitia Y. Buchan,
lbuchan@investmentnews.com 212-210-0451

AUDIENCE, MARKETING AND EVENTS
Director of Audience and Analytics:
George Ortiz, gortiz@investmentnews.com
Audience Data Analyst: Amy Zhu
Digital Marketing Specialist: Rebecca Tilbor
Director of Marketing and Communications:
Theresa Gralinski,tgralinski@investmentnews.com
Director of Events and Integrated Solutions:
Josh Brous, jbrous@investmentnews.com
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Events and Operations Manager: Natalie Taylor
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Marketing and Sales Coordinator: Madeline Terrell

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

PRODUCTION
Prepress/Production Director: Simone Pryce
Production Manager: Paul Vaccari

INVESTMENTNEWS OFFICES
Headquarters:
685 Third Avenue, New York, NY 10017-4024
Bureau office:
Washington:
601 13th Street, N.W. Suite 900 South
Washington, DC 20005

Advertising main number: 212-210-0451
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BONHILL GROUP, PLC
Chief Executive Officer: Simon Stilwell
Chief Operating Officer: James Robson

Head Office:
Bonhill Group, Plc
14 Bonhill Street, London EC2A 4BX

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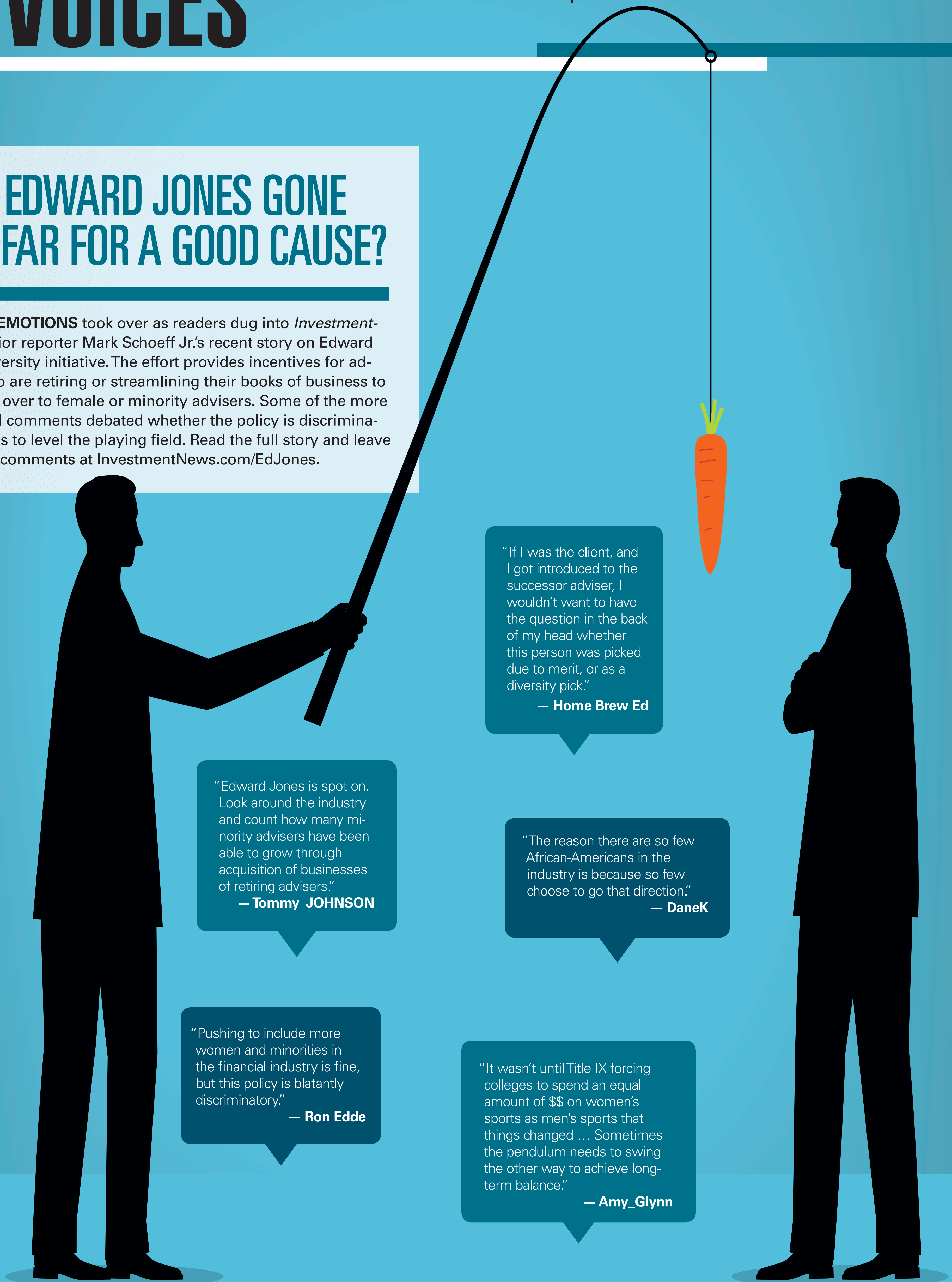
INVOICES

InvestmentNews readers react to top stories

HAS EDWARD JONES GONE TOO FAR FOR A GOOD CAUSE?

STRONG EMOTIONS took over as readers dug into *Investment-News* senior reporter Mark Schoeff Jr.'s recent story on Edward Jones' diversity initiative. The effort provides incentives for advisers who are retiring or streamlining their books of business to turn them over to female or minority advisers. Some of the more thoughtful comments debated whether the policy is discriminatory or acts to level the playing field. Read the full story and leave your own comments at InvestmentNews.com/EdJones.



"If I was the client, and I got introduced to the successor adviser, I wouldn't want to have the question in the back of my head whether this person was picked due to merit, or as a diversity pick."
— Home Brew Ed

"Edward Jones is spot on. Look around the industry and count how many minority advisers have been able to grow through acquisition of businesses of retiring advisers."
— Tommy_JOHNSON

"The reason there are so few African-Americans in the industry is because so few choose to go that direction."
— DaneK

"Pushing to include more women and minorities in the financial industry is fine, but this policy is blatantly discriminatory."
— Ron Edde

"It wasn't until Title IX forcing colleges to spend an equal amount of $$ on women's sports as men's sports that things changed … Sometimes the pendulum needs to swing the other way to achieve long-term balance."
— Amy_Glynn

SHINING A LIGHT ON SEXUAL HARASSMENT

BY GREG IACURCI

AN *INVESTMENTNEWS* SURVEY REVEALS THE EXTENT OF ASSAULTS AND OTHER OFFENSES FINANCIAL ADVISERS FACE, AND WHAT SOME INDUSTRY GROUPS ARE DOING TO ADDRESS IT.

The #MeToo movement catapulted the issues of sexual harassment and assault into Americans' collective consciousness and forced the public to reckon with the sexual power dynamics that have long permeated certain industries and personal interactions.

But while the alleged sexual misconduct of film producer Harvey Weinstein and others in niches like entertainment and politics have been thrust into the limelight, the financial advice industry has largely escaped a public reckoning in the #MeToo era.

That's despite evidence that overwhelmingly points to the opposite conclusion. Nearly 80% of financial advisers in a recent *InvestmentNews* survey said sexual harassment is a problem in the financial advice industry. More than 60% of the 345 participants in the survey were male.

Three in 10 advisers said they'd personally experienced sexual harassment — including assault, unwanted contact or requests, or suggestive remarks or messages — in the workplace. Five in 10 said they'd witnessed or experienced sexual harassment in the industry at least a couple of times.

"It absolutely still exists," Katherine Liola, president of Concentric Private Wealth, said of sexual harassment and misconduct in the industry. "It's still very present."

It's been more than two decades since female

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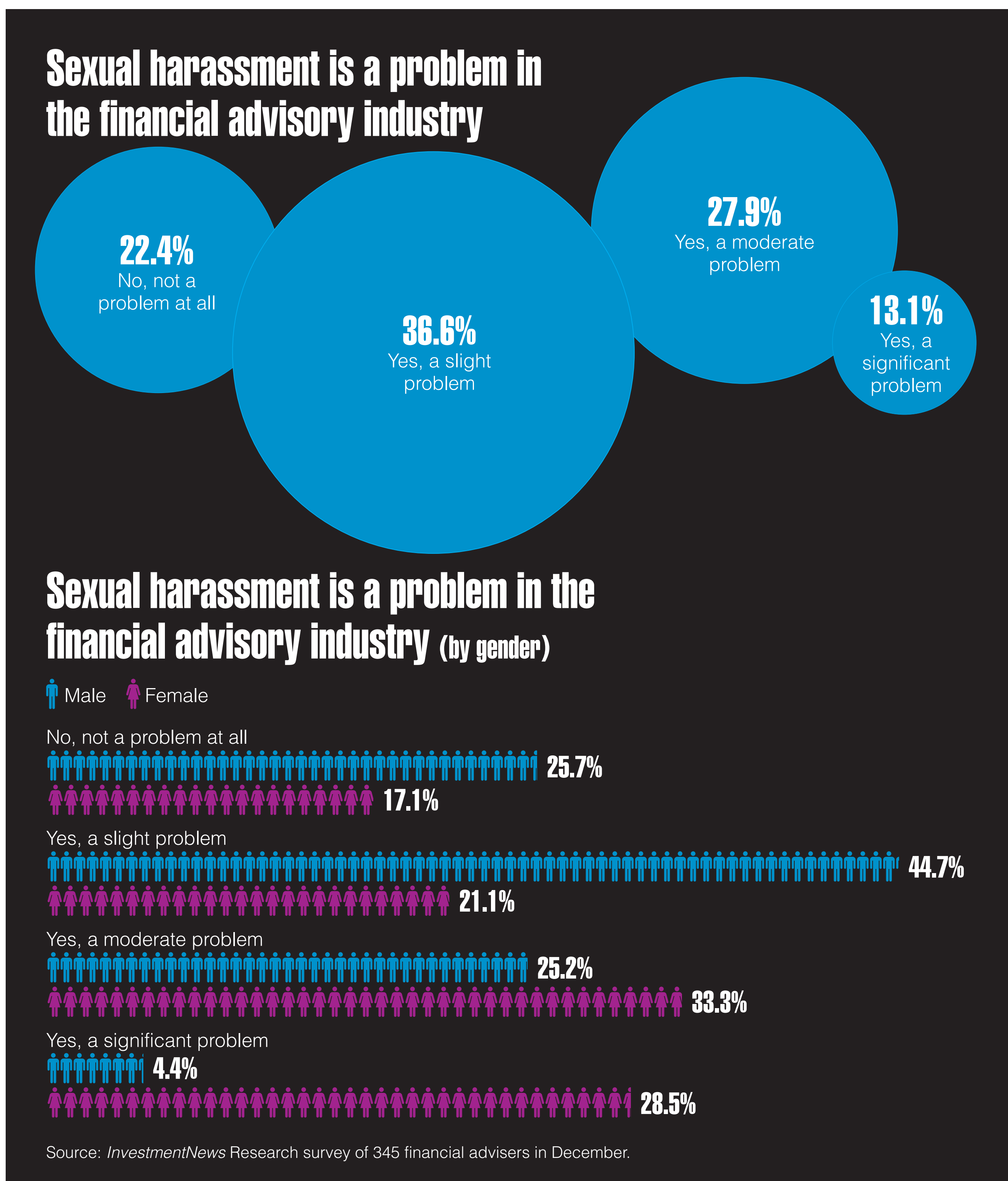

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employees of brokerage Smith Barney Inc. filed the famed "Boom-Boom Room" class-action lawsuit, which alleged sexual harassment and pay discrimination, and exposed the male-centric, locker-room culture pervasive on Wall Street.

