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SAVING RETIREMENT

When middle-aged clients lose their job, their first call is to their financial adviser to keep their retirement dreams intact

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6 ways millennials differ from older advisory clients
InvestmentNews.com/differ

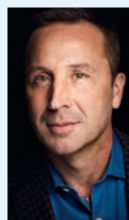
EDITOR'S NOTE

Facing the unexpected

We have the *InvestmentNews* advisory board to thank for this week's cover story.

At our board meeting in January, one of our members — a financial adviser — remarked he'd been seeing an influx of telephone calls from middle-aged clients who suddenly found themselves out of work.

"It's always the same," the adviser said. "They had planned to retire in a few years and they are calling on me to help keep that plan on track. For some clients, the loss of a job at that point in their lives can be devastating."


FRED GABRIEL

A cover story is born.

In telling this story, our goal was to leave advisers with actionable advice for getting clients through the financial upheaval that comes with an unexpected job loss close to retirement. For example, working with clients on a short-term budget, one that identifies expenses that may be cut or cash reserves that may be tapped. Or setting up a home equity line of credit if a layoff seems imminent.

Reporter Greg Iacurci's story also has suggestions for how to reduce the damage in cases where it's necessary to draw on retirement assets. There's the "age 55 rule," which allows clients between the ages of 55 and 59½ who are laid off, fired or quit to draw down their 401(k) without penalty.

A job loss is never easy. When it comes within a decade of retirement, the stakes are particularly high. Advisers play an important role in getting their clients through this unexpected late-in-life transition.

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Leaving: Cetera announced CEO Robert Moore's resignation last week.

More changes to hit Cetera?

BY BRUCE KELLY

KEY POINTS

- IBD's CEO, Robert Moore, has resigned.
- Some industry observers think Cetera may cut management ranks to focus spending on tech.
- Firm is searching for a new CEO.

ROBERT MOORE'S resignation from Cetera Financial Group likely signals other changes to come at the giant broker-dealer network, according to advisers and industry observers. Those could range from the firm's owner, Genstar Capital, winnowing the ranks of management at Cetera to more emphasis on technology solutions that better focus on advisers' clients.

At some point in the future, Genstar Capital could look to reduce costs by cutting management and boosting the productivity of advisers with improved technology, those advisers and observers said.

"Will other executives leave?" asked one Cetera adviser, who asked not to be identified. "I think they have to."

The adviser added that technology the firm has recently invested in, like a highly touted facial recognition program, has not had an impact on the typical Cetera adviser's business.

The goal of that technology is to give advisers a better understanding of what clients are thinking and feeling about their money and investments. So far, that hasn't worked out for reps in the field, the adviser said. "We need to get ground-level solutions for the clients delivered faster to advisers."

Last Tuesday, Cetera Financial Group

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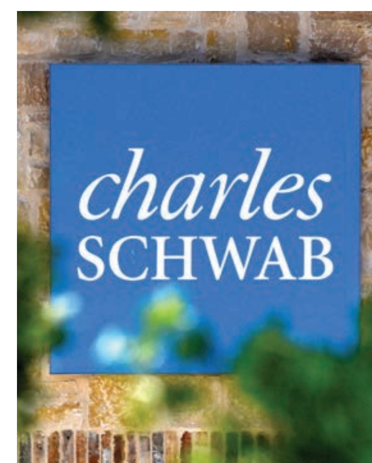

Envestnet buys PortfolioCenter from Schwab

BY RYAN W. NEAL

CHARLES SCHWAB is selling PortfolioCenter, a portfolio management and reporting engine used by 3,000 registered investment advisory firms, to Envestnet Tamarac.

Envestnet announced the acquisition last Thursday when reporting its fourth-quarter 2018 earnings. Terms of the deal were not disclosed. The companies expect the deal to close in the first half of 2019. PortfolioCenter was key to Schwab Advisor Services' plan in 2010 for a cloud-based, multi-

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InvestmentNews women adviser summit

Ohio National extends time for VA buyouts

BY GREG IACURCI

OHIO NATIONAL Life Insurance Co. is extending by about a month a buyout offer it made on some of its variable annuity products.

The insurer last year gave owners of ONcore variable annuities with a guaranteed minimum income benefit rider the ability to either surrender or exchange their contract for additional cash.

MORE
Insurers losing advisers' trust?
PAGE 7

Ohio National originally scheduled the offer to run from Nov. 12 until Feb. 11. The insurer extended the time frame until March 15, according to a filing with the Securities and Exchange Commission.

These annuities are at the heart of an ongoing feud between Ohio National and broker-dealers and their representatives. The insurer in mid-December eliminated trailing commission payments made to brokers whose clients own ONcore variable annuities with a GMIB, thereby cutting off an annual income stream for brokers and their firms.

Several broker-dealers, including UBS Financial Services Inc., Commonwealth Financial Network and the six brokerages in Cetera Financial Group's network, have sued Ohio National in a bid to restore the commission payments.

PRESERVING PAY

Advisers have speculated that Ohio National timed its buyout to coincide with its move to eliminate trail commissions in the hopes it would incentivize brokers to exchange their clients' VAs for another product, thereby preserving their commission payments.

"This offer may provide an option to our contract owners that better fits their needs today," said Ohio National spokeswoman An-

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ANNUITIES

Fixed annuity sales in 2018 smash previous record

BY GREG IACURCI

ANNUAL SALES of fixed annuities broke a record in 2018, as investors retreated from a volatile stock market and were lured by the larger payouts created by rising interest rates.

Fixed annuity sales hit $132 billion last year, a 25% jump from the previous year, according to the Limra Secure Retirement Institute. The 2018 total bested the previous record set in 2016, by roughly $15 billion.

Meanwhile, variable annuity sales saw their first year of growth in six years. VA sales of $100.1 billion were up 2% for the year, aided by rising interest rates, the stock market's strength up until the fourth quarter, and relaxed regulatory pressures.

Market volatility toward year-end, beginning in October, helped drive fixed annuity sales to their highest-ever quarterly sales total in the fourth quarter, which in turn contributed to fixed annuities' record year.

December was particularly volatile, with the S&P 500 up or down more than 1% nine times, compared

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TOP 10 SCAMS THAT TARGET THE ELDERLY

10. IDENTITY THEFT
NUMBER OF COMPLAINTS IN 2018: 45
Identity thieves make unauthorized credit card purchases, steal money from bank accounts, or apply for Social Security benefits or get health-care covered by Medicare.

9. IMPENDING LAWSUIT SCAMS
COMPLAINTS: 54
A consumer gets a call from someone claiming to work for a local, state or federal law enforcement agency, and is told there's a warrant out for their arrest and they'll be arrested unless they pay a fine.

8. SOCIAL SECURITY IMPERSONATION
COMPLAINTS: 64
Scammers either phone or email consumers claiming to represent the Social Security Administration and ask consumers for personal information, such as their SSN, date of birth or bank account information.

7. ROMANCE SCAMS
COMPLAINTS: 68
Once a fraudster has struck up a relationship via online dating sites, they ask for money, perhaps under the guise of paying for a trip to visit the senior or cover medical costs.

6. GRANDPARENT SCAMS
COMPLAINTS: 71
Criminals pretend to be the victim's grandchild and claim they need money to get themselves out of an emergency. Or they may claim to have kidnapped the senior's grandchild and ask for ransom.

5. ELDER FINANCIAL ABUSE
COMPLAINTS: 78
Perpetrators of elder financial abuse include family members, caregivers or financial advisers, as well as strangers, who use the mail, phone calls or the internet to conduct scams.

4. COMPUTER TECH SUPPORT SCAMS
COMPLAINTS: 82
Fraudsters pretend they work for a well-known tech company like Microsoft or Dell. They claim the individual's computer has been infected with a virus, and then try to get remote access to the computer.

3. SWEEPSTAKES SCAMS
COMPLAINTS: 99
Criminals contact victims and tell them they've won the lottery and need to pay a fee to collect their winnings.

2. ROBOCALLS AND UNSOLICITED PHONE CALLS
COMPLAINTS: 149
Americans are inundated with robo-calls, and technology allows scammers to make it seem that their call originates in the consumer's state or local area code.

1. IRS IMPERSONATION
COMPLAINTS: 282
Scammers claim an individual owes back taxes and penalties, and threatens arrest or home foreclosure unless the person pays immediately.

Source: Senate Committee on Aging

Wirehouses at odds over cross-selling

Merrill Lynch and Wells Fargo Advisors currently stand at opposite ends of the spectrum when it comes to advisers selling or recommending banking products to clients.

Owned by Bank of America Corp., Merrill Lynch is embracing the practice and — since the start of last year — compensates its nearly 15,000 advisers for reeling in new households and getting existing clients to sign up for banking services like loans and deposit accounts. The company believes that clients are happier and feel more secure if their financial life, from banking to wealth management, is in one place.

BRUCE KELLY
ONADVICE

Known in the industry as cross-selling, the practice involves financial institutions getting clients to buy multiple products and services. By all accounts it is lucrative for the banks. Another clear positive for the financial institution is that a bank product, a mortgage, for example, tethers the adviser's client to the bank.

THE WHOLE BALANCE SHEET

Merrill Lynch makes no apologies for the push into banking.

"We give clients better advice when we see the entirety across the balance sheet," said a senior Merrill Lynch executive who asked not to be identified. "And clients get benefits, like discounted lending rates and credit card offers. This is what clients are telling us they want. The opportunity is real, and we were not delivering that."

Wells Fargo Advisors, part of Wells Fargo & Co., is currently taking a different position. Still stinging

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SIFMA spends most on lobbying, again

BY MARK SCHOEFF JR.

SIFMA, THE trade association representing major brokerage firms, spent more money lobbying lawmakers last year than Goldman Sachs, Fidelity Investments, Vanguard Group and other top financial services firms.

The Securities Industry and Financial Markets Association spent $6.6 million to lobby federal lawmakers in 2018, according to the Center for Responsive Politics.

That puts the trade group ahead of top-spending firms such as Goldman Sachs ($3.2 million) and Fidelity Investments ($3 million). Vanguard Group, BlackRock and Charles Schwab all spent around $2.7 million.

SIFMA has led the way in lobbying spending by a large margin since 2014. In 2017, the group spent $8.1 million. The approximately $1.5 million drop in SIFMA spending from 2017 to 2018 resulted from a change in its government relations staffing. From 2014 through 2016, its spending hovered around $7.5 million.

ICI A BIG SPENDER, TOO

The trade association that represents the mutual fund industry, the Investment Company Institute, also outspent individual firms. It has held steady around $5 million from 2014 through last year.

Of course, many of the top financial firms are also members of SIFMA and ICI and that may explain why they are not spending more money on an individual basis.

Another financial industry heavy hitter in lobbying was the National Association of Insurance and Financial Advisors, which spent $2.4 million in 2018, up slightly from $2.3 million in 2017.

"NAIFA's small increase in lobbying reflects inflation and increased activity in states, particularly regarding best-interest legislative proposal in several states," NAIFA chief executive Kevin Mayeux said in a statement. "On the national level, we are currently working to establish relationships

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CNC21435 11/18

Wirehouse culture drives move to independence

As a professional headhunter, I always discuss the culture of my client firms with the financial advisers with whom I work. Quite often, instead of inspiring curiosity, I get an eye roll, as if I had told my teenage daughter to clean her room.

GUESTBLOG
DANNY SARCH

Corporate culture, of course, has unfortunately become an overused cliché when talking about a company. Is culture actually something tangible that an interested job candidate needs to learn about to see if he or she is a proper fit? Or is the term deserving of palpable cynicism — i.e., the eye roll?

Wells Fargo is facing the challenge of reinventing and restating its culture. In January, it published an extraordinary, 100-plus page Business Standards Report called, "Learning from the past, transforming for the future."

In the executive summary on page four, Wells Fargo identifies its past culture as one of the root causes of its 2016 problems: "The causes included performance management and incentive programs and a high-pressure sales *culture* [emphasis added] in the Community Bank that drove behaviors that were both inappropriate and inconsistent with our values." Indeed, the word culture is in the document 65 times. The culture of Wells Fargo became an embarrassment to the financial services industry, leading to employees opening up false accounts for customers as a standard operating procedure, literally millions of times.

Compensation drives behavior. At some point in time, Wells

CONTINUED ON PAGE 24

SUCCESSION

Succession plan allows soft transition with new role for owner

BY JEFF BENJAMIN

IT TOOK A while for him to make it a top priority, but Leon LaBrecque can finally rest easy knowing that at 63, his business succession plan is in place.

After about eight years of weighing his options, and 18 months of grinding out the details, last year Mr. LaBrecque sold his $776 million Troy, Mich.-based firm, LJPR Financial Advisors, to Akron, Ohio-based Sequoia Financial Group.

