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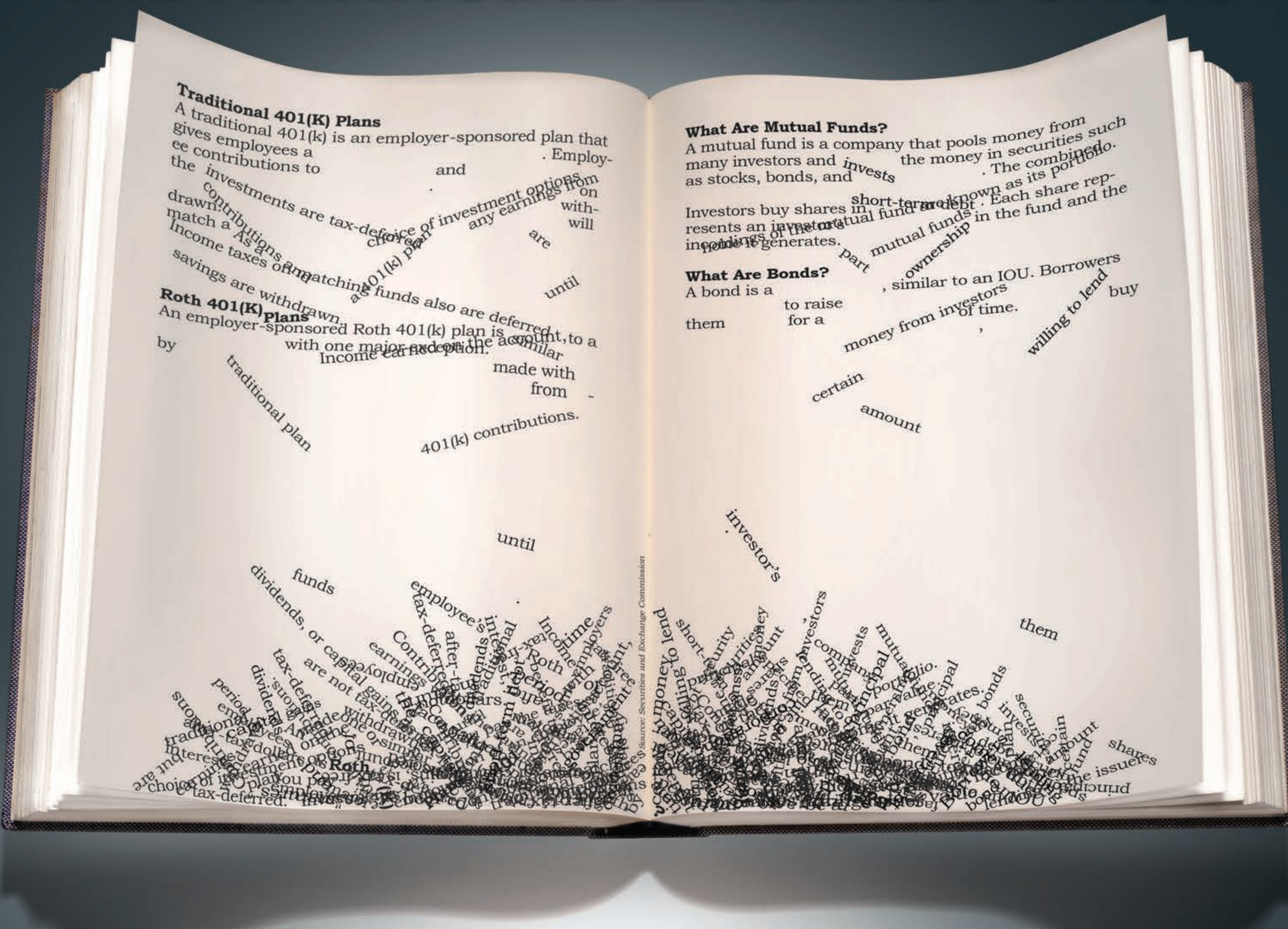
GAME CHANGER