The lawsuit, in which Smith Barney paid $150 million in arbitration awards and settlements, prodded the industry to clean up its act and institute programs like sexual harassment training, according to discrimination attorneys.

BETTER TODAY, BUT …

As a result, the industry today is "dramatically different" than it was in the early 1990s, when inappropriate behavior toward female colleagues, including sexual advances, improper language and touching, was embedded in the culture of brokerage firms, said Linda Friedman, founding partner of Stowell & Friedman and the attorney who represented plaintiffs in the Smith Barney case.

However, this behavior hasn't disappeared. It persists in a more closeted, one-on-one fashion rather than industrywide, said Ms. Friedman, who believes the industry may even be backsliding.

One female adviser *InvestmentNews* spoke with said she was sexually assaulted last year at an industry conference by a man she considered to be a mentor. The man, a practice management representative for a turnkey asset management program, came to the adviser's hotel room under the pretense of having a friendly drink.

However, the situation quickly turned sinister, said the adviser, who wished to remain anonymous due to the sensitivity of the subject.

"He was on top of me, trying to kiss me, touching me, groping me. I was stuck laying there under him telling him to stop," said the woman.

"You don't expect someone who's 40-something, married and a mentor to try to sleep with you — alcohol or not," she said. "I didn't see that one coming."

52.8%

PORTION OF SURVEY RESPONDENTS WHO HAVE WITNESSED OR EXPERIENCED SEXUAL HARASSMENT WHILE WORKING IN FINANCIAL SERVICES

Source: *InvestmentNews* Research

Susan Quigley, a veteran financial planner, has been a victim of sexual harassment, and reported a number of issues to officials at a previous employer. Her male boss, for example, commented on the size of her breasts. Another male colleague told her she needed to wear makeup, and yet another made her stand in front of a room of people while he ridiculed her for being pregnant.

Female advisers agreed that while the industry atmosphere for women is better today than in the past, it is probably still worse than in most other industries because of the high ratio of men to women. For example, of the more than 83,000 professionals holding a certified financial planner designation at the end of 2018, only 23% were female, according to CFP Board statistics.

ABUSE OF POWER

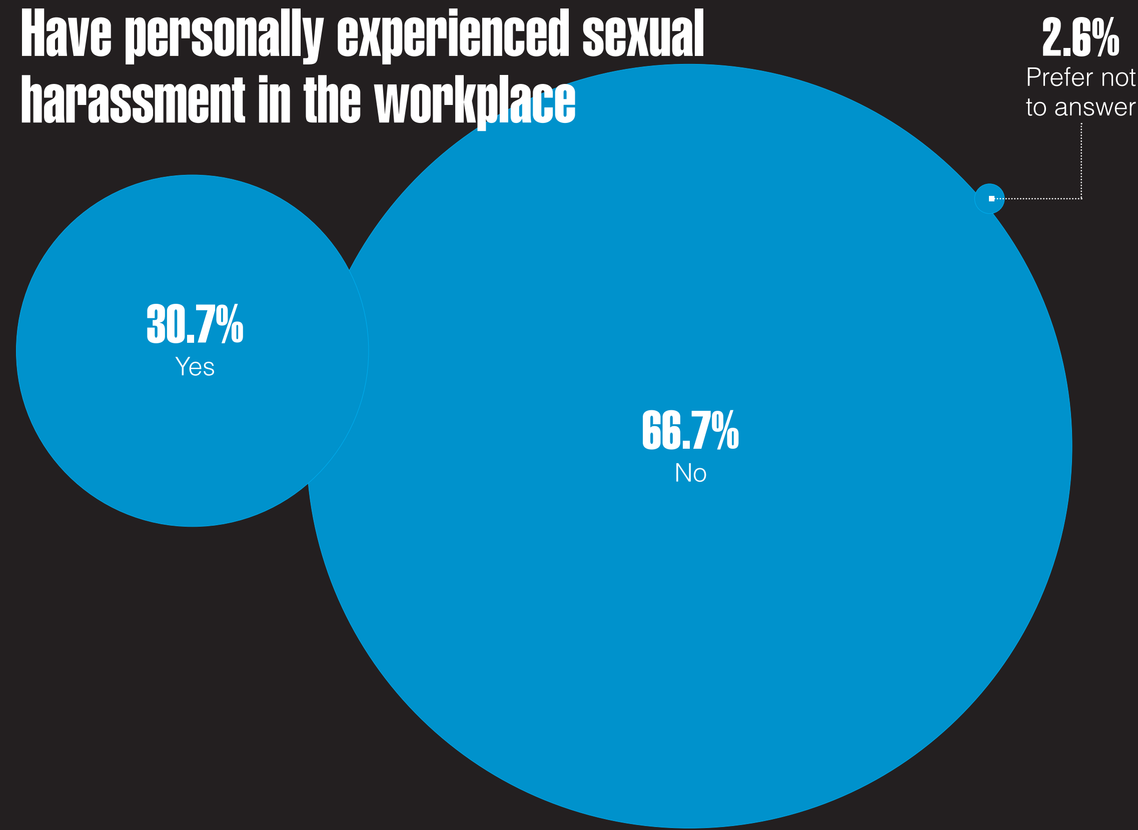
"It's really about power," said Gloria Allred, a discrimination attorney who has represented women accusing many high-profile men, including Bill Cosby. "And generally, those who are in power are men — especially on Wall Street."

When asked if they had personally experienced sexual harassment in the workplace, 60% of the 124 women in the survey who answered the question said they had. Of the 206 men who answered, 13% said they had experienced it.

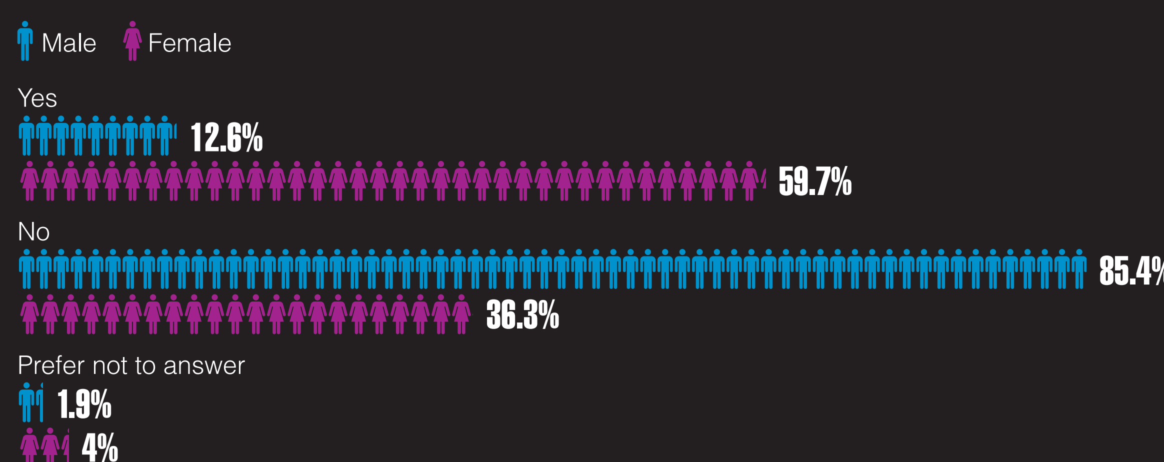
Ms. Liola of Concentric Private Wealth said she had to endure sexual comments from male advisers every week when she worked at a large broker-dealer in the early 2000s. That changed after she moved to the independent channel six years ago, she said.

However, she personally knows women both at wirehouses and on the independent side of the business

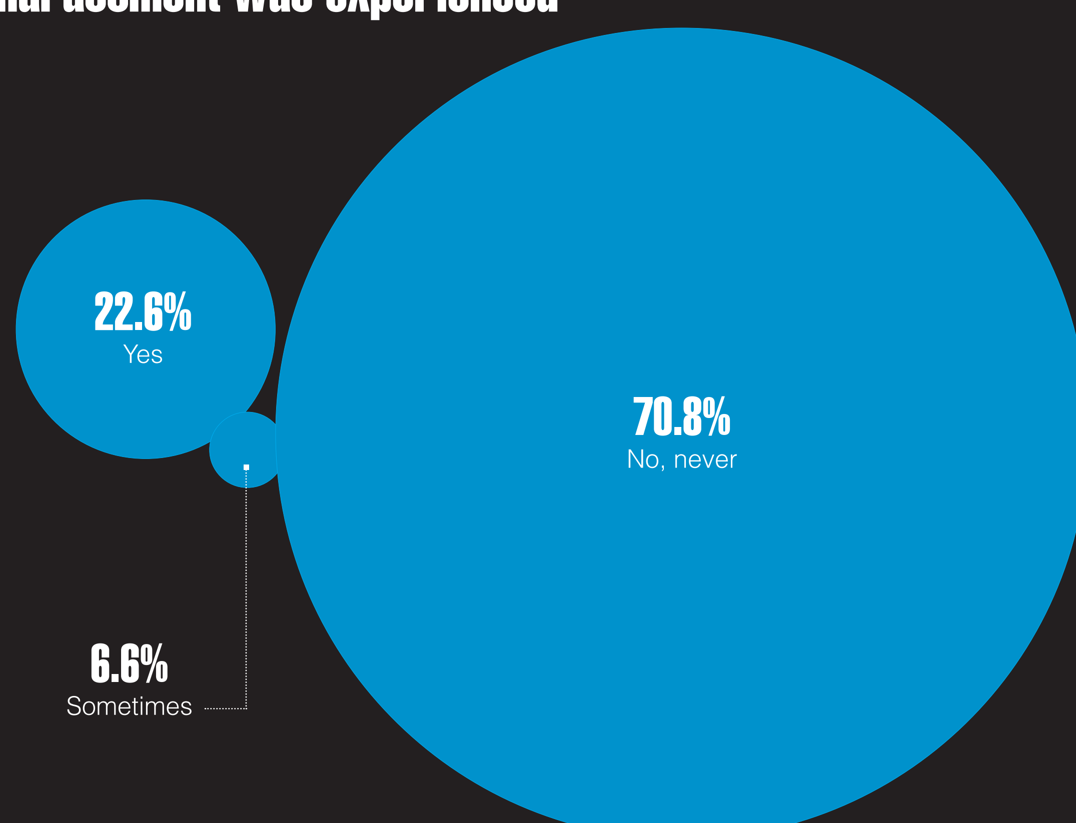
Have personally experienced sexual harassment in the workplace



Have personally experienced sexual harassment in the workplace (by gender)



Reported a complaint when sexual harassment was experienced



Source: *InvestmentNews* Research survey of 345 financial advisers in December.

who are still dealing with sexual harassment issues. Some have left the industry because of it, she said.