KEY POINTS

- Leon LaBrecque shares his experience selling LJPR.
- He is now chief growth officer at the buyer, Sequoia, and will work for another 3-7 years.

For Mr. LaBrecque, who is now the chief growth officer at Sequoia and plans to work for between three and seven more years, the decision to combine his practice with a firm with nearly $5 billion under management was easy, once he found the right match.

But until he was introduced to Sequoia founder Tom Haught through his Charles Schwab custodian, Mr. LaBrecque was doing what a lot of advisers do when it comes to succession planning.

"I initially thought I would sell the business internally, but there would have been cash-flow issues doing it that way," he said.

"Doing it that way, there was no risk mitigation and no liquidity," he said. "I would have gotten more money for eight years, while gradually working less, but after eight years there would be nothing."

Like any responsible owner, Mr. LaBrecque wasn't just worried about himself. He was also considering what would be best for his 24 employees, including three minor partners, and more than 1,400 clients.

Solid deal: Leon LaBrecque, left, and Tom Haught learned lessons applicable to future acquisitions and transitions of practices.

"We looked at two different aggregators," he said. "We even looked at mergers with smaller firms and younger people, but we didn't have the firepower to make it happen."

In his 30 years of running his own firm, Mr. LaBrecque had brought on a couple of advisers with their own books of business, but he had never been involved in a merger or acquisition.

Sequoia, meanwhile, was looking to expand its Midwest footprint at the same time Mr. LaBrecque was looking to step away from some of the day-to-day duties of running a large advisory firm.

DIDN'T WANT TO WALK AWAY

Even though Mr. LaBrecque said he was immediately impressed by the way the Sequoia culture matched that of his own firm, he wasn't ready to just sell his business and walk away.

"Leon saw an opportunity to make a more durable organization, together, but he was reluctant to just merge into Sequoia," said Mr. Haught, 54, who founded Sequoia in 1991.

Sequoia, which already had offices in Ohio, Michigan and Florida prior to the acquisition of LJPR, had acquired four advisory firms and sold a business unit since 2009.

VALUE OF FIRM

Details of the transaction between the two private firms were not disclosed, but Mr. LaBrecque confirmed that the value of his firm in the cash and stock deal was based on a multiplier of transferable earnings.

Mr. LaBrecque said that agreeing on the final price was a matter of "Tom and I haggling for about two hours in one intense meeting."

Considering they were combining 24 employees from LJPR with more than 60 at Sequoia, both parties thought it was important to keep everyone in the loop as much as possible. And to help ensure a smooth transition to the new company, LJPR employees "got generous pay packages, better fringe benefits, increases in base versus variable compensation," Mr. LaBrecque said.

Once the financials were agreed

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Focus Financial reports 37% revenue growth

BY JEFF BENJAMIN

SEVEN MONTHS after taking Focus Financial Partners (FOCS) public, the chairman and chief executive of the RIA aggregator, Rudy Adolf, is singing the praises of the public equity markets.

"The IPO is creating permanent capital to invest in our business," Mr. Adolf said last Thursday during an earnings call with analysts.

"Our business has never been stronger," he said, underscoring the company's strategy of continued growth through acquisitions, including international expansion.

Focus, which raised $565 million in its July 30 stock sale, reported 2018 wealth management revenues of $910.9 million, a 37.4% increase over the prior year. Adjusted net income for the calendar year was $125.3 million, up 44.6% from 2017.

The success of the company's strategy has not been lost on investors. This year through last Wednesday, Focus shares were up more than 20%, which is more than double the S&P 500 index's 9.8% gain over the same period.

Focus acquired eight new partner firms in 2018, adding

$37.8 million in base earnings. Focus executives said the pace is continuing this year, with seven closed acquisitions and four pending transactions so far in 2019.

MORE CONSOLIDATION

While Focus already had partner firms in Australia, Canada and the United Kingdom, and aspirations for continued global expansion, Mr. Adolf said the U.S. market is still ripe for consolidation opportunities.

Registered investment advisers and hybrid RIAs manage $4.7 trillion in client assets, or about a quarter of all managed assets, he said, and that figure is projected to grow to 29%, adding another $1.4 trillion, by 2022.

"These fiduciary advisers are continually attractive to clients," Mr. Adolf said.

In terms of growth potential, Focus said it is targeting a 20% growth rate for 2019, which breaks down to 10% organic and 10% through acquisitions, adding to its current list of 58 partner firms.

"We're very comfortable with that growth guidance," Mr. Adolf said.

When asked about competition from banks and private-equity investors that might also want a piece of the RIA space, Mr. Adolf

Continued on Page 24

Franklin to pay $14M in high-cost 401(k) suit

BY GREG IACURCI

FRANKLIN TEMPLETON Investments has agreed to pay roughly $14 million to settle a lawsuit alleging the firm profited at the expense of its employees by loading its 401(k) plan with in-house investments.

Plaintiffs in the class-action lawsuit claimed the firm violated its fiduciary duties under the Employee Retirement Income Security Act of 1974 by selecting high-cost, proprietary funds for its company 401(k) plan in place of better, lower-cost investments.

Franklin Templeton and plaintiffs have reached a preliminary settlement that would see the firm pay $13.85 million, according to a court document filed Feb. 15 in the U.S. District Court for the Northern District of California. The settlement still needs approval from a judge.

$21.9M
AMOUNT OF RECENT SETTLEMENT BY DEUTSCHE BANK

Stacey Coleman, spokeswoman for Franklin, said the firm believes plaintiffs' allegations to be without merit but decided to settle in order to avoid protracted litigation.

The case, Cryer v. Franklin Resources Inc. et al, was originally filed in July 2016.

Several financial services firms, primarily active asset managers, have been sued for self-dealing in their company 401(k) plans. Many have settled their respective cases, including Waddell & Reed Financial Inc., Jackson National, Citigroup Inc. and Deutsche Bank.

The Franklin settlement is among the largest recent settlements. Deutsche Bank settled for $21.9 million in August, and Allianz settled for $12 million about a year ago.

A few, such as American Century Investments and Capital Group, won their cases in district court.

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OPINION

EDITORIAL / LETTERS / OP-ED / GUEST BLOGS

Time for the SEC to address RIAs' custody confusion

NOTHING GETS THE ATTENTION of registered investment advisers quite like the concept of custody status.

For good reason, the Securities and Exchange Commission ramped up its focus on RIAs that have custody of client assets in response to the $65 billion Bernie Madoff Ponzi scheme, in which Mr. Madoff had control of his clients' assets.

To the regulator's credit, the commission rolled up its sleeves and passed an updated custody rule in 2009, which took effect a year later.

One of the key components of the new rule was that any RIA determined to have custody of client assets, based on a murky and evolving set of criteria, is required to pay for an annual "surprise exam" to ensure the business is following the asset custody rules.

Problem solved, right?

No. Not even close.

While the new custody rule, including the weight of a costly annual exam, might have increased the attention paid to custody status by RIAs, it also has added ample amounts of confusion and attempts at clarity.

According to the Investment Adviser Association, which has been working with several industry custodian firms to encourage the SEC to simplify its custody guidelines, about a third of RIAs acknowledge custody status for at least some of their clients.

However, based on general confusion over what qualifies as custody, both regulators and regulatory watchers believe the actual number of RIAs with custody is much higher.

SO MANY FAQs

As the SEC's growing list of frequently asked questions proves, custody status is far from intuitive.

Recent questions added to the SEC's FAQ, which now total 68, attempt to clarify the commission's February 2017 guidance on inadvertent custody, which affects advisers who acquire clients who bring with them custodial agreements.

While virtually every potential custody trigger is accompanied by exceptions and caveats, an RIA can fall into custody status for things like check-writing abilities on a client's account, possession of certain account passwords, the ability to forward funds and securities, and even for receiving client assets by mistake.

> RECENT GUIDANCE STILL LEAVES MANY ADVISERS SCRATCHING THEIR HEADS.

For larger and more complex RIAs, custody is an accepted reality of doing business. But for thousands of other RIAs dotting the landscape and trying to do the right thing, this is a headache that just won't go away.

You can't even throw in the towel and claim custody status just to cover yourself, because you then run the risk of posting an inaccurate Form ADV, which is frowned upon by regulators.

This is a real issue and a real mess that needs to be addressed by the SEC, but the last we heard, it was parked on the agency's long-term agenda.

It's time the SEC acknowledged the urgency of the matter and resolved to improve it — in the short term.

LETTERS

No to unfettered deficit spending

I was appalled by Professor [Stephanie] Kelton's article suggesting that we "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" [Feb. 11 issue]. Where did Ms. Kelton find that free lunch?

Economics is the study of the allocation of scarce resources to maximize social welfare, something understood by any professor of economics. The notion that we can spend hundreds of billions or trillions and simply finance such programs by issuing Treasuries without significant adverse consequential effects is a ludicrous pipe dream and unfathomable for a professor teaching economics. It is unfettered deficit spending that caused the Weimar Republic to suffer hyperinflation and that lesson has been repeated in Zimbabwe and now in Venezuela.

Maybe that's why today's young people are so sympathetic to the promises of socialists like Bernie Sanders (whom Ms. Kelton advised) and Alexandria Ocasio-Cortez, despite a shred of evidence that a socialist economy has ever avoided imploding any time in human history.

Charles Lieberman
Managing partner and chief investment officer
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Insurers create pain points for advisers

INBLOG
GREG IACURCI

The insurance industry hasn't done itself any favors when it comes to earning the trust of financial advisers and their clients.

Insurers have repeatedly frustrated these stakeholders by making business decisions that are seemingly contrary to their interests, whether it's raising costs for owners of universal life insurance policies, hiking premiums for long-term-care policyholders or, in the case of variable annuities, trying to wriggle out of costly promises they made to investors via buyout offers.

These are systemic issues that create an environment of mistrust, of being constantly on one's guard to ensure that a client's financial plan isn't upended.

"You'd have to have your head in the sand to not acknowledge that the interest of many of the insurance companies is directly opposed to the interest of the consumer," said Scott Witt, a fee-only insurance adviser.

INSURERS MAY OFFER ANNUITY FEATURES THAT APPEAR BETTER THAN COMPETITORS', BUT ULTIMATELY FAIL.

The decade of rock-bottom interest rates that began around the time of the 2008 financial crisis appears to be a common scapegoat used by insurers. How could they have predicted interest rates would stay low for so long, they ask.

For long-term-care insurers, there were additional miscalculations: More people held onto their policies than expected, and use of the policy benefits by clients was heavier than anticipated.

These problems have led a slew of companies like Genworth Financial Inc. and Massachusetts Mutual Life Insurance Co. to raise premiums for existing clients, who may have assumed their premiums were fixed. These increases are approved by state insurance regulators and justified as being necessary to shore up the insurers' financial strength.

Universal life insurers have also quietly raised underlying insurance charges and reduced interest rates credited to policyholders, which has forced many clients to make a tough and unexpected decision: lapse the policy or pay higher premiums to keep it afloat.

"Nobody buys that policy thinking the company may raise my cost of insurance rates," said Sheryl Moore, president and CEO of consulting firm Moore Market Intelligence.

SEVERAL LAWSUITS

Several companies have been sued for issues related to insurance costs, including Nationwide Life Insurance Co., Lincoln National Corp., John Hancock Life Insurance Co. and Axa Equitable Life Insurance Co. In October, Transamerica Life Insurance Co. settled one such lawsuit for $195 million.

The New York Department of Financial Services issued a consumer alert last Thursday about universal life policies, urging buyers to be-ware of the possibility of annual increases in internal policy costs. The department has received nearly 1,400 complaints from New York consumers in the past five years about such policies.

Further, many variable annuity providers have tried to circumvent their contractual promises to pay clients a guaranteed level of income, often by offering them a cash incentive to surrender the policy or exchange it for another annuity. Clients aren't obligated to accept such an offer, but insurers note in filings with the Securities and Exchange Commission that they could gain a financial benefit by getting such costly benefits off their books. These offers primarily affect VAs sold before or around the time of the financial crisis.

Advisers' clients are lucky — at least they have a financial professional who can help gauge if a buyout offer is in a client's best interests. Those without advisers may

CONTINUED ON PAGE 24

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HELPING CLIENTS WHO'VE GOTTEN THE AXE

BY GREG IACURCI

WORKERS OVER 50 ARE PARTICULARLY VULNERABLE TO LAYOFFS. WHEN CLIENTS LOSE THEIR JOB, ADVISERS CAN DO A LOT TO HELP THEM FIGURE OUT HOW TO MOVE FORWARD

Gail House was forced into retirement last year at age 58, after serving two decades as the principal safety manager for her Orlando, Fla., employer.