THE FINANCIAL LITERACY CRISIS



NEWSPAPER | VOL. 23, NO. 9 |

AN INABILITY TO UNDERSTAND BASIC FINANCIAL CONCEPTS IS A GROWING NATIONAL PROBLEM THAT POSES A THREAT TO ADVISERS PAGE 8

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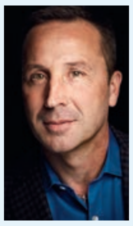
EDITOR'S NOTE

Upping our game

Let's talk financial jargon: APR refers to how much money you're paying in interest and fees annually during the life of the loan. Liquid assets refer to anything that can be converted quickly into cash at a fixed value. Asset allocation is all about how you divide your investment portfolio into various categories. Don't even get me started on tax-loss harvesting.

You get my point. For the average investor, this stuff is hard. It's not the way "real people" talk. But it is the way we talk about concepts that help them attain financial security.



FRED GABRIEL

In an era when most Americans are responsible for securing their own retirements, and a period when political winds favor deregulation, it is imperative that Americans up their game when it comes to financial literacy.

This week's cover story, by reporter Greg Iacurci, looks at how financial illiteracy is hurting the financial advice profession. That's because savvy investors make better clients. First, they are more likely to recognize the value of professional advice; they also are less likely to do something rash every time the market swoons. Though not impervious to scamsters, knowledgeable investors are less likely to fall prey to them.

Our story, on Page 8, also looks at individuals who are working to improve financial literacy. Hopefully our coverage of this issue will inspire you to get involved too.

And don't forget to go online to see our multimedia presentation: InvestmentNews.com/finlit.

fgabriel@investmentnews.com
Twitter: @fredpgabriel

Advisers remember crisis 10 years later

BY JEFF BENJAMIN

FOR THOSE WHO were working in the financial services industry 10 years ago, memories of the financial crisis are often bookended by the March 9, 2009 bottom, when the S&P 500 Index halted its 17-month freefall for a 56.8% decline from the Oct. 9, 2007 peak.

KEY POINTS
- Though it has been 10 years since the market bottom, memories are fresh.
- Most clients who panicked asked to sell out at worst time.

ASSOCIATED PRESS

Today, even with the S&P having gained more than 312% off that bottom, financial advisers still reflect on that historic time with vivid and chilling anecdotes of how out of control things felt for both themselves and their clients.

Tracy Burke, partner and investment consultant at Conrad Siegel, said the S&P's 37% drop in 2008 proved to be too much for at least one client who demanded he liquidate his entire

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Fintechs seek to lure PortfolioCenter users

BY RYAN W. NEAL

NEWS OF CHARLES Schwab selling PortfolioCenter to Envestnet Tamarac has been like blood in the water for competing technology vendors hoping to lure away the 3,000 advisers still using the aging portfolio accounting technology.

In the days following the announcement, Orion Advisor Services and Morningstar Inc. have made efforts to distinguish their platforms as viable alternatives for advisers looking to leave PortfolioCenter.

On Feb. 24, Morningstar announced a webinar to educate advisers about its portfolio management and reporting technology, Morningstar Office, and to demonstrate its skill in transitioning advisers from other platforms. The company even mentioned how it has already transitioned 400 advisers from PortfolioCenter.

Morningstar is also offering PortfolioCenter users who attend the webinar a free ticket to its annual investment conference and 12 months' free access to Morningstar Office.

"We do not aspire to own the market on independent options; in fact, we think choice is good for investors and advisers," wrote Dermot O'Mahony, Morningstar head of software products, in a blog post about the transaction. "But the recent acquisition of Schwab PortfolioCenter by Envestnet Tamarac reduces the number of independent options available to RIAs, and we feel it is important to emphasize that our commitment to independence will not waver."