According to the *InvestmentNews* survey, on a monthly basis, 19% of female respondents deal with unwanted physical contact; 32% with inappropriate questions, remarks or jokes; 15% with obscene gestures, sounds or stares; and 14% with persistent, unwelcome requests. Two-thirds of the women who said they were victims of sexual harassment didn't make a complaint about the harassment.

> **"As an industry we have to do way, way, way more."**
>
> KATHERINE LIOLA, PRESIDENT
> CONCENTRIC PRIVATE WEALTH

Victims of sexual harassment on Wall Street are at a disadvantage when trying to seek redress, Ms. Allred and other attorneys said. Employment agreements often contain mandatory arbitration clauses and class-action waivers, forcing individuals into judicial venues that aren't as transparent as court proceedings and don't promote public accountability. Mediations are often subject to confidentiality agreements; arbitrations before the Financial Industry Regulatory Authority Inc. are similarly nontransparent.

In addition, those serving on arbitration panels are often white males with industry ties, attorneys said, though evidence suggests that Finra is trying to improve the diversity of its arbitrators.

Finra spokeswoman Michelle Ong said Finra arbitrators hear fewer than 10 sexual harassment cases per year. The regulator also makes all arbitration awards publicly available, and parties to the arbitration are free to publicly share as much information about their case as they choose.

Critics argue that Finra has no system of keeping track of sexual harassment in the industry. "If you grab a woman's breast, Finra doesn't require any reporting," Ms. Friedman said.

Roughly 40% of women in the *InvestmentNews* survey said a personal experience with sexual harassment played a role in a subsequent career decision — such as going independent, or leaving a firm or the industry altogether — which observers say helps perpetuate a lack of diversity in the industry.

"Like all decent Americans, we think this is a horrible thing and needs to be addressed," said David Knoch, president of 1st Global and chairman of the Financial Services Institute, a trade group for independent broker-dealers. "It's something that we pay a lot of attention to and talk about. We have policies on how we would respond and what we expect."

ADDRESSING THE ISSUE

Some groups have taken steps recently to address sexual harassment in the industry. The XY Planning Network, a group of financial advisers primarily catering to millennial and Gen X clients, instituted an anti-harassment code of conduct for its annual conference beginning in 2017. XYPN staff reserve the right to throw an offender out of the conference without a refund and potentially bar the individual from attending its conferences in the future.

The Financial Planning Association last year adopted a similar conference policy called "Me Too, Meetings Too." Lauren Schadle, the group's CEO, said the policy has become a central piece of board and staff training, adding that the FPA is working with leaders of its chapters around the country to make the policy part of local meetings and events.

XYPN and FPA officials said the policies weren't developed as a result of specific issues at the organizations, but out of a general desire to foster a more inclusive environment.

Alan Moore, co-founder of XYPN, discussed incidents of sexual harassment occurring at industry conferences.

"These things do happen. It's unfortunate, but they do. You're taking away a wonderful networking and education opportunity if women are constantly being hit on and harassed," he said.

Ms. Liola said there are "some kick-ass, amazing men in our industry," some of whom have been moved to speak up for women's rights in their firms and communities.

"But as an industry we have to do way, way, way more," she said.

giacurci@investmentnews.com
Twitter: @gregiacurci

$145M AMOUNT IN CRYPTOCURRENCIES HELD BY QUADRIGA CX RENDERED INACCESSIBLE AFTER THE FIRM'S CHIEF EXECUTIVE DIED IN DECEMBER. GERALD COTTEN HAD MOVED THE COINS TO "COLD STORAGE" OFFLINE — AND NO ONE HAS THE ACCESS CODES.

Former Bond King Bill Gross to retire

BLOOMBERG NEWS

BILL GROSS, who reigned for decades as the Bond King at Pacific Investment Management Co., is retiring more than four years after jumping to Janus Henderson Group from the fixed-income giant he co-founded.

KEY POINTS

- Bill Gross' total return strategy generated income from both bond coupons and prices.
- His long winning streak at Pimco faded at Janus.

"I've had a wonderful ride for over 40 years in my career — trying at all times to put client interests first while inventing and reinventing active bond management along the way," Mr. Gross said in a statement last Monday. "So many friends and associates at my two firms to thank — nothing is possible without a team working together with a common interest."

Mr. Gross, 74, has run the Janus Henderson Global Unconstrained Bond Fund since late 2014, shortly after he suddenly left Pimco in the midst of a management clash. His annualized returns of less than 1% at Janus failed to live up to his stellar long-term record from the Pimco era.

"I look back on it and the performance of the unconstrained fund in the past four years with Janus has been unsatisfactory, no doubt," Mr. Gross said in an interview with Bloomberg TV. "Maybe I should have stuck to total return and been more constrained."

'GAME-CHANGING' TALENT

The billionaire money manager started his latest chapter with fanfare, compared by Janus CEO Dick Weil to Super Bowl-winning quarterback Peyton Manning, "that game-changing level of talent." Mr. Gross poured $700 million of his personal fortune into the unconstrained fund, but he failed to attract much outside money and his performance relative to peers deteriorated each year.

The go-anywhere fund lost almost 4% in 2018, sparking a stream of investor redemptions that drove assets below $1 billion from the peak of $2.24 billion early in the year. Mr. Gross, who in September 2018 reduced his own stake in the fund, had blamed losses during the year's first half partly on a misplaced bet that rates on U.S. Treasuries and German bunds would converge, a position he eventually scaled back.

"The sort of underperformance we're seeing is challenging and disappointing to him more than any of us," Mr. Weil, whose firm is now based in London, said in a Bloomberg Television interview last August.

In the statement last Monday, Mr. Weil said: "Bill is one of the greatest investors of all time and it has been my honor to work alongside him. I want to personally thank him for his contributions to the firm."

LIMITED TIME AT JANUS

When Mr. Gross joined Janus, he knew time was limited to prove he retained his market mastery.

"I won't have five to 10 to 15 years leeway like I had at Pimco to do that, but certainly for the next two, three, four years," Mr. Gross told Bloomberg TV in 2015."I'm a very competitive person and I like to post numbers that are better than the market and better than the competition."

Mr. Gross' sudden exit from Pimco, which he helped build into one of the world's pre-eminent fixed-income money managers, jolted clients and advisers. At Janus, he became essentially a solo act operating from Newport Beach, Calif., with a much smaller supporting cast. His only co-manager, Kumar Palghat, left the fund after a year.

At Pimco, Mr. Gross had racked up one of the longest winning streaks of any money manager. The Pimco Total Return Fund, which he founded in 1987, became the world's biggest mutual fund, as assets swelled to almost $300 billion at its 2013 peak, generating annualized returns of 7.8% from inception through his last day.

7.8% ANNUALIZED RETURN FOR PIMCO TOTAL RETURN FUND UNDER GROSS

"No other fund manager made more money for people than Bill Gross," Morningstar Inc. said in January 2010, when it named him fixed-income manager of the decade.

Mr. Gross, an Ohio native, was a gambler before he became an investor. He taught himself blackjack card counting from the book "Beat the Dealer" while recovering from a car accident during college. After graduating from Duke University, he turned $200 into $10,000 over four months in Las Vegas, raising the tuition for his MBA at UCLA.

He became a bond manager almost by accident, getting a job in the fixed-income department of Pacific Mutual Life Insurance Co. in Los Angeles in 1971, where he was assigned to a new program that actively traded bonds. It was there he developed his total return strategy, which generated income from both bond coupons and prices.

Pimco thrived on Mr. Gross' record as a fixed-income whiz, a feat aided by an historic bond bull market that began in the early 1980s when interest rates began a prolonged decline. Experts from Wall Street to the Federal Reserve followed the firm for market cues.

Pimco's assets swelled after the 2008 financial crisis, when the Total Return Fund and other accounts produced gains even as stocks plunged.

> **"NO OTHER FUND MANAGER MADE MORE MONEY FOR PEOPLE THAN BILL GROSS."**
> MORNINGSTAR INC., 2010

But a few years later, his performance wobbled. Total Return lagged peers in 2011 and again in 2013, exacerbating friction between Mr. Gross and colleagues. In early 2014, CEO and co-CIO Mohamed El-Erian quit.

Mr. Gross sought to weed out managers he suspected of disloyalty, spurring executives at Pimco's parent, German insurer Allianz, to intervene. Mr. Gross eventually jumped ship before he could be thrown overboard. On Sept. 26, 2014, he left a handwritten note announcing his resignation.

Mr. Gross will continue to manage his personal assets and intends to remain active in charitable endeavors, according to the statement. He has made philanthropic donations of $800 million in the past 20 years.

BILL GROSS

Top equity categories in January

Financial markets celebrated the new year with gains last month. Here are the types of equity funds that performed best through Jan. 31, based on data from Morningstar Inc.

SMALL-VALUE EQUITY FUNDS
Year-to-date return through Jan. 31: 11.41%
One-year return through Jan. 31: -7.06%

SMALL-GROWTH EQUITY FUNDS
YTD: 11.35%
One-year: 1.11%

SMALL-BLEND EQUITY FUNDS
YTD: 10.81%
One-year: -5.55%

MID-CAP GROWTH EQUITY FUNDS
YTD: 10.68%
One-year: -1.90%

MID-CAP VALUE EQUITY FUNDS
YTD: 10.25%
One-year: -6.91%

MID-CAP BLEND EQUITY FUNDS
YTD: 9.61%
One-year: -5.88%

LARGE GROWTH EQUITY FUNDS
YTD: 9.09%
One-year: 0.62%

LARGE BLEND EQUITY FUNDS
YTD: 7.98%
One-year: -3.89%

LARGE VALUE EQUITY FUNDS
YTD: 7.70%
One-year: -5.46%

Millennials turn to auto-investing

BY RYAN W. NEAL

INVESTORS ARE reacting to market volatility differently across generations, according to a new survey of 1,000 U.S. investors by TD Ameritrade.

Millennials, many of whom went through their first major market drop recently, are turning more toward automated investing to mitigate risk than are older cohorts. TD's study found younger investors are four times more likely than baby boomers to consider automating investment decisions.

More than a third of millennials said the ability to schedule regular investments would make them feel less nervous about volatility, and 43% said it would "give them peace of mind." This could be because automating investing removes emotions, said Keith Denerstein, TD Ameritrade director of guidance product management.

CASH-MANAGEMENT FEATURE

To meet this demand, TD is adding a new cash management feature to its suite of digital advisers — Essential Portfolios, Selective Portfolios and Personalized Portfolios — that lets users automatically move assets into or out of cash.

Baby boomer and Gen X investors are more inclined to consult a financial adviser, the study found.

"Each of these generations has been influenced by different economic events that have shaped their financial attitudes and preferences, so it's important to offer choices that cater to their unique needs and provide the best experience," Mr. Denerstein said in a statement.

Millennials also reported feeling more severely affected by recent market volatility than older generations, possibly because baby boomers and Gen X investors have been through more market cycles, Mr. Denerstein said.

43%

PORTION OF MILLENNIALS WHO SAY AUTO-INVESTING WOULD GIVE THEM PEACE OF MIND

rneal@investmentnews.com
Twitter: @ryanwneal

Doomed dollar? Market says no

BLOOMBERG NEWS

AS A GROWING chorus of analysts from the likes of Morgan Stanley and Nomura predict dark days for the dollar, the market is telling a different story.