Ms. House, who'd been earning a low-six-figure salary, hasn't received a paycheck in almost half a year. A single woman, she doesn't have the cushion of a second household salary and she may need to tap her 401(k) for income in three months' time if she's unable to find another full-time job. That could delay her retirement beyond age 62, her goal.

The situation would be far worse if it weren't for Dennis Nolte, Ms. House's financial adviser of 15 years, who she says has proven invaluable during this transition.

"All I have to say is, thank God for Dennis," said Ms. House, a 30-year-plus veteran of the occupational safety and health profession. "I would never have gotten this far without him."

Ms. House is just one of many middle-aged women and men confronted with job loss and the resulting hardships.

According to a recent analysis conducted by ProPublica and the Urban Institute, 56% of older workers suffer at least one layoff or other type of involuntary job separation between turning 50 and reaching retirement. After that job loss, only 1 in 10 ever earns as much as they had previously, the analysis found.

These individuals are at a vulnerable point in their lives — approaching retirement age, likely financing a kid's college education and helping care for an aging parent. A long stretch with zero income can blow a big hole in clients' finances at a time when it's hardest for them to make up a shortfall in savings and more difficult to get rehired into the workforce.

Advisers' clients, who are among the wealthiest Americans, are one of the more vulnerable groups since they're often in high-paying jobs that management aims to eliminate first if cutbacks are necessary.

"It's a population that definitely feels the pinch," said Kerry Hannon, a work and jobs expert for AARP. "They often find themselves out of work or accepting an early buyout package before they had planned to step out of the workforce."

CONTINUED ON PAGE 10

CONTINUED FROM PAGE 8

Financial advisers are in a unique position to help middle-aged clients navigate the situation while minimizing the financial damage.

SHORT-TERM PLAN

Advisers can offer financial structure for clients who undergo such a turbulent event. Since a client may be daunted by thinking about the long-term financial picture when confronted by the immediate shock of losing a job, advisers should first take a short-term view and establish short-term goals, experts said.

That means examining the client's finances over the next few months — looking at where clients can cut expenses, identifying where cash reserves are located, determining how an employer payout such as severance should be allocated (for example, for income or as payment toward any large, troublesome debts), and assessing whether clients should try finding a lower-paying or part-time job to tide them over.

Mike Alves helped one middle-aged client, who lost his job as an IT executive making $300,000 a year. He cut his client's life insurance premiums in half — from $25,000 to about $12,000 annually — by reevaluating and ultimately reducing the death benefit. The adviser also cut the family's travel budget in half, by recommending coach instead of business-class travel and reducing the scope of their trips. He was careful not to suggest eliminating travel outright, since it was a cherished family activity.

56%

PORTION OF WORKERS WHO WILL GO THROUGH A LAYOFF OR OTHER JOB SEPARATION AFTER AGE 50

"You have to get creative," said Mr. Alves, vice president of financial planning at Marquez Private Wealth.

Monica Dwyer, wealth adviser at Harvest Financial Advisors, has a set of preferences for how to generate income for clients in the most efficient manner. After cutting unnecessary expenses, advisers should first look to after-tax pots of money like savings accounts. Then they should consider assets that can be liquidated, life insurance cash value, taxable distributions (asset growth) from an after-tax deferred annuity, and withdrawals of prior contributions to a Roth IRA.

Ms. Dwyer recommends tapping the Roth contributions last, even though the distribution is tax- and penalty-free, since she considers the Roth to be a more valuable long-term asset in retirement. However, this order isn't steadfast — it depends on the client's situation, she said.

HOME EQUITY

Clients who think it's possible that they'll be laid off should prepare by opening a home equity line of credit ahead of time to draw from, according to advisers, who also said retirement accounts should be used only as a last resort.

"The last thing he wants me to touch is my retirement account, because I'm only 58," Ms. House said of her adviser.

Ms. House's pension from her prior employer is returning a 7% compound annual rate of return, and tapping it before age 65 would be like "cutting off your nose to spite your face," said Mr. Nolte, her financial planner at Seacoast Bank.

If tapping retirement accounts is unavoidable, however, there are strategies to make the distributions more advantageous for the client.

For example, being unemployed means clients can no longer take a loan from their prior company's 401(k) plan. But clients could set up a Solo 401(k) plan, Mr. Nolte said, if they treat unemployment and the process of trying to find a job like self-employment. They could roll over their 401(k) assets and take a loan from the Solo 401(k) instead. While the client would eventually have to pay the money back into the 401(k) with after-tax dollars, there wouldn't be any immediate tax consequences from the withdrawal.

Clients can also turn to the "age 55 rule," which allows individuals between the ages of 55 and 59½ who are laid off, fired or quit a job to draw from their 401(k) without penalty. (There would normally be a 10% early-withdrawal penalty.) The client has to pay income tax on the distribution.

The age 55 rule doesn't apply to IRAs. However, clients can avoid an early withdrawal penalty from IRAs via 72(t) payments, also called substantially equal periodic payments, or SEPP, which can be taken at any age. These come with strict rules — for example,

Entrepreneurship as a second act

Middle-aged clients who lose a job often turn to some form of entrepreneurship as the next phase of their career.

Data suggests that entrepreneurship among individuals over age 50 is growing. Three in 10 entrepreneurs are over 50, which is an increase of 50% since 2007, according to a report published last year by the payroll firm Paychex.

Researchers from the Massachusetts Institute of Technology and Northwestern University found in a 2018 paper based on U.S. Census Bureau data that the highest success rates in entrepreneurship are seen among business founders who are middle-aged and older, rather than younger business owners.

Advisers can play an important role in helping clients set up a new business venture.

"A financial adviser can really be the sounding board," said Kerry Hannon, a work and jobs expert for AARP. "They can help a wannabe entrepreneur get their feet wet and lay the groundwork, in essence, before they make a big financial commitment."

Money is the biggest stumbling block to launching a successful business, so helping a client get financially fit enough to start a business and manage debts is perhaps the most important counsel advisers can provide, Ms. Hannon said. This includes helping them with budgeting, paying down or refinancing debt, and identifying ways to downsize, for example, as well as setting up a financial plan for the business.

LOCATING CAPITAL

Another challenge for those starting a business is locating sources of potential capital, whether the funding comes from the client's personal savings, grants or loans. Most entrepreneurs self-finance their startups, said Ms. Hannon, whose book about mid-life entrepreneurship, "Never Too Old To Get Rich," is coming out in May.

Robert Falcon, a financial adviser who has helped set up several businesses — for himself and for clients — said advisers can direct clients to services such as LegalZoom that help a new business set up its proper legal entity (such as an S corporation or limited liability company, etc.) and then ships the documentation, all for a few hundred dollars.

Advisers also can determine whether the business owner will be subject to any sort of licensing requirements in the state, said Mr. Falcon, founder of Falcon Wealth Managers.

Ms. Hannon suggested that advisers can help clients put together a team of the professionals they will need, such as a lawyer and accountant. Advisers also can assist their clients in putting together an informal network or advisory board of other entrepreneurs in the community to connect with on a monthly basis to offer support and inspiration, discuss challenges, and set goals to hold each other accountable, she said.

—Greg Iacurci

the fixed annual payments must continue for at least five years or until age 59½ (whichever is longer) and payments generally can't be changed or stopped during that period.

Arguably, advisers can help as much — if not more — with aspects of a client's job loss that have nothing to do with finances.

"Leaving the workplace in an unplanned fashion can be a true shock to somebody," said Ms. Hannon of AARP, author of the book "Great Jobs for Everyone 50+" (Wiley, 2012). "Even if they accepted the buyout package, it's psychologically as well as financially challenging."

DON'T FORGET THE EMPATHY

Indeed, advisers say the first important thing to do, before worrying about how to shore up a client's finances, is to lend an empathetic ear. An employment gap serves as a good time for clients to reflect on what they enjoy doing and their vision for their career moving forward, and advisers can help tease out these feelings.

"I'm big on helping the client not just financially but however you can, like a member of the family," Mr. Alves said. "My job is to ask the right questions and help them dig deep."

Some clients decide they'd like to start their own business and be their own boss. That was the case for Mr. Alves' IT executive client. Mr. Alves helped the client set up his business by counseling him on where to draw financing (a combination of funds from his personal savings, portfolio assets and the sale of stock options), in addition to introducing the client to private-equity contacts.

Robert Falcon decided to become a financial adviser as a result of the turnover he experienced in the pharmaceutical industry. Having been laid off a decade ago at age 49 from Wyeth, where he helped forecast future revenue streams from drugs in development, and then again in 2015 from a smaller firm, he decided to change career paths. "I thought, 'I'm going to get whacked again, and I don't want that to happen when I'm 57, 58 years old and my kids are going to college,'" Mr. Falcon said.

Unfortunately, three years later following an acquisition by Wealth Enhancement Group, OneSource Retirement Advisors, Mr. Falcon's first advisory employer, cut his pay by about half. He launched his own firm, Falcon Wealth Managers, in October and focuses on pharma and biotech clients.

> **"I THINK YOU NEED TO REMIND YOUR CLIENT THAT YOU DON'T HAVE THIS CRADLE-TO-GRAVE JOB SECURITY ANYMORE."**
>
> MICHAEL ROSS, PRESIDENT
> FINANCIAL CONNECTION

Mr. Falcon and others argue that advisers should be pushing middle-aged clients to join networking groups and take other steps to prepare ahead of time for the possibility of losing their job.

"I think you need to remind your client that you don't have this cradle-to-grave job security anymore," said Michael Ross, president of Financial Connection Inc. "The reality is, you have to know if you will retrain, go back to school, do something different. Talk to recruiters when they call, even if you don't take the job."

AGEISM STILL EXISTS

The bad news for middle-aged clients, advisers say, is that ageism still exists in the workplace, even though it's illegal, which means older people seem to have more trouble finding a new job than younger workers. But the current strength of the job market somewhat eases that concern.

While some advisers may feel that helping a middle-aged client weather a job loss in nonfinancial ways is outside the purview of their duties, the benefits of doing so may tilt the scales.

First, the client's job loss connects to the adviser's bottom line: If a client draws down assets for income during a job transition, the adviser's fee payments could suffer.

Beyond that, helping a client succeed in this arena will foster lifelong loyalty as well as potential referrals for prospects in similar life situations.

"They'll be your biggest advocate," Mr. Nolte said.

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Adding a robo? Challenges abound

BY RYAN W. NEAL

FOR EARLY ADOPTERS of automated portfolio management tools, folding the robo technology into their practices often didn't go as planned.

Many advisers said the early days of the robo-advisers for advisers were marred with frequent technical difficulties. Even after the vendors ironed out many of the kinks, obstacles involving pricing, client segmentation and marketing have kept advisers from the promised land of an efficient, automated platform to attract and serve mass-affluent clients.

Ritholtz Wealth Management's experience launching a robo-adviser five years ago was a "disaster" because the software simply didn't work, said Josh Brown, CEO of the advisory firm, speaking at the Inside ETFs conference Feb. 13.

Chris Chen, CEO of Insight Financial Strategists, said things like client onboarding, uploading client portfolios and trading can vary from robo to robo.

"We found out after the fact that our robo provider would essentially execute orders over a period of time. Not minutes but days, because of its own limitations, which still haven't been fully disclosed to us," Mr. Chen said in an email. "It's a major issue, especially if there is a panicking client in a down market."

KEY POINTS

- Obstacles to adding a robo include pricing and client segmentation.
- Firms must decide whether to include human advice in offer.

He's waiting for his vendor to fix this trading concern before he starts using it to manage existing clients. He also would like the vendor to add support for fractional share trading to make it more viable for smaller accounts.

The primary challenge until just two or three years ago was the startup technology's ability to integrate with an adviser's custodian, said Gavin Spitzner, president of adviser consulting firm Wealth Consulting Partners.

Today, the trouble with robos is less about technology and more about business strategy.

COSTS 'VERY HIGH'

"This is not a case of 'if you build it, they will come,'" Mr. Spitzner said. "The cost of acquisition, just to bring in brand new clients, is very high. It's not different than just generally what an RIA or IBD had to go through to bring in a new client."

Some advisers have found themselves trying to defend what turned out to be an overaggressive business case for automated advice.

Many firms just bought into the technology without first thinking about target market or value proposition, said Tim Welsh, president of Nexus Strategy.

Firms need to consider if it will be purely digital or include human advice, if the robo needs a different brand and separate website, or how clients will eventually migrate from the robo into a full-service account.

Of course, some advisory firms have found ways to make it work. At Ritholtz Wealth, its executives are now very happy with its digital advice product, Mr. Brown said.

Patience needed: Chris Chen is waiting for the vendor to fix a trading concern with his robo.

Still, he thinks the struggle to drive traffic to the digital platform is something all firms will face.