According to Mr. O'Mahony, Morningstar has fielded "dozens" of calls from advisers with questions about Envestnet's relationship with asset managers, what the fees will be to use Tamarac and how long Tamarac will support an

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Fidelity defends ‘infrastructure’ fee

BLOOMBERG NEWS

FIDELITY INVESTMENTS says it fully discloses fees that it charges some mutual funds for using the company’s platform to access retirement plan customers.

The fees and Fidelity’s disclosure of them are being probed by the Labor Department, The Wall Street Journal said last Wednesday. They’re also the centerpiece of a Feb. 21 lawsuit against Fidelity by an investor in T-Mobile USA Inc.’s 401(k) plan. The suit claims the firm conceals so-called infrastructure fees.

“The infrastructure fee has been fully disclosed to 401(k) plans and their sponsors via a disclosure that Fidelity sent to over 20,000 401(k) plans,” Fidelity spokesman Vincent Loporchio said in a statement last Wednesday. Fidelity denies the allegations in the lawsuit and will vigorously defend itself, he said.

“We make thousands of non-Fidelity mutual funds available to 401(k) plans for which Fidelity acts as record keeper, as well as to other Fidelity customers,” he said. “We receive a fee from some of those mutual fund companies to compensate us for maintaining the infrastructure that is needed to make those funds available.”

PASS ON FEE TO INVESTORS

The expense was described as an infrastructure fee in a 2017 document, according to the Journal report. Mutual fund firms could either pay the fee of 0.15% or pass it on to investors, according to the document. Mr. Loporchio said the fee doesn’t vary based on whether a 401(k) plan offers or doesn’t offer a particular fund.

The Labor Department regulates costs and investments offered in workplace savings accounts such as 401(k)s and has sought to crack down on high fees charged by some plans and to increase transparency around revenue-sharing agreements between providers.

A spokesman for the Department of Labor said the agency can neither confirm nor deny the existence of ongoing or prospective investigations.

Fidelity hasn’t been contacted by the department about an investigation or heard from another regulator about it, according to a person familiar with the matter.

Sen. Sherrod Brown, D-Ohio, raises former SEC economists’ criticisms of Reg BI.

Senator cites concerns with SEC advice rule

BY MARK SCHOEFF JR.

A KEY SENATE Democrat raised concerns about the Securities and Exchange Commission’s investment advice reform proposal last Thursday, signaling the party will resist the measure as the agency tries to settle on a final rule.

Sen. Sherrod Brown, D-Ohio, ranking member of the Senate Banking Committee, cited a recent comment letter on the centerpiece of the proposal — Regulation Best Interest — that questioned whether the agency had done an adequate job of justifying the need for it.

MORE
NASAA criticizes SEC measure.
PAGE 4

“Earlier this month, 11 former senior SEC economists wrote the agency to say its proposed best interest rule had ‘weak and incomplete’ economic analysis — that can have a real impact on American families,” Mr. Brown said at a committee hearing. “That warning should be a red flag for this committee, and we should call on the SEC to explain.”

An SEC spokesman declined to comment.

Mr. Brown, a potential presidential candidate, made the statement at the beginning of a panel meeting on a long roster of bills designed to help small businesses raise capital and implement corporate governance reforms.

ORDINARY INVESTORS

He indicated qualms about much of that legislation, and said the committee should instead explore “how we can better protect ordinary American investors who are saving for retirement.”

If the SEC revisits the cost-benefit analysis underpinning the proposal, it would significantly delay a final rule, which could come out as soon as this summer. Supporters want the SEC to move ahead quickly with Regulation Best Interest.

“Reg BI materially raises the bar for brokers and will directly benefit retail customers,” Kevin Carroll, managing director and associate general counsel at the Securities Industry and Financial Markets As-

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“WHILE THE PAST ISN’T PREDICTIVE, HISTORY IS INSTRUCTIVE.”

Damian Omani, CEO of Fisher Investments, on not getting tripped up by recency bias when investing in volatile markets

Warburg Pincus buys majority stake in Kestra

BY GREG IACURCI

KESTRA FINANCIAL Inc. has agreed to sell a majority stake in the firm to private-equity shop Warburg Pincus, the independent broker-dealer announced last Monday.