The U.S. currency has rallied almost 1% since the day of the surprisingly dovish Federal Reserve meeting in January, erasing all of its 2019 loss. And the outlook is actually getting stronger, based on the options market. Contracts that appreciate if the dollar rises versus its major peers over the next three months are near their most expensive level since mid-December relative to hedges guarding against a drop.

While the positioning shift is relatively small, it threatens to create a headwind for emerging-market assets, which rallied in January as the greenback wilted. It's also a precious insight into the outlook for currencies at a time when data from the Commodity Futures Trading Commission, which tracks financial contracts for the market, has been delayed.

The contrast to analyst expectations is noteworthy: They see the dollar weakening 2.7% by June 30 versus the euro, according to a median forecast compiled by Bloomberg.

"Analysts always over-egg things — it's their job," David Govett, head of foreign exchange at brokerage Marex Spectron, said by email. The Federal Reserve "wasn't super-dovish, just no longer hawkish. The U.S. economy is still far healthier than most other major competitors."

79% PORTION OF ADVISERS WHO SAY SOME OF THEIR CLIENTS ARE ASKING THEM ABOUT CRYPTOCURRENCIES.
SOURCE: BITWISE AND ETF TRENDS

Think before you tweet

I wish I had a dollar for every time someone told me that they measure social media successes by things going viral. That's such a misnomer. I also think people feel smarter when they repeatedly use the word "viral." While there's no arguing that a viral post or tweet

SCOTT KLEINBERG

ONSOCIALMEDIA

results in a quick win, it's just that: quick. True success in social media comes down to things that last.

Part of my job at *InvestmentNews* is to come up with social media strategies that result in wins. And while I've been creating these types of strategies for more than 10 years, I can tell you honestly that you can do it too. At the end of the day, it's less about experience and more about common sense and anticipating the answers to the right questions.

So here's my advice: 2019 is still young. Make sure your strategy is sound for the remaining months ahead. Here's how in three steps. Use this for specific projects or overall strategies; simply modify it by adjusting the size and scope.

STEP 1: IDENTIFY YOUR GOAL

Wrong: I want people to share my tweet.

Right: I want to reach financial advisers on the East Coast and hopefully have them share my tweet.

Having someone share a tweet is too broad. When you don't identify the someone, you could end up with the wrong person sharing it for the wrong reasons. You need someone who is in a position to make a difference. Finding these people is about making sure you're attracting the right followers. Keep an eye on your follower list. Retweet and engage with like-minded people in the industry.

STEP 2: DECIDE THE PLATFORM AND FREQUENCY

Wrong: I'll just put it out there on Twitter, Facebook and LinkedIn, and see what sticks.

Right: I have a tweet, Facebook really isn't working for me and I know a bunch of people I should tag on LinkedIn.

Can you see the difference? Twitter isn't Facebook and Facebook isn't LinkedIn. Where you share is just as important as what you share. Knowing the correct people to tag earns you bonus points in my book.

STEP 3: DECIDE HOW YOU'LL DETERMINE SUCCESSES AND FAILURES

Wrong: I'll take anything. A retweet and I'm taking the rest of the day off.

Right: I want at least 100 impressions on LinkedIn and three retweets or replies.

Never settle for anything. Anyone can get a retweet. But not everyone can get 100 impressions. And guess what? If you can, then you can get 200. And 300.

OPTIONAL (AND SMART) STEP: TURN YOUR TRIAL SOCIAL MEDIA PLAN INTO A TEMPLATE FOR FUTURE PROJECTS

Wrong: Doing the same thing over and over will ultimately save you time. (Honestly, that might not be wrong, but it's not necessary.)

Right: Starting with an outline not only saves you time, it redoubles your effort. While no two plans will be the same, an outline will remind you of what you've done previously. Editing yourself then becomes that much easier.

Some people are always going to approach social media incorrectly. They'll fail to see the connection between different plans. Don't be that person. Hit the reset button on how you think and "think different." Steve Jobs would be proud.

If you have a social media question, please let me know. Tweet it to me with the hashtag #onsocialmedia or email me.

skleinberg@investmentnews.com
Twitter: @scottkleinberg

5 ways to attract, retain top talent

One of the tightest labor markets in history, combined with the extraordinary growth of the independent advice industry, has created a fiercely competitive environment for attracting talent. Nearly three-quarters (73%) of independent firms planned to hire in 2018, according to Schwab's latest RIA Benchmarking Study.

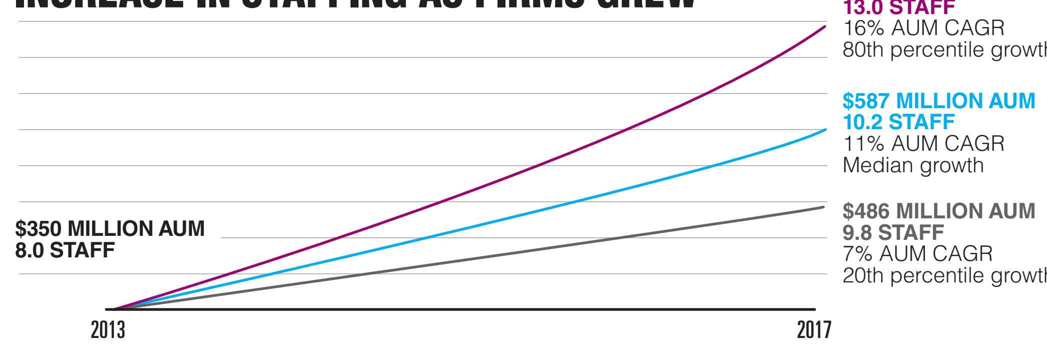
KEY POINTS
- Many firms are recruiting right out of other RIAs, so being competitive is crucial.
- Your website can attract key employees as well as clients.

The study also showed that the median firm had $350 million in assets under management five years ago. Firms with a median growth rate added two people in the five-year period, on average, and firms in the 80th percentile of growth added an average of five staff members.

With firms increasingly hiring talent away from other firms — in 2017, 41% of firms recruited from other RIAs compared with 32% in 2014 — it's important to stand out from the competition. These five best practices can help set

GUESTBLOG
LISA SALVI

INCREASE IN STAFFING AS FIRMS GREW



Compound annual growth rate over the five-year period from 2013 to 2017 for all firms with $250 million or more in AUM. Average staffing data from the 2013 and 2018 RIA Benchmarking Studies from Charles Schwab. The 2018 study contains self-reported data from 1,261 firms.

***Source:** 2018 RIA Benchmarking Study from Charles Schwab*

your firm apart.

1. Create a strong employee value proposition. Advisers spend a lot of time thinking about their value proposition for clients, but it's also critical to have a solid employee value proposition, or EVP. An effective EVP states what employees can expect at your firm as well as what you expect in return. It tackles questions like:

• Why would working at your firm be professionally and emotionally meaningful?

• How do you invest in career growth and future opportunities for your employees?

• Why is the culture at your firm special?

2. Work on your web presence. Your firm's website is not just a vehicle for generating new business. It's also the first place candidates look when deciding whether to apply for a position, which makes it critical to consider prospective employees as a target website audience.

Design and imagery matter. A lot. According to one report, it takes less than two-tenths of a second for an online visitor to form a first opinion of a brand.

Candidates spend the most time on the "About Us" and "Biography" pages of your website, so make sure your firm's value proposition appeals to the minds and hearts of a reader.

Job applicants are drawn to video, which is an effective and often low-cost way to tell your firm's story.

3. Make interviews count. Even for firms with a dedicated HR manager, interviewing multiple prospective employees can feel daunting. A few small steps can improve the interview process and pay dividends over time.

First, ensure everyone on your team agrees on the job description before posting it.

Once you have invited a candidate in for a meeting, be intentional about interview questions. Assign each member of the hiring team a focus area so that you gain a full picture of the candidate. Be clear about the top skills you'd like your ideal candidate to possess, and ensure that someone probes into each of them.

Then debrief with your hiring team. Comparing notes is the most important step.

4. Consider compensation packages. To draw and keep the best talent, firms must design attractive compensation plans. A compensation plan can include salary, performance-based incentives, benefits and even equity, or the potential for equity ownership opportunities over time. Staffing and compensation account for approximately 73% — typically the largest share — of a firm's annual expenses, so it's especially important to understand how to design a competitive offer while taking your firm's budget into account.

5. Don't overlook onboarding. Few things have a bigger impact on a candidate than the onboarding experience. Is their workspace ready to go when they arrive? Do they have a "buddy" who walks them through their first day, shows them around and takes them to lunch? Are there frequent check-ins scheduled during their first 90 days, and meaningful one-on-one meetings with their manager on a regular basis after that? The more you invest in the first few months, the faster that person will contribute and the more engaged they will feel.

Success and growth naturally attract talent — your firm's most important asset. But don't rely on success and growth alone. Investing in your hiring process, your culture and the messages you present to potential employees will improve the odds that you will attract high-quality people.

Lisa Salvi is a member of the Adviser Services leadership team and is responsible for Schwab's Business Consulting & Education office.

Warren's wealth-tax proposal could be illegal

BY GREG IACURCI

SEN. ELIZABETH WARREN set the financial advice industry abuzz when the presidential hopeful proposed a "wealth tax" on ultra-rich Americans.

Her recent proposal would levy a 2% annual tax on each dollar of a household's net worth above $50 million; the tax would increase to 3% on each dollar above $1 billion. It's estimated that the tax would affect about 75,000 households and raise about $2.75 trillion over a decade.

But there's a heated debate among economists, lawyers and tax policy analysts as to whether the policy is even legal. The issue can be distilled to this central question: Is a wealth tax a "direct" tax?

KEY POINTS

- Proposes 2% annual tax on every dollar above $50M for each household.
- Opponents argue it is direct form of taxation and therefore infeasible.
- Constitutionality debate derives from Supreme Court case.

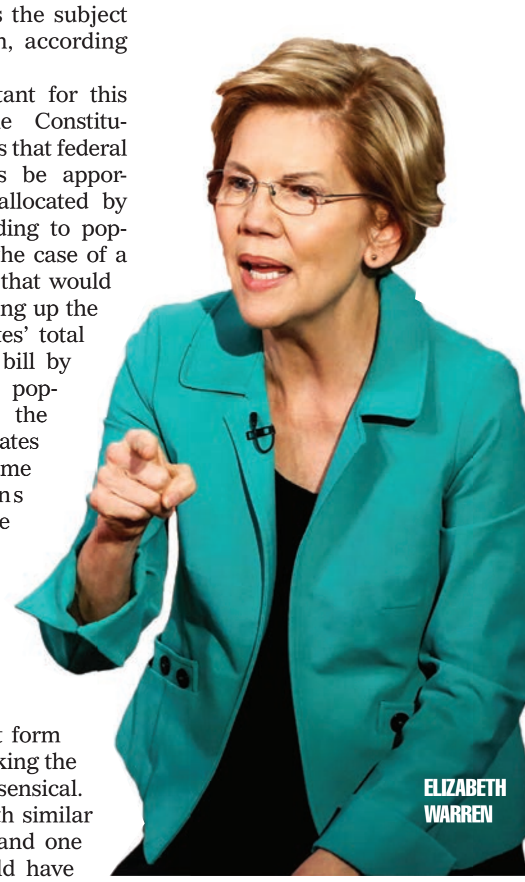
IT'S 'MURKY'

"What is a direct tax is rather murky," said Steven Rosenthal, a senior fellow at the Urban-Brookings Tax Policy Center. "My view is, reasonable people can answer that question differently."