"Even if the technology were perfect, I'm not sure more than a dozen or so RIAs will be able to make it a big part of their business," Mr. Brown later told *InvestmentNews*.

Eric Dostal, vice president of Sontag Advisory, said his firm had some "minor kinks" with Charles Schwab's robo for advisers, Institutional Intelligent Portfolios, but is overall very happy. The product made the firm's onboarding process easier and allows it to serve a wider segment of clients.

The question now is whether those clients will be profitable in the long-term.

"Our core offering can be a loss leader in the short term, but we try to limit ourselves to working with clients where we see potential for long-term growth," Mr. Dostal said.

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In-house 'universities' gain traction

BY JEFF BENJAMIN

THE LATEST SIGN of the tight labor market for advisers is showing up in the form of in-house "universities" that offer a range of practical job skills along with team-building exercises and general life skills.

The universities, which some advisory firms refer to as academies, make sense on multiple levels, not the least of which is providing another perk in a highly competitive labor market.

"It really speaks to how difficult it is to recruit and retain talent," said April Rudin, president of The Rudin Group. "These universities are really attractive because everyone wants to get better."

Despite the name, these are not accredited schools offering formal degrees, but can be highly structured programs displaying limitless creativity.

Bridgeworth, a $1.5 billion advisory firm, launched its university in January to cater specifically to younger advisers at the firm.

"The idea is to teach some job skills," said Patti Black, partner and financial adviser at Bridgeworth. "Some of the senior partners had worked together for over 30 years, and they were discussing what were some of the things that led to success in their careers."

READING ASSIGNMENTS

Once the concept was identified, the monthly program kicked off with a reading assignment and a 90-minute discussion.

The roughly two dozen participants were given a copy of "The Seven Habits of Highly Effective People" by Stephen R. Covey (Simon & Schuster, 1989).

150
NUMBER OF COURSES MONETA OFFERS ITS EMPLOYEES

The February class will focus on marketing and business development, and all participants are asked to schedule at least two coffee or lunch meetings with prospects.

"We're new at this, so we decided to build out six months of meetings, then we'll regroup," Ms. Black said. "We joke that we're building the airplane while we're in the air."

Moneta Group, a $20 billion advisory firm with 300 employees, has a long history of educational programs, but officially launched Moneta University last March, and currently offers 150 courses in eight learning categories.

Not only is the curriculum diverse, including specialized courses on communication, teamwork, conflict resolution, investing, retirement planning and tax planning, but the programs are designed to accommodate work schedules.

All classes are held during the workday on the firm's campus. For those not able to attend or not interested in the classroom setting, there are virtual courses and micro-learning sessions that last between three and six minutes and can be viewed on a phone.

Many of the courses even include continuing education credits.

The $7.8 billion Carson Group also has embraced the concept.

For the 300 Carson partner firms, Carson University provides annual week-long programs at corporate headquarters that target next-generation advisers.

Carson Group managing partner Scott Conroy said the program includes role-playing, technology training and the sharing of best practices from veteran advisers.

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5 ways to prepare for a sale

What should firms considering a sale be thinking and doing?

1. Define your culture and evaluate the right-fit buyer. Both buyers and sellers are paying more attention to post-deal integration, so a good cultural fit is important. But before you can find the right match, take time to look internally to identify, then showcase, your firm's key values. What defines who you are and how you operate? Articulate specifically what you want to preserve or emphasize in the new organization. Then, identify a range of ways you could achieve those top priorities, and share those with potential partners.

2. Think through your ideal outcome. Firm owners who are thinking about selling need to clearly define what outcome they want, now and several years down the road. Historically, selling primarily meant succession and retirement, but as the industry becomes more complex and capital-intensive, the most attractive and visible transactions are focused increasingly on addressing organic growth, technology, compliance and the operating needs of an improved platform.

You're likely emotionally invested in your business, so define what you truly want to get out of the deal, apart from the financials.

3. Involve the next generation. It is equally important to get everyone, especially your next generation of talent, on the same page early on. Many of the most active

acquirers regard M&A as a talent acquisition strategy.

4. Be ready to compete for talent. The market for talent is increasingly competitive, so it's important to remain focused on retaining your key advisers and highlighting what makes your firm and its future attractive — especially in a time of possible change.

5. Maintain organic growth. Firms demonstrating at least some level of organic growth are more attractive to buyers. Continue to focus on growth and creating a culture of business development as you prepare for a potential sale.

Scott Slater is vice president of practice management and consulting for Fidelity Clearing & Custody Solutions.

diversity&INCLUSION

How to recruit and retain a diverse workforce

DUSTY BROWN PHOTOGRAPHY

USA Financial employees at an event last summer.

GUESTBLOG
STEVE LIVERANCE

Diversity in the workplace has proven to be valuable and even essential across industries, however, women, minorities, people with disabilities and other key groups are notably lacking in financial services. In fact, according to some reports, the financial advice sector is one of the least diverse professions in the U.S.

According to a survey by the CFP Board Center for Financial Planning, 3.5% of CFPs are Latino or black. That means that of the 80,000 CFPs in the U.S., just 1,200 are black and 1,500 are Latino. In addition, roughly 32% of financial advisers were women as of 2017. And although minority representation in the industry is trending upward, there is still a significant amount of room for improvement.

In order to strengthen your advisory practice through diversity, you must understand how to recruit a diverse workforce and how to improve culture and the organizational practices to encourage retention.

How does an organization recruit a diverse workforce to boost innovation and creativity?

First and foremost, leaders must facilitate "blind spot" awareness training so that hiring managers are made aware of their unconscious biases. While you may not be able to attract minorities in every situation, you can alter your recruitment efforts so that you are more likely to find qualified minority candidates.

PURPOSEFUL HIRING

When seeking candidates for hire, be purposeful in choosing where job openings are posted and be mindful of who has access to seeing them. In addition to traditional job websites, consider informing local veterans' organizations, churches, ethnic support groups and professional organizations of openings in the company to allow new candidates to apply.

Hiring managers must recognize that in order to recruit a more diverse workforce, they need to already have that kind of culture in place. Some ways to grow that kind of culture include holding seminars and classes that explore cultural awareness or other aspects of diversity. Make sure these learning opportunities are open to everyone.

Keep employees engaged by developing a sponsorship program for new and existing employees. Align top-level leaders with each employee and set guidelines for one-on-one meeting frequency and discussion topics.

Another option is to engineer special project work groups to represent as many different backgrounds as possible, which could include age, family status, gender, race, religion, sexual orientation, geography and more. This effort is all about creating new settings where people can learn from their differences and grow as a team and as an organization.

Recognizing the value of diversity and the problems that the financial sector faces toward obtaining a diverse workforce is only the first step. You must then work toward inclusion by embracing diversity at a fundamental level.

Diversifying your workforce may take some time and effort, but the benefits of diversity are worth it. Start the process today to create a culture that will foster growth and inclusion for decades to come.

Steve Liverance is chief human capital officer at USA Financial.

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

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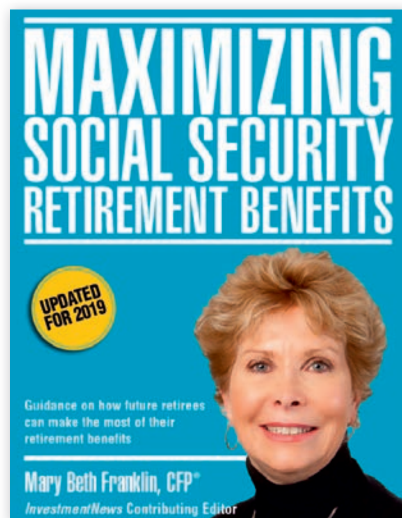
2019 is a critical year for Social Security claiming strategies.



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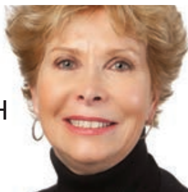
Claiming Social Security at 70



MARY BETH FRANKLIN
ONRETIREMENT

By now, most financial advisers and many consumers realize delaying Social Security benefits until age 70 can pay off big time. For every year individuals postpone claiming benefits beyond their full retirement age, they earn an extra 8% per year up to age 70.

What is less obvious is what one needs to do to claim those maximum benefits. Like so many rules involving Social Security, the answer varies depending on individual circumstances.

Someone whose full retirement age is 66 — anyone born from 1943 through 1954 — can see their basic benefit increase by 32% if they wait until 70 to claim. The full retirement age for those born from 1955 through 1960 and beyond ranges from 66 and 2 months to 67. Their delayed retirement credits increase by 0.66% per month — totaling 8% per year — for postponing benefits until age 70.

At my morning exercise class, populated mainly by retirees, I am often besieged by questions about Social Security and Medicare. Recently a fellow Jazzerciser asked what she and her husband needed to do to claim Social Security benefits when each turns 70 later this year.

50% MAXIMUM SPOUSAL BENEFIT BASED ON WORKER'S FRA

This couple is lucky. Both were born in 1949, which means they were each able to take advantage of lucrative Social Security claiming strategies before the rules changed as a result of the Bipartisan Budget Act of 2015.

The husband, Skip, filed and suspended his Social Security benefits when he turned 66 in 2015, before the file-and-suspend claiming strategy disappeared on April 30, 2016. That triggered a spousal benefit for his wife, Joanne, allowing her to collect half of his full retirement age benefit amount while each of their own Social Security retirement benefits accrued delayed retirement credits. Skip has not received any Social Security benefits so far.

Joanne asked what she and Skip needed to do to collect their maximum Social Security benefits when they turn 70.

Skip doesn't have to do anything. Because he filed and suspended his benefits when he turned 66, his maximum benefits will begin automatically when he turns 70.

Financial advisers take note: The last group of people who were able to use the file-and-suspend strategy before the April 29, 2016, deadline turn 70 by the end of April 2020. Their benefits will automatically begin the month of their 70th birthday.

Joanne's situation is different. Because she filed a "restricted claim for spousal benefits," she is collecting Social Security on her husband's earning record while her own retirement benefits continue to grow by 8% per year.

Joanne asked if her spousal benefits, currently worth half of Skip's amount at age 66, would increase once he claims his maximum benefit at 70.

NO CHANGE

No, her spousal benefits won't change once her husband claims. The maximum spousal benefit is worth 50% of the worker's full retirement age amount if the spouse collecting those benefits is at least full retirement age. Spousal benefits do not qualify for delayed retirement credits.

So what is the value of having one spouse delay claiming Social Security until age 70 if the other spouse can't share in an increased spousal benefit?

By delaying until 70, the spouse with the maximum benefits potentially increases the future survivor benefit for the other spouse. A survivor benefit is worth 100% of what the deceased worker was receiving or entitled to receive at time of death, including any delayed retirement credits, assuming the spouse who is collecting survivor benefits is at least full retirement age. When one spouse dies, the bigger benefit continues as the survivor benefit.

Joanne's maximum retirement benefits will not begin automatically. Currently, she is claiming spousal benefits on her husband's earnings record. To claim her own maximum retirement benefits at 70, she will have to file a claim on her own Social Security earnings record. And because she is already receiving Social Security spousal benefits as a spouse, she is not eligible to file online, but will have to visit her local Social Security Administration office.

Another note: 2019 marks the last year for people to file a restricted claim for spousal benefits when they turn 66. To do so, they must have been born on or before Jan. 1, 1954, and the other spouse must be receiving his or her Social Security benefit, or must have filed and suspended benefits before the April 29, 2016, deadline.

Eligible individuals can exercise this valuable claiming strategy any time between the ages of 66 and 70, meaning the spousal benefit strategy will be available to some people through 2023.

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

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Were any required minimum distributions missed last year?

Yes, advisers all know that required minimum distributions generally had to be done by the end of last year. Hopefully the ones that you know about were done.

But here are some RMDs that often fall through the cracks.

YEAR-OF-DEATH RMDs

Death gets you out of pretty much everything in the tax code, except RMDs. If your client died in 2018 and was subject to RMDs, was the year-of-death RMD taken? If not, it is still subject to the 50% penalty, the same as for any RMD that was not taken. (There is no death exception for the penalty.)

IRAALERT
ED SLOTT

The beneficiary must take any part of the year-of-death RMD that was not taken last year, and that beneficiary will report the income. Once the IRA owner dies, the account belongs to the beneficiary.

The beneficiary should immediately withdraw the amount that the deceased IRA owner would have had to take had he or she lived. For the missed year-of-death RMD, it is the beneficiary who is subject to the 50% penalty.

The beneficiary also will likely have to withdraw the first-year RMD as a beneficiary, which will be based on the age of the beneficiary from the IRS Single Life Table.

The best way to do these two is to take two separate distributions: one for the make-up year-of-death RMD and a separate one for the beneficiary's RMD.