Stone Point Capital, the private-equity firm that currently holds a majority interest in Kestra, will keep a minority interest. Kestra’s management team will retain equity in the firm, and it is anticipated that “a number” of advisers will also retain equity, the firm said.

Terms of the deal, which is expected to close in the second or third quarter, were not disclosed.

In 2017, Kestra Financial was ranked the 15th largest independent broker-dealer in the industry when counting total revenue, according to *InvestmentNews* data. Kestra reported $475.4 million in total revenue for the year, with 1,876 registered reps and financial advisers. The firm’s assets under management were $75.8 billion at the time.

Kestra Financial was formerly known as NFP Advisors when it was owned by insurance brokerage and consultant NFP Corp. The broker-dealer was sold in 2016 to Stone Point Capital, which bought a majority stake at the time and changed its name to Kestra.

InvestmentNews reported Feb. 15 that Warburg Pincus was among the PE managers interested in acquiring Kestra. The firm was being valued at between $600 million and $800 million, about eight to 10 times Kestra’s EBITDA, or earnings before interest, taxes, depreciation and amortization, sources said at the time.

Kestra said there will be no impact on the firm’s employees or advisers related to the transaction, including no repapering requirement for advisers’ clients.

giacurci@investmentnews.com
Twitter: @gregiacurci

diversity & INCLUSION

Nominations open!

It’s time to nominate individuals and firms for our 2nd annual Excellence in Diversity & Inclusion Awards. Go to ***InvestmentNews.com/nominatediversity*** to learn more and submit applications for people and companies that illustrate or support diversity in the financial advice industry.

The nomination period runs March 1 through April 15.

Reg BI allows harmful practices, NASAA says

BY MARK SCHOEFF JR.

STATE SECURITIES regulators are warning the Securities and Exchange Commission that the agency's investment advice reform proposal would allow brokers to continue practices that harm investors.

The North American Securities Administrators Association criticized Regulation Best Interest, the centerpiece of the SEC measure designed to raise the broker advice standard by requiring brokers to act in the best interests of their clients.

But in a recent comment letter, state regulators said the brokerage industry is interpreting the SEC proposal as giving them free rein to provide conflicted advice as long as the conflicts are disclosed. They said financial industry trade associations' embrace of Regulation Best Interest demonstrates that it won't introduce reform.

'INTERPRETIVE NUANCES'

"These groups point to the Commission's 'interpretive nuances' as confirmation that pretty much anything and everything will be considered 'acting in the client's best interest' — where disclosure occurs," Vermont financial regulation commissioner and NASAA president Michael Pieciak wrote. "To these industry groups, no abusive product or practice appears to be off limits."

NASAA said the final SEC regulation should address specific types of broker conduct, such as engaging in sales contests, selling a limited number of high-cost products, taking revenue-sharing payments, making rollover recommendations and making recommendations on account types.

"When the Commission states in the Reg BI proposal, repeatedly, that the new standard of conduct would not require broker-dealers to eliminate any conflicts, neutralize compensation, or even generally recommend lower-cost, less-remunerative or less-risky products to retail investors, broker-dealers naturally feel no pressure to do so," the state regulators wrote. "If the Commission wants these harmful practices to stop, it must say so both in the rule and in the adopting release."

An SEC spokesman declined to comment. A final SEC advice rule is expected this summer.

The state regulators cited comment letters from the Securities Industry and Financial Markets Association and the American Council of Life Insurers as examples showing the brokerage industry doesn't intend to change under Regulation Best Interest.

Kevin Carroll, SIFMA managing director and associate general counsel, pushed back, saying NASAA favors a regulation similar to the now-defunct Labor Department fiduciary rule that would impose "burdensome, costly and unnecessary requirements that don't have a corresponding investor-protection benefit."

Under Regulation Best Interest, the broker standard would be raised in a way firms can manage, he said.