Think of a direct tax as tax directly levied on a person or entity, while an indirect tax, such as a sales or excise tax, is levied on a transaction. The Constitution doesn't define what types of tax it considers to be direct, which leaves the subject open for interpretation, according to tax scholars.

The issue is important for this reason: The Constitution requires that federal direct taxes be apportioned, or allocated by state according to population. In the case of a wealth tax, that would mean dividing up the United States' total wealth tax bill by the relative populations of the states. So, states with the same populations would owe the same tax, and spread that tax among their residents.

Opponents of a wealth tax such as that proposed by Ms. Warren say it's a direct form of taxation, thereby making the tax infeasible and nonsensical. Consider two states with similar populations, one poor and one rich — the states would have similar tax burdens at the state level, but taxpayers in the poorer state would owe more tax on a relative basis than residents of the wealthier state.



ELIZABETH WARREN

"It can't really function that way," said Joseph Bishop-Henchman, an executive vice president at the Tax Foundation.

The estate tax, another type of tax on the wealthy, was upheld by the Supreme Court as an indirect tax on the transfer of wealth, not a direct tax on individuals. Income taxes are exempt from apportionment because of a constitutional amendment.

POLLOCK CASE

The crux of the disagreement around the constitutionality of a wealth tax derives from a 19th century Supreme Court case, *Pollock v. Farmers' Loan & Trust Co.*

Prior to the 1895 ruling in the Pollock case, the three branches of government had consistently held direct taxes only to be capitation taxes (a fixed, per-person tax) and real property taxes, Dawn Johnsen of the Indiana University School of Law and Walter Dellinger of law firm O'Melveny & Myers said in a 2018 paper.

However, the Supreme Court ruled in the Pollock case that an annual tax imposed on carriage owners was unconstitutional, and "greatly expanded the reach" of the apportionment requirement, Ms. Johnsen and Mr. Dellinger wrote.

The 16th Amendment, which legalized income taxes as we know them today, was a response to that ruling, tax scholars said.

Proponents of a wealth tax argue that the Pollock case was wrongly decided and that the 16th Amendment's aim was to overrule Pollock in its entirety, rather than merely providing a carve-out for income taxes, said Mr. Bishop-Henchman.

He believes that the Supreme Court today would likely find Ms. Warren's wealth tax unconstitutional, but said the case "is not a slam dunk."

Tax experts wonder whether Ms. Warren would try skirting the constitutionality issue by assessing the tax not directly on wealth but indirectly on an individual's privilege of living in the U.S. as a wealthy person. That would follow similar logic in a 1911 Supreme Court case, *Flint v. Stone Tracy Co.*, which held that corporate income taxes are excise taxes on the privilege of doing business in the corporate form, rather than direct taxes on the value of shares or income, Mr. Bishop-Henchman said.

giacurci@investmentnews.com
Twitter: @gregiacurci

We needn't treat the rich as our piggy bank

GUESTBLOG
STEPHANIE KELTON

A friend sent me an email the other day, complaining about the 70% marginal tax rate floated by Democratic Representative Alexandria Ocasio-Cortez and the new wealth tax proposed by Democratic Senator Elizabeth Warren.

Ms. Ocasio-Cortez first mentioned the 70% rate in response to a question from CNN's Anderson Cooper about how she proposes to pay for programs like a Green New Deal that could cost trillions of dollars. Higher tax rates, she suggested, might be one part of the answer.

Then Ms. Warren released a video explaining that her "ultra-millionaire tax" could raise nearly $3 trillion over 10 years, money that she says could be used to pay for programs like universal child care, a Green New Deal and student-debt forgiveness.

I've argued elsewhere that we can pay for a Green New Deal and that the obsession with finding a dollar of new "revenue" to offset every new dollar of spending is the wrong way to approach the federal budgeting process. My views belong to the macroeconomic school of thought known as Modern Monetary Theory — MMT, for short.

I am with the Democrats. I want to see us build a cleaner, safer, more prosperous world. I agree with billionaire hedge-fund manager Ray Dalio, who argues that inequality has become so extreme that it should be declared a "national emergency" and dealt with by presidential action.

The problem is that every politician is confronted with the question, "How are you going to pay for it?"

The question is designed to stop any meaningful policy debate by dividing us up, and get us fighting over where the money is going to come from. Since none of the headline politicians has really figured out how to respond — by explaining that when Congress approves a budget, the Treasury Department instructs the Federal Reserve to credit a seller's bank account — they all end up trying to answer it by pointing to some new revenue source.

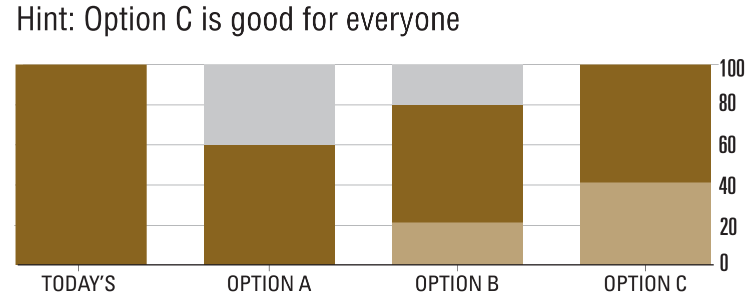
DEFICIT SPENDING

But funding a Green New Deal with some deficit spending means we get good-paying jobs, a cleaner world and more safe assets (Treasuries) for everyone, including wealthier taxpayers.

To help my friend see the choices we face, I sent him a sketch that is shown here in a chart.

THE MMT INEQUALITY SCALE

Hint: Option C is good for everyone



Source: Bloomberg Opinion

You don't need precise data to make the point. Just think of it, loosely, as a reflection of the gap between the top and the bottom. Start off with today's degree of disparity, represented by the brown bar on the left.

Now suppose someone offers you three different ways to reduce inequality, shown in Options A, B and C. Each will leave you with a less unequal society but the same absolute disparity between the top and bottom. To get outcome A, you simply tax money away from the rich (the part shown in gray at the top). This does nothing to improve the material well-being of anyone below, but it does compress the distribution, so inequality is diminished.

Option B is your standard Robin Hood redistribution. Money is taxed away from those at the top, and money is invested in programs to lift everyone else (shown in tan). Again, the distance (or degree of disparity) between the top and the bottom is the same as under Option A, but this time the top lost and the bottom gained.

Finally, consider what happens if we simply invest in programs to benefit the non-rich (student-debt forgiveness, free child care and so on) without treating the super-rich as our piggy bank. In Option C, the top doesn't move, but the bottom is boosted to new heights.

It's sort of incredible that the option that is clearly better for both groups is the one we're most afraid of. But that's what happens when deficit phobias force politicians to "pay for" everything by going where the money is.

Stephanie Kelton is a professor of public policy and economics at Stony Brook University. She was the Democrats' chief economist on the staff of the U.S. Senate Budget Committee and an economic adviser to the 2016 presidential campaign of Senator Bernie Sanders.

Finra to assess B-D efforts on elder abuse

BY GREG IACURCI

FINRA EXAMINATIONS will soon start probing broker-dealers' compliance with rules issued a year ago meant to protect elderly clients from financial abuse and exploitation.

"I think the next round of exams, we'll be looking a little more closely," James Wrona, vice president and associate general counsel at the Financial Industry Regulatory Authority Inc., said last Tuesday at a Securities Industry and Financial Markets Association event in New York.

Mr. Wrona was speaking of Finra Rule 2165, which went into effect in February 2018. The rule allows broker-dealers to place a hold on elderly clients' account disbursements if they have a reasonable belief the client is being financially abused.

The rule allows for a 15-day hold on the funds and the possibility of a 10-day extension. It's a safe harbor, meaning the rule is voluntary but provides legal protection from Finra on firms that follow its guidelines.

CHECK ON SYSTEMS

Mr. Wrona said the goal of the Finra exams is primarily to check on firms' systems and processes, and see that issues are properly escalated and that there's an identified team to handle relevant decisions. The regulator also wants to learn about firms' experiences with compliance, such as areas in which Finra could assist and any tweaks the agency could make to the rule, he said.

"We want more information. This isn't going to be a gotcha, check the box, did you do it or not," Mr. Wrona said. "We're interested in learning about your situations, how you're dealing with [the rules] and how we can assist."

He added that firms placing holds on account disbursements seemingly without forethought or procedure would warrant a closer look.

Some brokerage executives say there's room to improve the Finra rule.

"I think we need to revisit the hold periods," Ashley Hulting, an attorney with TD Ameritrade Inc. who provides in-house counsel on retail and branch operations, said on a panel at the SIFMA conference.

The firm is "almost never" able to conduct a thorough investigation within the allotted 15 days to definitively determine whether a senior is being exploited, Ms. Hulting said.

COMMUNICATION PROBLEMS

Communicating with other brokerage firms that hold client money also has been a problem, panelists said, citing privacy concerns that could result in a lawsuit. One institution may be able to prevent the outflow of funds due to a suspicion of abuse, but it cannot easily contact another broker-dealer holding the client's money to warn them, panelists said.

"We should be able to call Merrill Lynch," said Ronald Long, director of regulatory affairs and elder client initiatives at Wells Fargo Advisors.

Panelists also complained of a lack of consistency among state

agencies in their response to B-Ds' reports of suspected abuse.

"There are some Adult Protective Services, if you're not telling them there's a gun being held to a senior citizen's head, they don't want to hear about it," Ms. Hulting said.

Finra also released a parallel rule, Rule 4512, last February encouraging B-Ds to obtain the name of a trusted person to contact in case of suspected elder financial abuse.

giacurci@investmentnews.com
Twitter: @gregiacurci

80% PORTION OF WOMEN WHO WILL BE SOLELY RESPONSIBLE FOR THEIR FINANCIAL WELL-BEING LATER IN LIFE, DUE TO WIDOWHOOD, DIVORCE OR NEVER HAVING BEEN MARRIED.

SOURCE: UBS

At 64, it's time to review your Medicare options

MARY BETH FRANKLIN

ONRETIREMENT

I turned 64 last December. That means I am eligible to enroll in Medicare at the end of this year. Based on the inquiries I have received from friends and *InvestmentNews* readers, the Medicare enrollment process is filled with angst. But with a little preparation and help from online tools — and sometimes professional advisers — this critical step in the retirement journey can be accomplished with a minimum of pain.

While the traditional retirement age of 65 is still a key milestone for Medicare eligibility, the full retirement age for Social Security benefits is 66 or older, depending on your birth year. The decoupling of the eligibility ages for these two essential retirement programs — and the fact that many people continue to work beyond traditional retirement age — complicates Medicare enrollment decisions.

KEY POINTS

- Medicare enrollment eligibility begins at age 65.
- If you don't have health insurance through work, you must enroll in Medicare at 65.