The beneficiary would then have to file IRS Form 5329 — Additional Taxes on Qualified Plans (Including IRAs) and Other Tax-Favored Accounts — with the beneficiary's personal tax return to request that the IRS waive the 50% penalty for the missed year-of-death RMD. The death of the IRA owner is an acceptable reason and the IRS should waive the penalty, but you have to ask.

It is critical that this form is filed, because it is treated as a separate tax return and the statute of limitations won't begin to run on the open 50% penalty until the form is filed. This could leave that penalty alive and growing as it accrues interest and other potential penalties.

If there are other back-year missed RMDs, then Form 5329 has to be filed for all of those back years requesting the waiver.

INHERITED ROTH IRAs

These are sometimes missed because there are no RMDs for Roth IRA owners, but once the Roth IRA owner dies, any non-spouse beneficiary is subject to RMDs on the inherited Roth IRA,

IMAGINE A 50% PENALTY ON WHAT COULD HAVE BEEN TAX-FREE.

even though those RMDs will most likely be tax-free. They still must be taken.

Can you imagine a client getting hit with a 50% penalty on a withdrawal that would have been tax-free? That's not good. If these RMDs are missed, follow the Form 5329 procedures outlined above.

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

AMT applies to fewer people

BY GREG IACURCI

THE ALTERNATIVE minimum tax used to plague many clients of financial advisers, but the AMT has lost much of its bite due to tax reform.

"No one's really paying it this year," said Jamie Hopkins, director of retirement research and vice president of private client services at Carson Group. "A good proportion were paying it before."

The alternative minimum tax, enacted in 1969, is a system devised to ensure Americans pay their fair share of tax and don't shield a large portion of income from taxation. Taxpayers affected by the AMT must run two separate tax returns — a traditional income-tax return and a parallel AMT return — and pay the higher of the two sums.

Roughly 3% of all households — primarily wealthy Americans — were subject to the AMT in 2017, according to the Urban-Brookings Tax Policy Center. Nearly 62% with incomes between $500,000 and $1 million paid the AMT in 2017, as did 27% of households with $200,000 to $500,000 of income and 21% with more than $1 million.

DIFFERENT GOING FORWARD

However, the result is shaping up to be much different going forward. The Tax Policy Center estimates that only 0.1% of households filing tax returns for 2018 will pay the AMT.

0.1%

ESTIMATED PORTION OF HOUSEHOLDS THAT WILL PAY THE AMT FOR 2018

The distribution of the tax now will skew toward the wealthiest Americans: 11.5% of households with $1 million-plus in income will pay the tax, compared with 2.2% of those with between $500,000 and $1 million and just 0.4% of those with $200,000-$500,000, according to Tax Policy Center projections.

"One of the primary pain points among middle- and upper-middle-class taxpayers was the AMT," said Vance Barse, adviser at Manning Wealth Management. "It's back to being a tax on truly high-income earners."

That's largely due to changes written into the 2017 Republican tax law, which instituted a higher AMT income exemption as well as a big increase in the threshold at which that exemption phases out.

(The AMT uses just two marginal rates: 26% and 28%.)

In 2017, the AMT exemption for a married couple filing jointly was $84,500, but the tax law increased that exemption to $109,400 — meaning more than $30,000 extra is shielded from tax. Further, in 2017, married couples began losing the value of that exemption when AMT income exceeded $160,900; however, the tax law increased that phase-out threshold to $1 million.

"Realistically, you're saying people with under $1 million of income filing jointly likely won't be paying any AMT," Mr. Hopkins said.

The tax law also eliminated or watered down many popular deductions, such as one for state and local taxes.

In the past, large SALT deductions often exposed clients to the alternative minimum tax, advisers said. That's because taxpayers can't deduct state and local taxes from their AMT income — meaning big SALT deductions increase the odds of making the AMT larger than traditional income taxes.

"Most clients will no longer suffer an AMT because of the near-elimination of the SALT deduction," said Robert Keebler, founder of Keebler & Associates.

While clients making more than $1 million have a somewhat greater chance of being subject to the AMT, "it's not that big still," said Timothy Steffen, director of advanced planning in Robert W. Baird & Co.'s private wealth management group.

Those likely to pay the AMT are those exposed to more "unusual events" on a tax return, such as exercising incentive stock options, Mr. Steffen said.

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KEY POINTS

- AMT was devised to ensure Americans pay fair share of tax.
- Higher income thresholds and lower SALT after tax reform will make AMT less applicable.

Nominations end Feb. 28th!

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INVESTING

$1.9M AMOUNT KESTRA FINANCIAL MUST REPAY TO CUSTOMERS FOR OVERCHARGING THEM FOR MUTUAL FUNDS, ACCORDING TO FINRA

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Where did the star fund managers go?

ASSOCIATED PRESS

JEFF VINIK

BY JEFF BENJAMIN

FOR THOSE WHO are newer to the investing world, it might seem like a foreign concept to bank on the performance history and reputation of a single portfolio manager.

That's exactly the kind of wall that investing legend Jeff Vinik appears to be running up against as he scrambles to raise $3 billion by March 1 for his relaunch of Vinik Asset Management.

As Reuters reported earlier this month, Mr. Vinik, who built his reputation in the early 1990s while managing the $50 billion Fidelity Magellan Fund (FMAGX), is now offering to cut fees to attract investors to the relaunch of his hedge fund business.

In January, Mr. Vinik, 59, who owns the Tampa Bay Lightning and is a minority owner of the Boston Red Sox, announced his plans to resurrect the hedge fund he shuttered in 2013.

Mr. Vinik declined to comment for this story. But based on his offer to cut the management fee by 50 basis points, some say the writing is on the wall for active managers in general and star managers in particular.

> **KEY POINTS**
> - Jeff Vinik, investing legend, is scrambling to raise $3 billion to relaunch his hedge fund.
> - The popularity of passive investing and use of teams on the active side diminish 'stars.'

"The outperformance of index funds the past 10 years, combined with the shift in assets to them, has diminished the performance of most star fund managers," said George Gagliardi, financial adviser at Coromandel Wealth Management. "The next 10 years should be more telling for active managers, as fans of indexing will begin to discover the downside of following the crowd into the S&P 500 and similar popular indices."

Vance Barse, wealth strategist at Manning Wealth Management, agreed that the current cycle, including an historic 10-year bull market, has put star managers on the back burner for now.

"The investment landscape has changed, because investors have become increasingly critical of active management fees," Mr. Barse said. "Jeff Vinik is a highly recognized name and investors are willing to follow alpha, but if managers such as these are having a hard time raising money, it's a sign of the times."

Todd Rosenbluth, director of mutual fund and ETF research at CFRA, acknowledges that star fund managers are part of a bygone era.

"Investors are now buying based on the firm instead of the portfolio manager," he said.

These days there are very few high-profile managers who would be considered household names, and they are usually in the fixed-income space, Mr. Rosenbluth said.

Among them are DoubleLine's Jeffrey Gundlach and Loomis Sayles' Dan Fuss.

When Mr. Vinik managed the Magellan Fund from 1992 to 1996, the fund's assets were near their peak at $50 billion.

Today, the fund's assets have shrunk to $16 billion, and Mr. Rosenbluth argued that most investors probably have no idea that current portfolio manager's name is Jeffrey Feingold.

"I do think asset managers are increasingly adopting the team approach, because it eliminates individual manager risk and can help to spur greater loyalty at the internal resources level," he said.

Dennis Nolte, vice president at Seacoast Investment Services, has been in the business since 1989 and remembers the way fund companies used to leverage their high-profile money managers.

"No longer does any money manager give me a reason to invest with him or her, specifically," Mr. Nolte said.

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Wealthfront introduces high-yield cash savings accounts

BY RYAN W. NEAL

WEALTHFRONT is the latest digital investing startup to set its sights on customers' uninvested cash, reflecting its ambitions to automate more than just investment accounts.

The robo-adviser said Wealthfront Cash Account will operate like a traditional savings account and pay customers a 2.24% interest rate. Wealthfront customers can open an account with as little as $1.

Unlike similar cash management features at Betterment and Robinhood, the Wealthfront Cash Account is not a brokerage account invested in low-risk bonds. Wealthfront will sweep cash to one or more banks it has partnered with, Wealthfront spokeswoman Kate Wauck said during the rollout Feb. 14.

"So unlike other services like Betterment's, for example, there is no market risk on our deposits and we don't charge any fees," Ms. Wauck said. This also allows Wealthfront to offer Federal Deposit Insurance Corp. protections on balances up to $1 million.

Robinhood faced criticism in December for not making it clear to investors that Checking and Savings services accounts are not protected by the FDIC and carry some market risk. Robinhood said the accounts would be insured by the Securities Investor Protection Corp., a claim disputed by SIPC CEO Stephen Harbeck.

Betterment and Robinhood declined to comment on the new Wealthfront accounts.

Rising interest rates and increasing market volatility could be inspiring digital startups to find new ways to incorporate cash holdings into their offerings. Moody's Investors Service recently reported that online brokerages like Charles Schwab Corp., TD Ameritrade Holding Corp. and ETrade Financial Corp. reported higher-than-usual cash in client brokerage accounts as investors sold during market declines in December.

> **"THERE IS NO MARKET RISK ON OUR DEPOSITS."**
> KATE WAUCK, SPOKESWOMAN WEALTHFRONT

The companies swept the cash into bank accounts and realized increased revenue from interest rate hikes. Moody's assistant vice president and analyst Fadi Massih said the companies' recent earnings show how the online brokerage business model can benefit from market volatility.

Besides driving additional revenue from interest on cash, digital startups are rolling out cash management features to help increase their share of investors' wallets, said Bill Winterberg, founder and CEO of FPPad.

"Today, many savers open FDIC-insured savings accounts with online banks. This is inconvenient, though, as savers must also maintain an additional relationship with a brokerage firm and/or automated investment service if they wish to invest their cash into the stock market," he said.

Ms. Wauck said cash accounts have "been on our road map for a while now, since it's an important step toward our ultimate vision of self-driving money," which is Wealthfront's plan to automate much more of a person's financial needs than investment accounts.

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Grants from donor-advised funds leap

INVESTMENTNEWS

DONORS MADE grants of a record $5.2 billion from their donor-advised funds at Fidelity Charitable in 2018, $700 million more than in 2017, according to a report released by the charity.

Last year's giving was particularly impressive given the "uncertainty around tax reform and extreme market volatility during giving season," said Pamela Norley, president of Fidelity Charitable.

Fidelity Charitable is an independent public charity that launched the first national donor-advised fund program in 1991.

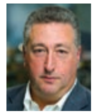
Schwab reported last month that donors gave a record $2.2 billion in grants to 86,500 charities through Schwab Charitable in 2018, representing a 35% increase from the previous year.

> **$5.2B**
> AMOUNT OF GRANTS FROM FIDELITY CHARITABLE DONOR-ADVISED FUNDS IN 2018

A total of 487,000 grants were made, Schwab said, with Feeding America, Planned Parenthood, Doctors Without Borders, Salvation Army and Campus Crusade for Christ the most widely supported grant recipients last year.

Schwab Charitable noted that some donors opted to donate a few years of gifts to their donor-advised funds in 2018 in order to maximize their tax benefits. Donors can do that by giving enough to make it advantageous to itemize deductions every few years and then taking the new higher standard deduction in other years.

Memorable tickers help new ETFs



GUESTBLOG
BARRY RITHOLTZ

New exchange-traded funds endure a brutal Darwinian struggle for attention and assets. To attract enough capital to survive, new ETFs need a good investment idea and a catchy marketing approach. Those were some of the takeaways I gathered at the giant Inside ETFs conference in Hollywood, Fla., earlier this month.

Eric Balchunas, an ETF analyst at Bloomberg, notes that over the past five years, 1,050 ETFs have launched. In the same period, more than 900 ETFs have folded. Their average lifespan is just 3.4 years.

My pet theory is that for a new ETF to succeed, it needs more than luck, deep-pocketed backers and a rational, defendable methodology for assembling assets into a bundle.

It also helps to have a memorable, descriptive stock ticker. Research has shown that stocks with these types of tickers and pronounceable names have a higher valuation than those that don't.

Consider for example, the VanEck Vectors Agribusiness ETF, whose symbol is MOO; it has attracted $764.2 million since it was introduced in 2007.

Here are some of the more memorable tickers I learned about at the conference:

JUST: Billionaire Paul Tudor Jones is behind the nonprofit Just Capital, which has a novel method of stock selection: It polls the American public about their greatest concerns, then uses that data to pick companies. Most recently, top concerns included fair pay for workers, customer privacy, and reasonable cost and quality of products. Since the ETF started in 2016, it has outperformed the benchmark Russell 1000.

KRMA: The Global X Conscious Companies ETF was "designed to provide investors an opportunity to invest in well-managed companies that achieve financial performance in a sustainable and responsible manner." Since 2016, it has attracted about $57 million.

BOON: The Pickens Oil Response ETF takes its ticker from oilman T. Boone Pickens, whose name, according to the fund, "is synonymous with energy investing and ETF stock industry thought leadership."

PUTW: The WisdomTree CBOE S&P 500 PutWrite Strategy Fund is based on the well-established option strategy in a low-cost, tax-efficient ETF wrapper. It has accumulated $242 million in assets since launching in 2016.

ROBO: The Global Robotics and Automation Index ETF has been around since 2013, and has accumulated more than $1 billion in assets.

MAGA: This ETF has a fantastic ticker — clearly playing off of President Donald J. Trump's rallying cry of "Make America Great Again" — but a questionable investment thesis. The firm selects the top 150 companies from the Standard & Poor's 500 Index whose employees and political action committees contribute to Republican candidates. There is no explanation as to why this is a rational investment approach. Perhaps that, or else the rather high management fees, explains why MAGA has only attracted $33.9 million.

Let's take this further, and offer up a few ideas for future ETFs and their ticker symbols:

BANK: Since the financial crisis, banks, brokers and asset managers have underperformed the broader market, despite being cheaper. Whether that is an opportunity or a warning sign is as yet unknown.

LGBT: Governance (the "G" in ESG) of companies with gay- and lesbian-friendly corporate policies.

HYPE: An ETF that will invest in companies that promote high-risk/potentially high-return investments.

ELON: See HYPERICH: Invest in companies led by billionaire CEOs or the shelters they use for tax avoidance.

TANK: A broad-based inverse ETF that does well when the market falls.

GANJ: Another cannabis ETF, but with two share classes, A and B (you want the A shares). And there's room for more: How about TOKE?

Barry Ritholtz, a Bloomberg Opinion columnist, founded Ritholtz Wealth Management.

THE EVOLUTION OF INDEPENDENCE

What will drive success over the next decade in the RIA industry?

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IN RESEARCH

"BANKS ARE NOT GOOD FIDUCIARY ADVISERS, PERIOD."
— RUDY ADOLF, CHAIRMAN AND CHIEF EXECUTIVE OF FOCUS FINANCIAL, ON COMPETITION FROM BANKS THAT WANT A PIECE OF THE RIA MARKET
(SEE PAGE 5)

NAPFA: 'Best interest' not fiduciary advice

BY MARK SCHOEFF JR.

AN ORGANIZATION representing fee-only investment advisers launched an education campaign last Tuesday that it says will help consumers understand the difference between fiduciary advice and advice that's in their "best interests."

The National Association of Personal Financial Advisors explains what a fiduciary adviser is in an infographic and a series of GIFs. Consumers are encouraged to ask financial advisers whether they are a fiduciary, how they are compensated and whether they provide holistic financial planning.

KEY POINTS

- NAPFA campaign encourages consumers to ask advisers if they are a fiduciary.
- Organization asserts SEC's Regulation Best Interest is confusing.

The group is trying to draw a distinction between the fiduciary standard that investment advisers meet — in which they put their customers' interests ahead of their own — and the Securities and Exchange Commission's proposed Regulation Best Interest, which would require brokers to act in the best interests of their clients.

REGULATED SEPARATELY

The SEC regulation is designed to raise the broker requirement from the current suitability standard. The SEC proposal would continue to regulate advisers and brokers separately.

NAPFA criticized the SEC for not defining what it means by a "best interest" standard for brokers, and asserted the bar would be lower than the fiduciary rule governing advisers.

"As an organization whose members are all fiduciaries, we want to be crystal clear: 'Best interest' is not shorthand for fiduciary," NAPFA chief executive Geoffrey Brown said in a statement. "The SEC's proposal is misleading and confusing for consumers."

The SEC could release a final investment advice reform rule as early as this summer.

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UBS to pay $5.1B for hiding assets from tax

BLOOMBERG NEWS

UBS GROUP WAS ordered to pay more than 4.5 billion euros ($5.1 billion) by a Paris court that found the bank guilty of having helped wealthy French clients stash funds in undeclared Swiss accounts.

The Paris criminal court ruled last Wednesday that UBS illegally provided French customers with banking services to hide assets from tax authorities. The judge fined UBS 3.7 billion euros and added another 800 million euros in compensation to the French government.

"The criminal wrongdoings were of an exceptionally serious nature," said presiding judge Christine Mee.

For eight years now, UBS has been dealing with the French probe — and bad press.

Ahead of last year's trial, the lender was accused in the indictment of dispatching Swiss bankers across the border to seek out new clients even though they lacked the paperwork to offer such services in France, and also of laundering customers' undeclared funds. In court, financial prosecutors asked judges to impose a record fine of 3.7 billion euros on UBS, while the French state sought 1.6 billion euros in damages.

The French unit of UBS was also on trial after being accused of aiding and abetting its Swiss parent.

PENALTIES EXCEED EARNINGS

UBS' chief executive Sergio Ermotti's legal team had played hardball, rejecting allegations of wrongdoing and pushing the case to trial in the hope of wringing out a smaller penalty. While UBS said it will appeal, the penalties dwarf what the bank had set aside for legal issues and amount to more than it earned for all of last year. Now, Mr. Ermotti's plans to return capital to investors may be at risk.

"We see a possibility that the buyback may have to be postponed until 2020," Citigroup Inc. analysts led by Andrew Coombs said in a note to clients.

Dynasty Financial moves south

INVESTMENTNEWS

DYNASTY FINANCIAL Partners is moving its headquarters from New York City to St. Petersburg, Fla., in the second quarter, but will continue to maintain a presence in midtown Manhattan and keep its client service locations in Chicago and San Francisco.

The firm spent a year looking for a location that combined economic leverage, quality of life, a robust infrastructure and a strong talent pool, it said in a release.

"We also wanted a location that was in the heart of a thriving and growing financial services market," said Shirl Penney, the firm's president and CEO.

Dynasty said it works with 47 RIAs across the U.S. with assets over $30 billion on the firm's platform.

Advisory fees push back commissions

BY JEFF BENJAMIN

WHEN THERE'S A financial professional in the picture, investors mostly prefer paying fees based on assets under management.

The latest research from Cerulli Associates found that clients seeking investment advice from financial professionals have largely warmed to the idea of their adviser joining them on the side of the table that benefits when portfolios rise and suffers when portfolio balances fall.

Cerulli's survey of more than 8,000 investors with at least $250,000 in investible assets shows that 61% prefer paying fees based on assets under management in adviser-directed accounts, while 13% prefer commission-based fees.

61%
PORTION OF ADVISORY CLIENTS WHO PREFER PAYING FEES

On the other end of the spectrum, 56% of self-directed investors prefer to pay commissions, which compares to the 16% of self-directed investors who would prefer paying a fee pegged to the size of their portfolio.

Cerulli director Scott Smith said the research found that investors' appreciation for asset-based fees increased in relative proportion to an adviser's involvement in managing the portfolio.

In relationships identified as adviser-assisted, 47% of clients said they preferred asset-based fees, 23% preferred retainer fees and 4% wanted hourly fees. But 26% opted for commission-based fees.

"Investors who regularly work with advisers are more likely to indicate a preference for asset-based, retainer or hourly fees," Mr. Smith said.

Fee models have long been among the most sensitive issues for financial planners, who continue to wrestle with the topic as the planning profession evolves.

'CLIENTS' PARTNERS'

According to Cerulli, the percentage of fee-based assets across all advisory channels increased from 26% in 2008 to 45% at the end of 2017, and the research suggests that trend will continue "as providers increasingly position themselves as clients' partners in pursuit of long-term goals rather than transaction facilitators."

But just as some advisers are getting comfortable making the case for asset-based pricing, the industry is evolving toward models that take the emphasis off asset management.

Eliza De Pardo, management consultant for TD Ameritrade Institutional, estimates that 98% of advisory clients are charged under a pure asset-based pricing model, and 80% of advisory firms include in those fees services other than asset management.

The Cerulli and TD data aren't comparable because the TD data focuses on advisory firms that rarely charge commissions.

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Adviser groups lobby for active management

BY MARK SCHOEFF JR.

ADVOCATES FOR active investment management are lobbying lawmakers to ensure they don't lean toward passive products as the default investment in retirement savings legislation and other bills.

Index investing, which was highlighted in the now-defunct Labor Department fiduciary rule, has a reputation for being less costly and more effective overall for long-term investors.

That's a view that those involved in the Capitol Hill outreach want to adjust by emphasizing the benefits of active management, such as risk reduction and portfolio diversity.

"There are a lot of misconceptions out there about active and passive," said Karen Barr, president and chief executive of the Investment Adviser Association. "Our goal is to make sure policymakers and regulators don't put their thumbs on the scale favoring one type of investment or another."

A group of IAA members established the Active Managers Council last April to launch an educational effort.

"We want to take the 'versus' out of the conversation," said Mara Shreck, head of regulatory affairs for asset and wealth management at JPMorgan Chase & Co. and a member of the Active Managers Council. "It's not active 'versus' passive. It's active 'and' passive."

PENDING BILL

Earlier this month, IAA members met with congressional staff regarding a white paper written by Sen. Mark Warner, D-Va., and Rep. Jim Himes, D-Conn., that is the basis for a pending bill: the Portable Retirement and Investment Account (PRIA).

The white paper outlines two programs. PRIA Basic would be invested in a target-date fund, while PRIA Choice would offer a wider investment range. The white paper asks for comments on whether there should be a requirement that every option in PRIA Choice be "a highly diversified, low-cost fund, such as S&P 500 funds, target-date funds, large-cap funds or something similar."

Congressional take: Rep. Jim Himes said, "Choice is critical."

BLOOMBERG

Mr. Himes doesn't want to limit the options.

"Choice is critical," Mr. Himes, a member of the House Financial Services Committee, said in an interview. "We're not looking to take away anybody's choice. If you want active management, or if you want to trade, there will be a vehicle for you to do that."

The Investment Company Institute, a trade association that represents the mutual fund industry, said its survey data show investors want choice and control of their investments in retirement savings plans.

"We would oppose any measure that looks at this choice as an 'either active or index-based' decision, because investors have demonstrated they prefer a 'both/and' approach to the investment options they have in retirement," ICI spokesman Matthew Beck said in a statement.

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NAIC told to put back 'best interest'

BY MARK SCHOEFF JR.

INSURANCE INDUSTRY trade associations are telling state commissioners to put the words "best interest" back in a proposal to raise the advice standard for annuity sales.

In the latest iteration of the National Association of Insurance Commissioners' annuity suitability model regulation, the organization says it wants to harmonize its rule with the Securities and Exchange Commission's advice reform proposal. The SEC intends to raise the broker advice standard through its so-called Regulation Best Interest.

But in a drafting note at the top of the NAIC proposal, the organization says it will refrain from using the term "best interest" until it is clear how the SEC's best interest regulation would differ from the fiduciary standard to which investment advisers are held.

Insurance industry groups criticized the removal of "best interest" from the proposal in comment letters that were due Feb. 15.

"If the model regulation does not include references to a requirement for an insurance producer or insurer … to act in consumers' 'best interest,' the model regulation may be viewed as weaker than the SEC Regulation

> **"THE MODEL REGULATION MAY BE VIEWED AS WEAKER" THAN REG BI.**
>
> J. BRUCE FERGUSON, SVP, ACLI

Best Interest proposal and may not be an effective counter to individual state proposals seeking to impose a fiduciary standard of care in connection with the sale of annuities," J. Bruce Ferguson, senior vice president for state relations at the American Council of Life Insurers, wrote in a comment letter.

The Insured Retirement Institute said the best-interest nomenclature should be affixed to the annuity sales standard.

'SIGNIFICANT CONFUSION'

"If the SEC final rule continues to use the phrase 'best interest' to describe the standard it adopts and the NAIC opts to use a different label for its enhanced standard, the result will be significant confusion and uncertainty among consumers, producers, carriers and regulators," Jason Berkowitz, IRI vice president and counsel for regulatory affairs, wrote in a comment letter.

The NAIC launched its review of its annuity sales standard in 2017 in response to the Labor Department's fiduciary rule, which would have required brokers to act in the best interests of clients in retirement accounts. The DOL rule was vacated by a federal appeals court last year.

The death of the DOL rule softened the insurance commissioners' reform, said Barbara Roper, director of investor protection at the Consumer Federation of America. The group submitted a comment letter on an earlier version of the NAIC's proposal but not on the current draft.

> **KEY POINTS**
> - Insurance groups criticize removal of "best interest" from annuity proposal.
> - NAIC wants to hold off including it until SEC clarifies term.