The year before turning 65 is a good time to review your Medicare options. The first question you need to ask yourself is whether you or your spouse plan to continue working past age 65 and whether you will be covered by an employer's group health insurance plan.

If the answer is yes, you can defer Medicare enrollment, penalty-free, until that employer coverage ends. But even that exemption raises its own questions.

I received an email recently from a reader who wondered how soon she had to enroll in Medicare once she retired. She assumed it would be during the annual open enrollment period, which runs from Oct. 15 to Dec. 7 each year. While that is a logical assumption, it is wrong. Because of her continued health-care coverage at work, she is eligible for a "special enrollment period" that lasts for up to eight months after she retires or loses her insurance coverage, whichever comes first.

LIFELONG PENALTIES

But if you don't have access to a group health insurance plan, defined as a company plan for 20 or more employees, you must enroll in Medicare at age 65 or face lifelong late-enrollment penalties.

That's the situation that one of my friends faced. She turns 65 in February and currently has health insurance through her husband's small business. But because the firm has fewer than 20 employees, it doesn't qualify as creditable coverage for Medicare purposes. That means she must sign up for Medicare during her seven-month initial enrollment period that began in November, three months before her birthday, and continues through May, three months after her birthday.

I must compliment my friend on her impressive transformation from Medicare neophyte to well-informed consumer over the past few months.

At the beginning, she was vaguely aware of the difference between original Medicare, which includes basic hospitalization and medical insurance, and all-inclusive Medicare Advantage plans that offer extra benefits in exchange for using network providers. But by the end of what she described as "an incredibly exhausting process," she could clearly articulate why she chose a Plan G Medigap policy and how she selected the most appropriate prescription drug plan for her health situation.

"I think the medicare.gov site is very good," she wrote in an email to me documenting her enrollment experience.

"But there is a tremendous amount of information when it comes to selecting the actual insurance company for drugs and supplemental plans," my friend said. "I had to call some insurance companies because they don't have premium estimates listed on their website."

'I NEED HELP'

Another friend, who also turns 65 in February and who spent most of her career working in health care, wrote: "My mind is blown and overwhelmed choosing the drug plan. Monthly fees, deductibles, copays, coinsurance, donuts, pricing tiers — I need help!" She and her husband plan to meet with a medical insurance consultant to select their specific drug plan and Medigap policy.

I confess, I expect to have a much easier time when it comes to enrolling in Medicare — not because I have experience writing about the topic, but because I will need to make fewer choices.

One of the benefits of being married to a retired federal employee is we both have retiree health benefits for life. My husband, Mike, enrolled in Medicare when he turned 65 and his federal health insurance serves as his Medigap policy. But because it was my only insurance, we chose a comprehensive plan.

Once I enroll in Medicare at the end of the year, we can scale back to a less-expensive health insurance policy designed to serve as Medigap coverage. And because the federal health plan includes prescription drug coverage, I won't need to choose a Medicare drug plan.

'TAKE THE INITIATIVE'

Perhaps the best advice on how to tackle Medicare enrollment came from a volunteer health counselor who commented in response to my recent Medicare cover story.

"Those soon to be Medicare-eligible will need to take the initiative," the counselor wrote. "Allow plenty of time to understand your options, weigh your tradeoffs and ask follow-up questions.

"Finally, be prompt with decisions," she said. "Medicare tolerates no slack in deadlines."

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

Mary Beth Franklin, a certified financial planner, is a contributing editor for InvestmentNews.
mbfranklin@investmentnews.com
Twitter: @mbfretirepro

HSAs allow firms to distribute in-house funds

BY GREG IACURCI

HEALTH SAVINGS accounts are getting more popular, and it's no surprise asset managers and retirement plan record keepers are debuting products to jump on the bandwagon.

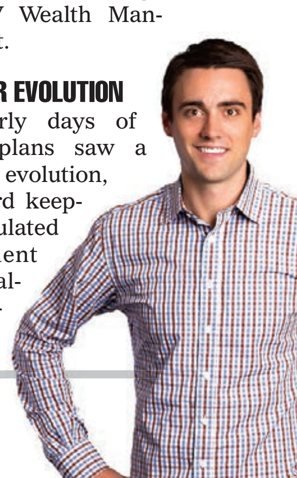
Voya Financial Inc. launched its first HSA platform last month, following Vanguard Group's debut in November. Empower Retirement and Fidelity Investments have had such products for a few years.

These firms not only gain first-mover advantage among their peers but also appeal to advisers looking to simplify services for retirement-plan clients by bundling 401(k) and HSA administration. But there's an additional benefit: using their platforms to distribute proprietary investment funds.

"Anytime there's a new account, especially one growing as fast as HSAs are, I think there's opportunity for providers to do [that]," said Matt Cosgriff, head of the retirement plan solutions group at BerganKDV Wealth Management.

FAMILIAR EVOLUTION

The early days of 401(k) plans saw a similar evolution, as record keepers populated investment lineups almost exclusively with their own mutual funds, and employers were largely unaware of their duty to monitor 401(k) investments. This gave providers a healthy revenue stream from both administration and asset management.



"I THINK THERE'S OPPORTUNITY FOR PROVIDERS."

MATT COSGRIFF, HEAD OF RETIREMENT PLAN SOLUTIONS, BERGANKDV WEALTH MANAGEMENT

HSAs don't appear to rely as heavily on in-house funds, advisers said. Vanguard Group, for example, offers a platform populated solely with Vanguard funds but also gives employers the choice of using the same funds as those in their 401(k) plans.

Voya Investment Management provides the fund manager selection and oversight of its platform, which includes both Voya-managed funds and those of other asset managers. A spokeswoman declined to identify the proportion of Voya funds to others.

The dynamic is similar for Empower and Fidelity: Both offer investments managed by affiliated investment firms (Putnam Investments, in the case of Empower) as well as access to other firms' products.

Unlike with 401(k) plans, employers generally do not have a fiduciary duty under the Employee Retirement Income Security Act of 1974 for HSA investments. Absent that liability, advisers said, employers may not feel the need to review HSA investments as closely. And many advisers who would otherwise help with fund selection remain on the sidelines trying to assess how to fit HSA consulting into their broader business model, advisers said.

Cetera Financial Group took a step in that direction last week. The firm announced last Wednesday an enhancement to its retirement platform to allow its advisers to give HSA advice.

Providers are developing open-architecture platforms allowing employers to choose from a broad universe of mutual funds in addition to platforms that allow employers to "mirror" HSA funds with those in their 401(k) plan, said Matt Clarkin, president of Access Point HSA.

But the threat of lawsuits, which have proliferated in the 401(k) realm, seems to have kept some employers from amending their HSA investment lineups.

giacurci@investmentnews.com
Twitter: @gregiacurci

Cetera unveils facial recognition tech

INBLOG
RYAN W. NEAL

Financial planning technology took center stage at this year's T3 Adviser Conference, but it was Cetera Financial Group's demonstration of new facial recognition technology that really stood out in terms of a "wow" factor.

For my money, Cetera's Decipher platform was the coolest piece of adviser fintech I've seen in four years of attending T3 — not just for the actual software, but for demonstrating exactly how advisers can utilize it in their day-to-day practices.

Decipher is a new take on client risk assessment, combining a traditional questionnaire with psychological metrics and facial recognition technology. The software analyzes facial expressions to pick up on emotional changes as the person fills out the questionnaire. It combines this data with the answers and a behavioral analysis to produce a unique report for each person.

The goal is to give advisers a better understanding of what clients are thinking and feeling about their money and investments, said Adam Antoniades, president of Cetera, who presented the technology at T3.

"If I can derive from you what you define as success, then I can do a much better job of driving to that as an outcome," Mr. Antoniades said.

The flaw with risk questionnaires as they exist today is that people's own biases can skew answers. In general, people tend to think they are more logically driven when it comes to financial decisions than they actually are, Mr. Antoniades said.

"THERE'S A WHOLE NEW WORLD THAT'S COMING ... FOR THE ADVISER."
ADAM ANTONIADES, PRESIDENT, CETERA

LOOKING PAST BIASES

Decipher is built to look past those biases and find insights the client may not even be aware of. For example, when Mr. Antoniades and his wife took the test, they realized they had different views on whether to buy a new house or improve their current home.

"We would have never had a conversation in that way," he said. "Coming out of that, we were both ready to give a little bit. That's an experience the adviser created for us."

Decipher will launch later this year as part of Cetera's new AdviceWorks technology platform for advisers and clients.

OPTIMIZING INTERACTION

The broker-dealer network's technology strategy aims to create optimal interactions between advisers and clients in five areas: attracting new clients, engaging them, creating a financial plan, implementing the plan and providing ongoing advice.

Investment performance can come and go, but where advisers can add value consistently is in helping clients behave better with money, Mr. Antoniades said.

"There's a whole new world that's coming about for financial services and for the adviser," he added. "And at the core it's being fueled by technology innovation."

rneal@investmentnews.com
Twitter: @ryanwneal

A better understanding of the 4% rule

GUESTBLOG
WES MOSS

Those of us who have been in the financial advisory business for years can sometimes take established rules of thumb for granted, so much so that the nuances of such guidelines may get lost.

Take the 4% rule. When I started talking more about this ubiquitous rule last year, I performed my own informal survey. Over the course of a month, I asked several financial advisers if they knew the rule. Most indicated that they were indeed familiar with this guideline. But when pressed, many of those money "pros" were unable to articulate the rule's details and intricacies.

Although it sounds as though it should be simple, in practice there are complexities of the 4% rule that can lead to confusion over time. Still, it is a rule that I believe all financial advisers should fully understand.

The 4% rule was originally developed by William Bengen, a financial planner from MIT. Mr. Bengen published his study in the Journal of Financial Planning in 1994, based on data through 1992.

25

ADDITIONAL YEARS OF DATA SINCE THE 4% RULE

Through his research, Mr. Bengen found retirees can take 4% of their initial retirement assets and increase that amount every year to account for inflation, assuming a 50% to 75% portfolio allocation to stocks. In Mr. Bengen's study, applying the 4% rule led to a worst-case scenario of an investor's money lasting 35 years. Thus, the 4% rule was born.

DEBATE OVER RELEVANCY

Of course, there is debate over whether the 4% rule remains a useful and pragmatic tool. Last year, The Wall Street Journal published an article titled "Forget the 4% Rule: Rethinking Common Retirement Beliefs." The piece touted the opinion of Wade Pfau, a professor at the American College of Financial Services, who believes, based on his research, that the 4% rule is obsolete and should be replaced with a more conservative 3% rule.

The article prompted me to research the state of the 4% rule. As a financial professional, I wanted to arrive at my own conclusion about the continued viability of this landmark rule.

I couldn't find research that extended beyond Mr. Bengen's groundbreaking study's original dates. So I took it upon myself to update the study's figures with an additional 25 years of data to bring it into the present day.

My team's work recreated the study with retirement withdrawals beginning every year from 1929 to 2009 — 82 separate retirement starting points. We used actual market data until 2017 and ran multiple simulations with historically conservative average return estimates thereafter: 5% for stocks, 2% for bonds and 3% for inflation.