"Any impetus to make this an even remotely credible best-interest standard evaporated," Ms. Roper said. "NAIC can't even embrace the concept of acting in your customer's best interest. This is weaker than the existing suitability regulation for broker-dealers."

The insurance groups agree with the NAIC that the annuity sales rule should not subject transactions to a fiduciary standard. They differ, however, on how to achieve a best-interest standard.

In its comment letter, the ACLI outlined seven policy principles, including that best interest should not require the recommendation of the "least expensive or 'best' product available."

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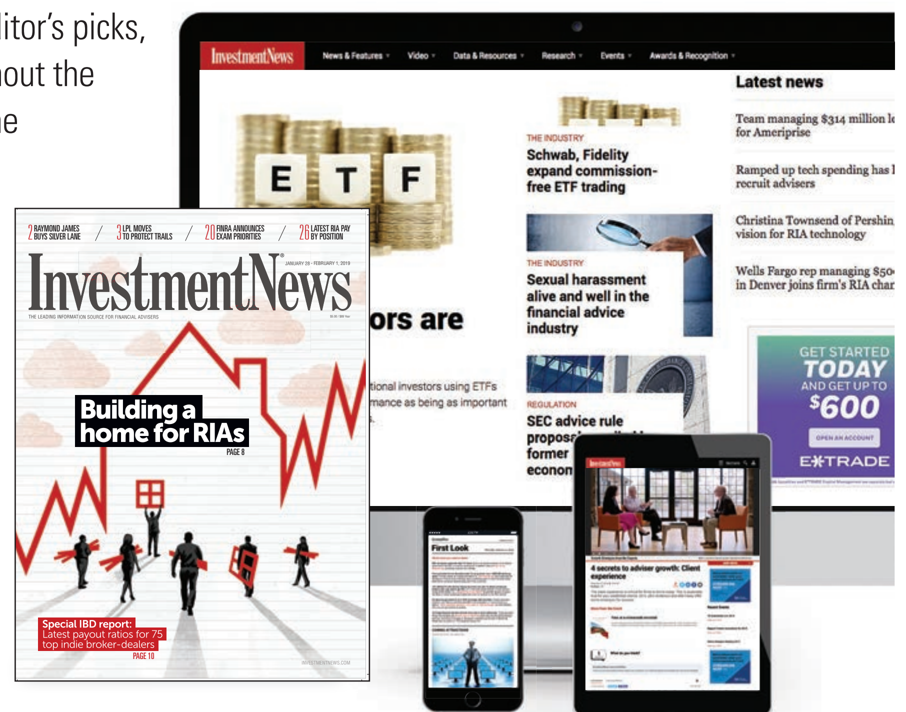

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CETERA CHANGES

CONTINUED FROM PAGE 2

announced that Mr. Moore was stepping down as its CEO at the end of March due to health reasons and is being replaced by the chairman of the firm's board, Ben Brigeman. Mr. Brigeman will serve as interim chief executive while the company conducts a search for a permanent CEO. Mr. Brigeman is a member of the strategic advisory board of Genstar Capital, the private-equity manager that bought Cetera Financial Group last summer for $1.7 billion.

PREVIOUS PRESIDENT OF LPL

Mr. Moore had been CEO of Cetera Financial Group since September 2016. He previously served as president of LPL Financial before leaving that firm in 2015.

"I thought Cetera would have exalted [president] Adam Antoniades to CEO" rather than Mr. Brigeman, said Jon Henschen, a veteran industry recruiter, who added that some of the broker-dealers in the Cetera network looked "management-heavy" when compared with other independent broker-dealers.

One adviser said Mr. Moore's resignation took him completely by surprise.

"I was shocked," said Larry Ginsburg, president of Ginsburg Financial Advisors and a regional director affiliated with Cetera Advisor Networks. "I hope it's nothing serious."

He said he has full confidence in Mr. Antoniades and other senior executives.

A company spokeswoman, Adriana Senior, said in an email last Wednesday that there were no short-term plans to make changes "systematically" to the firm's executive team.

Any changes in the longer term at Cetera could come as the board, management and advisers "are ready to consider adjustments to how Cetera is organized, if market or industry conditions warrant, so long as the advisers and institutions we support benefit from any such changes," she wrote. "It is business as usual for us."

> **"I THOUGHT CETERA WOULD HAVE EXALTED ADAM ANTONIADES TO CEO."**
>
> JON HENSCHEN
> VETERAN INDUSTRY RECRUITER

Regarding questions about Cetera's technology, Ms. Senior wrote: "All technological development efforts are performed in partnership with our advisers, who provide feedback for enhancements as well as help prioritize our road map."

The six firms that make up Cetera's independent broker-dealer network are: Cetera Advisor Networks, Cetera Advisors, Cetera Financial Institutions, Cetera Financial Specialists, First Allied Securities and Summit Financial Services Group. Roughly 8,000 registered reps and advisers are licensed with those broker-dealers.

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CROSS-SELLING

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from a series of scandals at the parent bank in which it was revealed bankers were paid after opening phantom accounts, Wells Fargo Advisors has ditched incentives for their 14,000 advisers to sell banking products.

"The firm used to have deferred compensation goals for lending but moved away from that, post the scandals," said one Wells Fargo rep, who asked not to be named. "It took away all incentives for lending, above standard comp. Otherwise, Elizabeth Warren would make it her rallying cry for the 2020 election."

A source at Wells Fargo Advisors confirmed the change, saying that the firm evaluates compensation and incentives regularly and decided to focus on advice and client outcomes.

POSSIBLY ABUSIVE?

The question facing Merrill Lynch, and other brokerage firms involved in cross-selling, is when does the practice become abusive?

The Merrill Lynch executive was quick to note that it has guardrails in place to avoid abusive sales practices and that its focus is on providing the best service and appropriate product to the client.

Firms pushing cross-selling run the risk of alienating advisers, some of whom abhor the practice because they feel it gets in the middle of their relationship with clients.

They can also draw the eye of securities regulators.

In 2016, Massachusetts' Secretary of the Commonwealth William Galvin charged Morgan Stanley with conducting an unethical, high-pressure, sales contest among its financial advisers to encourage clients to borrow money against their brokerage accounts.

MORGAN'S TWO CONTESTS

From January 2014 until April 2015, the firm ran two different contests involving 30 advisers in Massachusetts and Rhode Island. The goal was to persuade customers to take out securities-based loans in which they borrowed against the value of the securities in their portfolios with the securities serving as collateral.

> **$24M**
> AMOUNT MORGAN STANLEY GENERATED IN NEW LOANS FROM CONTEST

Advisers could earn $1,000 for 10 loans, $3,000 for 20 loans and $5,000 for 30 loans. The contest, which was closely monitored by Morgan Stanley management, generated $24 million in new loans, Massachusetts alleged.

Morgan Stanley later agreed to pay Massachusetts $1 million to settle the matter.

Many in the wealth management industry believe that such examples of cross-selling ultimately may undermine or erode the relationship between the adviser and the client.

Of course, Wall Street wirehouses for decades have offered banking products like jumbo mortgages and cash management accounts for clients. Banking is a fundamental service and firms that don't offer it may lose out.

"Regional B-Ds that don't have a banking option are at a disadvantage," said John Pierce, head of recruiting at Stifel Financial Corp, which has owned a bank since 2007. "The difference is, we own the bank. The bank doesn't own us. There is no compensation incentive for advisers to [promote] any banking products or cross-sell."

Mr. Pierce says that he is currently recruiting advisers from Merrill Lynch and Wells Fargo Advisors. "I definitely think banks view [cross-selling] as a protective strategy," he added.

There have been no reports that Merrill Lynch's emphasis on compensating advisers for cross-selling has resulted in shoddy treatment of clients. However, recent examples show the dangers of the practice. Will Merrill Lynch keep its guardrails against sales practice abuses in place, or will they fall by the wayside when the firm needs to boost its bottom line and advisers want a bump in pay?

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ANNUITIES SALES

CONTINUED FROM PAGE 3

with eight times in all of 2017. The S&P 500 ended 2018 down 6.2%, the first annual loss for the index since the financial crisis.

A turbulent stock market spurs investors to seek less risky havens for their money, such as fixed annuities, said Todd Giesing, director of annuity research at Limra.

"Volatility spiked pretty significantly during the [fourth] quarter and equity markets took a big downturn," Mr. Giesing said.

Interest rates also increased throughout the year, leading insurers to offer investors more attractive crediting rates, he added. The 10-year Treasury, which yielded roughly 2.6% in January 2018, hit 3.15% in October before falling back a bit at year-end.

Sales of fixed annuities were driven higher primarily by two types of fixed annuities: indexed and fixed-rate-deferred annuities.

INDEXED ANNUITIES

Indexed annuities shattered their previous annual record, set in 2016, by $9 billion to hit $69.6 billion for the year. Sales of fixed-rate deferred annuities increased $10 billion over 2017 to total $44.2 billion, a volume not seen since the financial crisis, Mr. Giesing said.

Another factor helping drive variable and indexed annuity sales higher was the disappearance of the Department of Labor fiduciary rule, which made it more difficult to sell these products in retirement accounts. The Obama-era rule was taken off the books in June following a court ruling striking down the regulation.

Overall annuity sales of $232.1 billion last year increased 14% over 2017.

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OHIO NATIONAL

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gela Meehan. "Extending the offer date gives them additional time, if needed, to make that determination."

NOT MANY TAKERS?

Dennis Gallant, senior analyst at Aite Group, believes Ohio National is extending its buyout offer because not as many customers took the offer as had been hoped or anticipated. That may be because keeping the contract is in many clients' best interests, and because advisers may be waiting to see if there's a favorable lawsuit outcome that would restore their commission payments.

"It's brinkmanship here. How long can we go?" Mr. Gallant said. "You still have to be wary about the client at the end of the day."

> **"IT'S BRINKMANSHIP HERE. HOW LONG CAN WE GO?"**
>
> DENNIS GALLANT, SENIOR ANALYST, AITE GROUP

Several insurers have offered buyouts to variable annuity customers to get out of costly benefits underwritten around the time of the financial crisis. The resulting plunge in account values during the crisis may not have recovered fully enough to cover contract guarantees. When coupled with a decade of rock-bottom interest rates, the contracts' income guarantees have become more expensive.

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Ascensus sells 25% stake to private equity

BY GREG IACURCI

ASCENSUS, which administers retirement and college savings plans, has sold a 25% stake to a group of private-equity investors, the firm announced last Tuesday.

Atlas Merchant Capital leads the investor group, which includes Singapore's sovereign wealth fund, GIC. The companies join two other private-equity backers, Genstar Capital and Aquiline Capital Partners, which bought Ascensus more than three years ago from another PE firm.

Private-equity firms seem to have a growing appetite for the retirement-plan market. Hellman & Friedman, for example, bought the 401(k) managed account provider Financial Engines last year for $3 billion. Blackstone Group acquired Aon Hewitt's record-keeping business in 2017.

The Ascensus deal, the terms of which were not disclosed, is expected to close in the first quarter.

"The Atlas investor group has confidence in Ascensus' management and the company's future growth trajectory," said David Schamis, founding partner and chief investment officer of Atlas and prior chairman of Ascensus.

RETIREMENT PLANS, 529s

Ascensus administers more than 54,000 retirement plans and more than 4 million 529 college savings accounts, according to its website. It does the record keeping for Vanguard Group's small-market 401(k) product, and also has been selected as the record keeper for some of the fledgling state automatic-enrollment, payroll-deduction IRA programs, such as those in Oregon, California and Illinois.

The firm has been on a buying spree of third-party administrators over the past few years.

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SIFMA LOBBYING

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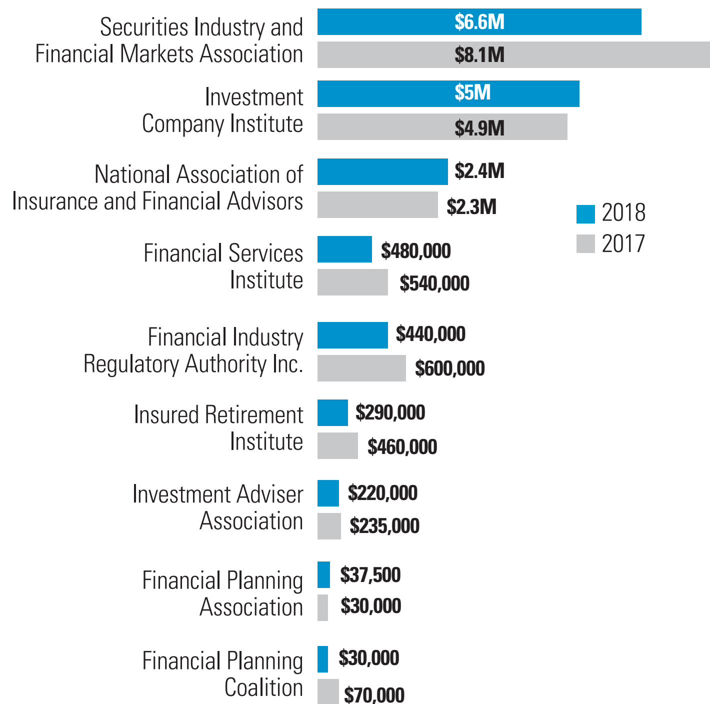
with the many new members of Congress so that we can effectively educate and inform them on the important roles advisers play in providing financial security and protection to consumers."

Farther down the list in annual lobbying spending was the Financial Services Institute, which represents independent broker-dealers and financial advisers. It invested $480,000 in 2018 and $540,00 in 2017. The Insured Retirement Institute, which represents the annuities sector, spent $290,000 in 2018 and $460,000 in 2017.

ADVISER GROUPS TRAIL

Trade groups representing investment advisers once again spent far less on lobbying than broker and insurance groups. The Investment Adviser Association spent $220,000 in 2018, down slightly from $235,000 in 2017. The Financial Planning Association increased its lobbying spending to $37,500 in 2018 from $30,000 in 2017.

LOBBYING SPENDING



Source: Center for Responsive Politics

The Financial Planning Coalition — which includes FPA, the Certified Financial Planner Board of Standards Inc. and the National Association of Personal Financial Advisors — spent $30,000 in 2018, down from $70,000 in 2017.

'FAR LESS' ACTIVITY

"While we have continued to stay in front of lawmakers and administration officials, educating them about the importance of financial planning and CFP certification, the reason for the decrease in lobbying expenditures is pretty simple: There was far less congressional activity and rulemaking than before," Maureen Thompson, CFP Board vice president for public policy, said in a statement. "CFP Board has been actively focused on updating its standards and other initiatives."

The Financial Industry Regulatory Authority Inc. also lobbies Congress. The brokerage industry self-regulator spent $440,000 in 2018, down from $600,000 in 2017.

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ENVESTNET BUY

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custodial portfolio manager that would have competed directly with rising third-party tools like Tamarac, Orion Advisor Services and Advent's Black Diamond.

Schwab has since changed course. Under Andrew Salesky, who took over as Schwab Advisor Services senior vice president of digital adviser solutions in June, the firm is focusing more on partnering with third-party vendors while also rolling out PortfolioConnect, a next-generation portfolio manager with deep integrations into Schwab's platform.

"OVER THE YEARS, WE CAME TO UNDERSTAND EACH OTHER'S STRENGTHS."

ANDINA ANDERSON, EXECUTIVE MANAGING DIRECTOR, TAMARAC

Tamarac executive managing director Andina Anderson disagreed that Tamarac and PortfolioCenter competed with each other. The companies have actually been partners for a long time, with PortfolioCenter powering Tamarac's accounting capabilities.

"Over the years, we came to understand each other's strengths," Ms. Anderson said. "We recognized that they had a really strong portfolio accounting engine. Their reporting wasn't as robust as ours."

Schwab advisers made up a significant portion of Tamarac customers, so it made sense to bring the tech in-house as Schwab goes in a different direction, she said.

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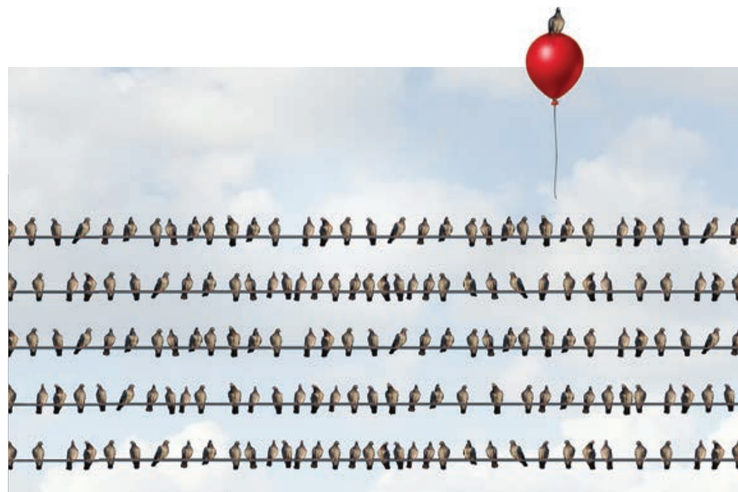

INDEPENDENCE

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Fargo executives incented this activity; it did not happen in a vacuum. The bank had somehow morphed into a competitive sales culture that drove employees not only to sell but to cheat. That is, employees invented results in order to win contests, to get pay raises, to get promoted.

One ex-Wells Fargo adviser told me he decided to leave when clients were questioning his ethics merely because of his continued association with the firm: "I think that this scandal was so pervasive that it has become a corporate tattoo. It won't be forgotten easily."

Wells Fargo's efforts to change are documented thoroughly in the Business Standards Report. Can a company as sprawling as Wells Fargo truly change its culture? Only time will tell whether customers will forgive and forget.

DISCONNECTED LEADERSHIP

But how did senior leadership, who I believe did not wake up in the morning dreaming how to falsify sales contests and dupe an unsuspecting customer base, become so disconnected from their business that they allowed this to go on for years?

I suspect that the answer lies in the fact that their leadership had either never sat in the seats that directly dealt with customers or had been so long removed from those roles that they no longer understood how business at the point of sale was actually done. Somebody at the top realizes that more credit cards and more checking accounts mean more money to the bottom line. Somebody figures out how to incent staff to sell more credit cards and to open up more checking accounts. What makes a customer decide whether he needs or wants more credit cards is an afterthought. Incentives disconnected from customers' needs are perhaps the definition of how a company scandal begins and how culture gets corrupted.

Many startups in the wealth management space also have a culture issue. Startups are often backed by private-equity investors, who usually want to sell their stakes in order to deliver returns on their investment. These investors also are unlikely ever to have been a financial adviser. With every change in ownership structure, the culture of the startup, often one of the biggest selling points in attracting advisers in the first place, will change along with the new leadership's growth strategy. The adviser who joins a private-equity-backed wealth management firm who does not think that the culture of the firm will change is like a surgeon who expects to operate and not see blood.

So what is the ethical, cynical adviser who wants to work in a client-first, consistent culture to do? While the Wells Fargo scandal is an extreme example, all of the wirehouses are constantly tweaking at compensation to encourage more profitable activities, regardless of whether those activities are actually good for their clients. At the same time, they "defer" more and more compensation, making it more expensive for advisers to leave. These corporate cultures have increasingly become "us" (the advisers) versus "them" (senior leadership who have never been advisers).

CAN ADVISERS INOCULATE THEMSELVES AGAINST TOXIC LEADERS, REVOLVING BRANCH MANAGERS?

As the diaspora out of all of the wirehouses continues, it is clear that many advisers are not willing to wait patiently to see if their corporate cultures will morph into something they will like. Those who do stay cite their branch culture as a reason not to move, at least as long as their branch managers stay in their seats.

How does an adviser inoculate himself against the toxicity of leaders who have never been advisers? How does an adviser immunize herself from the the branch management merry-go-round? More often than ever before, the answer is for the adviser to form his or her own culture by going independent, either as a registered investment adviser or under the umbrella of an independent broker-dealer.

The independence revolution is here to stay.

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

SUCCESSION

CONTINUED FROM PAGE 5

upon, the next step was to present the news to clients by announcing a "soft close" about three months before the deal became final.

"We gave the clients almost 100 days to figure out what it would look like," Mr. LaBrecque said. "We didn't want to surprise anyone."

By the time the sale closed in December, LJPR had lost just three clients and one employee.

"It's very important to do things to keep people on board, because you don't want to disrupt the relationships with clients and you want to keep the team very much intact," Mr. LaBreque said. "We made sure it was very transparent to everybody on the team where we were going. And Tom came out and said we're going to try to sweeten the pot a little bit, because you don't have earnings if you don't have good employees."

COMMUNICATION KEY

From Mr. Haught's perspective, the communication could have been better with Sequoia's employees.

While he said he wouldn't change anything about the way he kept the LJPR team informed, he said he might have overlooked the need for the folks at Sequoia to also know what was happening along the way.

"The next one we do, I will communicate more to both the current and new teams, so they can be as comfortable as Leon and I were along the way," Mr. Haught said.

To handle the technology and systems integration between the August soft close and the official closing of the deal in December, three-person teams from Sequoia and LJPR worked together and met in person weekly to combine the systems and troubleshoot scenarios.

"IF I WERE DOING IT OVER, I WOULD HAVE BEEN A LITTLE MORE DILIGENT ON THE INTEGRATION SYSTEM."

LEON LABRECQUE, CHIEF GROWTH OFFICER, SEQUOIA FINANCIAL GROUP

The one thing Mr. LaBrecque said he would have done differently is running more thorough pre-close tests on the systems before switching everyone over the Sequoia.

"We didn't test-drive the switch, and we found out some clients logged in and couldn't get into their portal for a couple of days," he said. "If I was doing it over, I would have been a little more diligent on the integration system, and I would have tested to know exactly what was going to happen on the close date."

Mr. Haught said that in order to learn something from the process and make the next deal even smoother, the firm is conducting a "military review" with teams from both LJPR and Sequoia looking at what went right and what went wrong.

"Culture is the most important thing, and I think we could have gone faster in closing this deal," he said. "When you find the right fit, you can accelerate the process."

Two months after the official close, with the firms now fully integrated, Mr. Haught and Mr. LaBrecque acknowledge there are a few points on which they agreed to disagree.

"I'm never going to root for the [Ohio State] Buckeyes," Mr. LaBrecque said.

"I'll never root for the [University of Michigan] Wolverines," Mr. Haught said. "But we don't have a hockey team in Ohio, so I can root for the Detroit Redwings."

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FOCUS REVENUE

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argued that they weren't serious competitors for RIA deals, especially those involving RIAs serving wealthier clients.

"Private equity does show up occasionally, but our differentiation is that we represent permanent capital," he said. "Our ability to compete with private equity is very high. We are a firm that has a track record of adding value, and high-net-worth individuals don't like the dynamic of [PE] money moving in and out."

Mr. Adolf was equally dismissive of banks trying to build up their wealth management businesses by acquiring RIAs.

"Banks do show up and have been in and out of this industry forever and will continue to be," he said. "The track record of banks investing in this type of asset and then destroying them is quite high. Banks are not good fiduciary advisers, period."

ALL-CASH DEALS

While Focus refers to most of its deals as mergers, they are technically acquisitions, and usually all-cash deals in which Focus acquires 100% of the RIA.

Becoming a partner firm at Focus, which provides lots of technical and back-office support, in addition to help making sub-acquisitions, means giving up between 40% and 60% of earnings before partner compensation, according to the Focus prospectus.

One recent example of how Focus helps orchestrate acquisitions by its underlying partner firms is the fourth-quarter purchase of Loring Ward Holdings, a $17 billion turnkey asset management platform, by the Buckingham Family of Financial Services.

Focus helped finance the $235 million cash-and-stock deal, which has already started paying off through the slow but steady migration of some of those TAMP assets, which earn about 25 basis points, onto the RIA platform, where fees hover around 70 basis points.

"It was never intended to be an avalanche of movement, but we've seen a steady flow of TAMP assets over to the RIA," Mr. Adolf said.

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INSURERS AND PAIN

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not have the wherewithal to make such a determination.

Advisers believe insurers' problems don't stem solely from actuarial miscalculations, but say that some companies engage in a sort of arms race to attract higher sales from independent brokers and insurance agents. Insurers may offer annuity features that appear better than competitors' or juice life insurance illustrations to help sell policies, advisers said.

"Often, the most attractive illustration is the riskiest policy," Mr. Witt said.

In fairness to insurers, many of the aforementioned actions appear to be perfectly allowable and within insurers' contractual rights and may indeed be necessary to preserve their financial strength. And advisers say shoring up the balance sheet is a necessary evil, the alternative being to risk the company's solvency.

"Yes, it stinks when they have to increase long-term-care premiums for someone, or raise the cost of insurance on a universal life policy, but the most important thing is the viability of the insurance company," said Gregory Olsen, partner at Lenox Advisors Inc.

Of course, that doesn't change the inherent frustration such increases cause for advisers and customers.

Advisers do seem to believe many insurers have learned from past mistakes. Long-term-care insurers have become more realistic about their pricing, and variable annuity providers allow fewer and less aggressive investment options and offer more conservative income guarantees.

However, some observers say that the arms race continues, and that advisers and clients should remain vigilant.

"They still have to have shiny, bright objects to get the agent to sell them," Ms. Moore said.

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