What I found was that 70% of the time (58 of the 82 scenarios), retirement funds lasted 50 years or more. The remaining 30% of the time, the money "ran out," with the worst-case scenario in our study being 29 years. So, yes, the 4% rule can still work.

I also added a few important pieces to my study that would hopefully assist other financial advisers in speaking to their clients about withdrawal rates.

SAFETY ZONES

We all know that hard-line rules and scolding don't work in the real world. I developed some guidelines around the rule to offer buffers, or safety zones, that give high-end (the danger zone at 6%) and low-end (the "Buffett" zone at 2%) parameters for ongoing conversations with clients.

The primary goal of this research and the accompanying safety zones are to help financial advisers understand the nuances of the 4% rule and be able to explain these intricacies to their clients cogently and pragmatically.

Wes Moss is chief investment strategist for Atlanta's Capital Investment Advisors and the author of "You Can Retire Sooner Than You Think."

VANGUARD BONDS

CONTINUED FROM PAGE 2

cost active fixed-income management can be a valuable part of clients' portfolios," he said, adding that "there's no debate: If it's high cost, it's usually not a winning formula."

This defense of active management comes at a pivotal time for the bond market. For one, legendary investor Bill Gross announced his retirement this week from Janus Henderson Group after a stretch of bad bets and client withdrawals, raising fresh doubts about whether star managers can deliver consistently superior returns.

On top of that, large money managers like Fidelity Investments and Invesco have recently introduced exchange-traded funds that use the quantitative finance concept of "factor investing" to put decisions in the hands of machines. Broadly, Moody's Investors Service has said it expects passive strategies to overtake active ones no later than 2024.

At this point, the trend toward passive investing is clear: If anything, it could overtake active even sooner than Moody's anticipates. Still, when it comes to the bond markets, Mr. Hollyer's stance holds up.

EXPENSIVE TRADES

For one, trading single bonds can be prohibitively expensive, particularly in less liquid pockets like the U.S. municipal market, Mr. Hollyer said.

"For the average retail investor, just getting good institutional management at a low cost can save them on trading costs, even before the manager adds value," he said.

The retail classes of Vanguard's two biggest muni funds each have no front- or back-load fees (meaning it doesn't cost extra to buy or sell fund shares) and charge a relatively meager 0.16% management fee. The next-largest competitor, the Tax-Exempt Bond Fund of America, has a 0.21% management fee and costs associated with buying and selling.

The other reason active management probably won't disappear from fixed income is because indexes are inherently biased toward the most-indebted borrowers. U.S. Treasuries are becoming a larger share of the Bloomberg Barclays U.S. Aggregate Bond Index, for example, because the federal government is running big budget deficits.

FALLEN ANGELS

More worrisome is the proliferation of company debt rated in the lowest tier of investment grade because corporate behemoths ramped up borrowing at low interest rates and got downgraded as a result. While the demise of those companies may be overblown, investors may not want to increase their exposure to potential fallen angels by purchasing passive bond funds.

Even if Vanguard sees the merits of active bond funds, it doesn't change the fact that the company has led the charge in indexing and the race to the bottom in fees, which is causing an upheaval in asset management.

Invesco's decision to buy OppenheimerFunds from Massachusetts Mutual Life Insurance Co. last year is one example of consolidation within the industry. After all, only one of the 10 largest funds is actively managed, whereas a decade ago, three of the top five had an active mandate, according to Bloomberg Intelligence. BI suggested Vanguard could effectively "own" 30% of the stock market in less than 20 years.

I don't get the sense that the same level of concentration and passive focus is inevitable for bonds. The better question might be what active management style is most desirable.

My Bloomberg Opinion colleague Nir Kaissar made an interesting contrarian argument that Mr. Gross had the right idea with his unconstrained bond fund: "To the extent that investors need a bond manager, it's to make the kind of unconstrained calls that Gross made at Janus Henderson, knowing full well that those calls could be a bust just as easily as a boon. You can't get that from an index."

I'm not quite sold on that — boom-bust trades sound more like something a hedge fund would do than a bond manager. Alternatively, investors could turn to more subtle active strategies that (to borrow a tired baseball metaphor) are looking to hit singles rather than home runs. This is effectively what quants want to bring to fixed-income ETFs, though it's too soon to say whether their strategy will pan out.

MUST LOWER FEES

This brings us back to Mr. Hollyer and his preference for thinking of funds in terms of cost. It's not hard to envision active bond managers still roaming the markets in a decade or two — but only if their fees continue to come down.

The indexing revolution and the rise of ETF trading have forever changed what people have come to expect as far as the ease and affordability of investing. As of 2017, Vanguard's actively managed bond funds had an average expense ratio of 0.11%. That's lower than the average industry fee on passive taxable and tax-exempt funds, according to Morningstar Inc. data.

The "Vanguard Effect" is estimated to have saved investors hundreds of billions of dollars. It's worth remembering who lost money from that trend, too. But for bond managers, there's no going back now.

Brian Chappatta is a Bloomberg Opinion columnist covering debt markets.

BIG BONUSES

CONTINUED FROM PAGE 2

clear opportunity for other sizable firms to compete for advisers with attractive bonuses, in the form of loans that advisers work off over a period of years.

After bleeding brokers for more than two years, Wells Fargo Advisors is currently dangling one of the most attractive offers on the Street to retail brokers and wealth managers.

>3x

AMOUNT OF TRAILING 12 WELLS FARGO IS OFFERING SOME ADVISERS

The deal, at potentially more than three times an adviser's annual fees and commissions, known as the trailing 12 in the industry, hearkens back to a decade ago after the financial crisis, when large wirehouses were offering top dollar to convince advisers to jump ship.

Traditionally worked off over 10 years, the deal is available to brokers and advisers who generate more than $500,000 in annual fees and commissions. It is split into two parts: an upfront payment and then another payment over time based on the percentage of client assets the adviser eventually moves from his former employer to Wells Fargo.

The upfront part of the bonus is worth 225% of an adviser's trailing 12, with the lion's share in a loan and the rest in deferred compensation. The remainder, potentially worth another 100% of an adviser's prior year's fees and commissions, depends on the amount of client assets that move from the old employer to Wells Fargo Advisors. To earn that maximum, an adviser needs to transfer all clients and assets.

I asked a spokesperson for Wells Fargo Advisors, Shea Leordeanu, whether the firm's decision to up the ante for recruits was a response to the net decline of close to 1,100 advisers the firm has seen since September 2016. That's when its parent, the giant bank Wells Fargo & Co., began to reveal a series of embarrassing scandals.

"We want to hire the best, most client-focused advisers," Ms. Leordeanu said.

50 BPS ON ASSETS

Meanwhile, LPL Financial last spring introduced a tantalizing recruiting package in the form of a three-year forgivable loan that pays an adviser 50 basis points on assets under management transferred to the firm. It was a break with tradition and potentially much more lucrative than deals in the past. IBDs such as LPL customarily paid recruiting bonuses based on a percentage of a broker's trailing 12, not assets.

LPL's new deal apparently worked. Last month, the firm said the third and fourth quarters of 2018 were its best recruiting quarters on record. For the year, the firm gained a net 899 advisers with $27.3 billion in brokerage and advisory assets.

Look for LPL to employ a similar recruiting strategy this year, one executive said in an interview last week.

"It was very successful," said Richard Steinmeier, managing director and head of business development. "We've kept elements of that in play. And it wasn't just the 50 basis points. It was simplifying the offering and the payout.

"We will likely not only continue but evolve that into sets of offers, not just one," said Mr. Steinmeier, who joined LPL from UBS in the second half of 2018.

70 BPS ON ASSETS

Cetera Financial Group, one of LPL's key competitors, is taking note. Robert Moore, CEO of the brokerage network and a former senior executive at LPL, said in a phone interview last week that the firm would offer certain recruits 70 basis points on advisory assets that move to the firm — an eye-popping amount — and 35 basis points on brokerage assets.

"WE JUST WENT INTO THE MARKET ... WITH THE NEW, REVISED SET OF TERMS THAT ARE BETTER THAN LPL'S DEAL."

ROBERT MOORE, CEO, CETERA FINANCIAL GROUP

Those deals would be in the form of a forgivable note or loan that would span five to seven years, or roughly twice as long as the typical recruiting package, he said.

"It's basis points on assets, and brokerage versus advisory," Mr. Moore said. "We just went into the market last [month] with the new, revised set of terms that are better than LPL's deal."

Cetera recruited about 600 new advisers in 2018, but many of them generated on the lower end of annual fees and revenues, he said. It added another 200 new advisers at various banks, credit unions and tax preparers that work with Cetera Financial broker-dealers.

Big Wall Street wealth management firms have turned away from recruiting and are working to hang onto as many of their current advisers as possible. Others, including Wells Fargo, LPL and Cetera, continue to pay bonuses for experienced brokers. Which strategy will prevail over the next 12 months?

bkelly@investmentnews.com Twitter: @bdnewsguy

Voya glitch exposes brokers' personal info

BY BRUCE KELLY

VOYA FINANCIAL Advisors Inc. has told its brokers and financial advisers that a glitch on a biography webpage for its brokers put their Social Security numbers at risk of exposure.

According to a memo on Feb. 1, Voya Financial Advisors' information technology staff discovered the error on Nov. 29. The error manifested itself on the Voya Financial "Find a Professional" webpage; if someone pasted the link to a Voya broker's biography webpage into a text message or on social media, the broker's full Social Security number would display in the link.

Voya Financial Advisors had 1,800 registered reps and financial advisers with close to $51 billion in client assets at the end of 2017, according to *InvestmentNews* data. Information from 2018 is not yet available.

It was not clear from the memo how many advisers at the firm were affected.

"This matter was associated with a coding configuration issue — it did not involve any unauthorized access or disclosure of our advisers' personal information," Voya spokesperson Laura Maulucci wrote in an email. "A number of conditions would have been required for an adviser's information to be seen. There was no evidence of any unauthorized viewing of personal information in this manner."

The error existed from April 9, 2016, until the end of November, according to the memo.

Voya Financial Advisors recently reported other errors regarding data security. In September, the firm said it would pay $1 million to settle Securities and Exchange Commission charges regarding a data security breach that compromised the personal information of thousands of customers.

OTHER FIRMS' TROUBLES

Last month, it was reported that BlackRock Inc. exposed sales — not personal — information on 20,000 financial advisers. And in November, LPL Financial took steps to safeguard financial advisers and their clients whose names, addresses, account numbers and Social Security numbers were exposed in a data breach.

bkelly@investmentnews.com
Twitter: @bdnewsguy

LEAVING

CONTINUED FROM PAGE 4

are ridiculously robust numbers," said Brian Hamburger, president and CEO of MarketCounsel, which advises brokers moving to new employers. "Despite two of the largest wirehouses pulling out of the protocol and some in the industry declaring it would mean the end of broker transitions, broker and adviser movement is alive and well."

The trend has been for the wirehouses to experience a steady flow of advisers and assets leaving for other financial advice platforms. Advisers at wirehouses are typically paid in the neighborhood of 40% of their annual revenue, and they can double that portion at an independent broker-dealer. Advisers at wirehouses also commonly complain about being pressured to sell banking products to their clients, which for many represents a persistent conflict of interest.

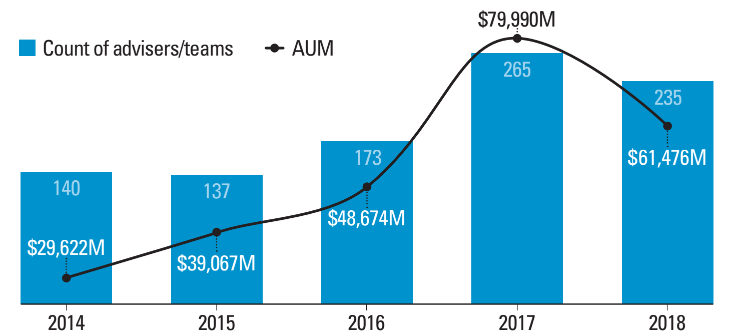
Over the past five years, *InvestmentNews* has tallied advisers with $258.8 billion in assets leaving the wirehouses for a different platform.

BUSINESS OPPORTUNITY

Advisers leaving Wall Street constitute a business opportunity that other segments of the financial advice industry cannot ignore, said one industry executive.

"There is a hundred billion dollars [of assets] that moves out of the employee channel, and we think we can have a more expansive presence in those flows," said Richard Steinmeier, managing director and head of business development at LPL Financial, citing industry statistics.

ADVISERS/TEAMS LEAVING WIREHOUSES TO JOIN ANOTHER TYPE OF FIRM, 2014-18



Source: *InvestmentNews* Research

To reach that part of the market, LPL's largest affiliate, Private Advisor Group of Morristown, N.J., said last month it was launching a new platform to give it the ability to attract wirehouse brokers who want to transition to the RIA channel.

"I think we can build an offer that will work for those advisers," Mr. Steinmeier said. "We have to consider and overcome any barriers those advisers might have when thinking about moving."

Of course, the four wirehouses aren't going anywhere, and they command a dominant share of the financial advice industry's assets. At the end of last year, Morgan Stanley alone reported total client assets of $2.3 trillion.

But if the number of advisers and assets leaving the wirehouses continues at the current level, the long-term compounding impact on those firms and their wealth management businesses "does not bode well for the wirehouses," Mr. Hamburger said.

bkelly@investmentnews.com
Twitter: @bdnewsguy

MARYLAND BILL

CONTINUED FROM PAGE 4

vital financial and retirement security products at the very time they are most needed, especially by low- and moderate-income Marylanders."

The ACLI supports a standard like the one the SEC proposed last April in Regulation Best Interest.

But a fiduciary advocate applauded Maryland lawmakers for targeting insurance sales.

"Insurance producers have a significant impact on the marketplace and they are important to a lot of ordinary investors and consumers," said Knut Rostad, president of the Institute for the Fiduciary Standard. "It's good that they are brought in under this legislation."

SEVERAL STATES

Maryland is one of several states pursuing reform of investment advice standards. A fiduciary regulation has been proposed in Nevada.

Financial industry associations say state-level activity could produce an array of advice regulations.

Michelle Carroll Foster, vice president for state affairs at the Financial Services Institute, said a national standard of care should be promulgated by the SEC.

"There are a lot of unknowns given that Reg BI is not final," Ms. Foster said.

That's all the more reason to make progress at the state level, Mr. Rostad said.

"It's great that another state is moving ahead to protect investors while the SEC falters," he said.

mschoeff@investmentnews.com
Twitter: @markschoeff

RON CARSON

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Ron Carson says tech is friend and competitor

BY JEFF BENJAMIN

FINANCIAL advisers should accept the fact that technology is both a friend and a potential competitor, Ron Carson told the audience at TD Ameritrade's annual conference last Wednesday in San Diego.

KEY POINTS

- Ron Carson at TD conference said financial advisers will be competing against "Amazon and Netflix experience."
- Cutting fees is "loser's game."

"Look around the room. Are you viewing each other as competition?" Mr. Carson asked the audience of financial advisers. "The reality is, you will be competing against an Amazon and Netflix experience."

It's probably not surprising that the founder of the Carson Group would lean so heavily on the importance of keeping up with technology.

TECH CHALLENGES AT CETERA

In January 2017, when he moved his $4.2 billion operation from LPL Financial to Cetera, Mr. Carson cited technology challenges as among the reasons for changing his broker-dealer relationship.

Mr. Carson warned against assuming that clients are not interested in technology.

"Are your clients using Amazon?" he asked. "Well, that's technology. Consumer expectations are going up fast, and if it's super simple, they will use it."

He summed up three basic requirements for being a successful financial adviser:

"The first hurdle is easy, don't steal their money," he said. "And second, are you acting as a fiduciary and putting your clients' interests first?"

The third dimension, as he described it, is embracing a seamless technology experience and service model.

FEE COMPRESSION FROM COSTS

Regarding the ongoing topic of fee compression in the financial planning space, Mr. Carson said fees have barely budged over the past few years, but that "there is fee compression coming up from the bottom as the costs of services have tripled."

He advised against trying to compete by cutting advisory fees.

"You happen to be at the right time, in the right place to do things nobody in our profession has ever done," he said. "Reducing fees is a loser's game. If your answer to value is to lower cost, you can't lower cost enough. Vanguard has already won that game."

> **"ARE YOUR CLIENTS USING AMAZON? WELL, THAT'S TECHNOLOGY."**
>
> RON CARSON, FOUNDER, CARSON GROUP

However, Mr. Carson acknowledged the margin pressure that advisers experience as they feel pressure to continue offering more services.

"Stealth fee compression is a real deal," he said. "But for many years, we probably made too much money as a profession anyway, so that's okay."

jbenjamin@investmentnews.com
Twitter: @benjiwriter

WELLS OUTAGE

CONTINUED FROM PAGE 3

"Security engineers are looking at this cross-eyed," said Alissa Knight, senior analyst at Aite Group's cybersecurity practice. "I don't think we're hearing everything. I don't think we're getting the full story."

Part of the concern stems from conflicting stories about what happened at a Wells Fargo data farm in Shoreview, Minn. While people claiming to work at the site reported a fire to regional news outlets, the local fire department said the fire system was triggered by dust from construction. The official Wells Fargo statement simply states that there was smoke.

GAS SYSTEMS

However, most data centers use gas systems to suppress fires rather than water sprinklers that would ruin the electronics, Ms. Knight said. If the fire system had been activated, it still doesn't explain why the servers were powered down.

It also doesn't explain why backups weren't immediately turned on. The Federal Deposit Insurance Corp. recommends banks maintain a "hot failover," or a secondary location of servers that is fully active, operational and ready to take over in the event that the primary location is taken offline.

"It's puzzling to me why there were not backup systems or a failover site," Ms. Knight said.

The bank's response doesn't sound appropriate for a power outage, she said. For security professionals, it looked more like a response to malware, a data breach or other advanced threat.

On Twitter, Wells Fargo reiterated that the system disruption was the result of "a contained issue affecting one of our facilities, and not due to any cybersecurity event."

There's no reason to doubt Wells Fargo's explanation, especially considering regulations requiring financial institutions to report data breaches, Ms. Knight said. Backup systems sometimes fail, and in 2016 a fire-suppression system knocked out an ING Bank data center in Romania simply because of a loud noise the system made.

In Ms. Knight's experience, companies talk a lot about cybersecurity and invest heavily in technology safeguards like firewalls and automated detection, but still ignore basic security hygiene such as regular testing and holding "fire drills" to ensure protocols work.

WELLS FARGO NOT ALONE

Wells Fargo isn't the only firm nursing technology-related bruises.

Voya Financial Advisors Inc. told its brokers and financial advisers Feb. 1 that a glitch on a biography webpage for its brokers put their Social Security numbers at risk of exposure.

The error, occurring since April 2016, manifested itself on the Voya Financial "Find a Professional" webpage; if someone pasted the link to a Voya broker's biography webpage into a text message or on social media, the broker's full Social Security number would display in the link.

BlackRock recently leaked confidential sales data online, and Summit Equities paid a fine for not restricting a former broker's access to client data.

None of these incidents involved breaches by malicious hackers, but they all reveal weaknesses in the technology infrastructure of financial institutions.

rneal@investmentnews.com
Twitter: @ryanwneal

RAISING FEES

CONTINUED FROM PAGE 5

98% of all clients are charged under a pure asset-based pricing model, and 80% of all advisory firms indicated their asset-based fees include services other than investment management.

"If you're an investment manager, you're probably OK with an asset-based pricing model," she said. "But if you're a wealth manager, offering all these other services, it's a different story."

ANNUAL MINIMUM FEE

Touching on the perennial problem with asset-based pricing in that some clients will not generate a lot of revenue but might need a lot of financial planning help, Ms. De Pardo recommended introducing annual minimum fees.

Industrywide, those fees can vary, she said, but the median is $5,000 per client account.

YOUNGER CLIENTS

Another advantage of minimum fees, and even hourly or flat-fee models, is they allow advisers to work with younger clients who might not yet have a lot of money to manage.

"If you're dealing with younger clients who need help with cash flow, saving for a home and insurance needs, their needs are not aligned to asset-based fees," Ms. De Pardo said. "Those younger clients are also wanting more tech services and you may not need to see them as often. The relationship will look different, the service model will look different, and the pricing model should be different."

According to Ms. De Pardo's research, 28% of advisory firms are "trending younger," meaning more than half of their clients are 55 or younger.

On the other end of the spectrum, 21% of firms are trending older, meaning more than half of their clients are over age 55.

jbenjamin@investmentnews.com
Twitter: @benjiwriter

TD EXECUTIVES

CONTINUED FROM PAGE 5

works with you, not against you. Our strategy is clear, we will not compete with you."

The statement from Mr. Hockey, who was joined on stage by TD Ameritrade Institutional president Tom Nally, was both a slight jab at other custodians that have gone into businesses competing with RIAs, and a kind of final word on the topic.

In a follow-up interview with Mr. Nally, he said it was important to clarify that TD Ameritrade is not considering business lines that would constitute "being all things to all people," including TD financial advisory branch offices.

"There's been a lot of folks, as we've grown, who were wondering if we were going to start to do what our competitors are doing," he said. "And there was a time over the past few years when we didn't have our strategy crystallized about how we would compete in the retail space."

Mr. Nally acknowledged that, "As we were growing, there was some thought in the organization that we need to go up-market and be all things to all people."

SCOTTRADE BUY

The concerns over the direction of TD Ameritrade were "bubbling up" even before its acquisition last year of Scottrade, which catered to self-directed investors, he said.

"We've been hearing it for years, and there was a little bit of ambiguity about who we wanted to be when we grow up," Mr. Nally said. "We're not going to build capabilities that compete with RIAs."

For some RIAs attending the annual conference, the news was welcome, even if they weren't fully aware of the original concern.

"It's good news to hear, but I never thought they were considering working against us," said Brian Lock, an adviser at Beam Asset Management.

Carolyn McClanahan, founder and director of financial planning at Life Planning Partners, said TD's declaration that it wouldn't compete with RIAs was "fantastic."

However, Ms. McClanahan said, she had never considered the Scottrade acquisition as a step toward competition.

jbenjamin@investmentnews.com
Twitter: @benjiwriter