"NO ABUSIVE PRODUCT OR PRACTICE APPEARS TO BE OFF LIMITS."

MICHAEL PIECIAK, PRESIDENT
NASAA

"The SIFMA approach has been focused on helping to ensure firms can operationalize their regulatory requirements while still keeping the promise of Reg BI to deliver meaningfully heightened conduct standards and better investor experience when interacting with their financial professional," Mr. Carroll said.

ARGUMENT IS 'NONSENSE'

The ACLI countered that the fiduciary standard NASAA supports — which would continue to apply to investment advisers under the SEC regulation — is impractical.

"NASAA's suggestion that ACLI's support for Reg BI signals a problem is nonsense," ACLI spokesman Jack Dolan wrote in an email. "We're committed to retirement solutions that protect all Americans. A fiduciary regulation would harm the very people it is intended to help — low- to moderate-income retirement savers."

mschoeff@investmentnews.com
Twitter: @markschoeff

OPINION

EDITORIAL / LETTERS / OP-ED / GUEST BLOGS

Help older clients facing a layoff realize their worth

MOST ADVISERS HAVE HAD THE EXPERIENCE of answering anxiety-ridden calls from clients saying they've been laid off, perhaps many during the early days of the Great Recession.

What may surprise advisers is that more than half — 56% — of workers will face a layoff or other job separation after age 50. This was one of the startling stats in reporter Greg Iacurci's cover story last week on the many ways advisers can help their clients traverse such a deep pothole in their financial plans when it materializes en route to retirement.

The first step is to help the client not overreact to what could be a short-term bump in the road. Any client of a financial adviser hopefully has emergency funds in place — at least a small pool of more liquid assets to withdraw that can later be replaced without too much long-term damage.

If unemployment drags on, however, a client's morale will start to drop as quickly as their net worth. At that point, looking at money in taxable investment accounts and even equity in a home may make sense. What almost all the advisers Mr. Iacurci spoke with for his story agreed on was that clients shouldn't dip into a retirement account unless absolutely necessary.

But after cutting expenses to the bone, there are avenues for lessening the pain of having to withdraw money early from a nest egg. Clients can roll assets from a former company 401(k) into a solo 401(k) plan, which would then allow for loans. There's also an "age 55 rule," which allows those age 55 and older without a job to draw from their 401(k) before age 59½ without a 10% early withdrawal penalty.

The problem in many cases, though, is that short-term emergency planning can extend into years. Older people face ageism in the U.S. economy, despite its being illegal. And those who do find new jobs often don't come close to matching the status and salary they enjoyed before being laid off.

But that's no reason to give up; it just requires more creativity.

A CLIENT'S MORALE WILL START TO DROP AS QUICKLY AS THEIR NET WORTH.

Advisers can help their clients think more broadly about opportunities out there to exploit their vast knowledge and professional experience. For some, it will mean shifting from the role of employee to that of employer — and entrepreneur. As Mr. Iacurci reports, a recent MIT and Northwestern study found that middle-aged and older business founders have the highest success rates, compared to their younger cohorts.

Advisers can help new business owners in many ways, from recommending a team of professionals such as accountants and lawyers to drumming up capital to just being a sounding board and cheerleader.

In fact, whether your clients are entrepreneur material or not, being there to talk through concerns and figure out a new plan to match a new circumstance is exactly where you prove your worth beyond transactional advisers and the less holistic competition.

LETTERS

What Cetera's future holds

This letter is in response to "More changes to hit Cetera?" in the Feb. 25 issue. Since October of 2018, when Genstar secured its ownership of Cetera, I have been honored to have had the opportunity to serve as chairman of the board and work closely with the Cetera management team. I, and the Genstar team, are very excited about the future of the organization, its growth trajectory and the type of impact we believe Cetera will continue to have on the profession.

In only five months of ownership, I will unequivocally report that we are extremely pleased with the performance results we've seen: Cetera has exceeded its financial projections for 2018, and in the first 60 days of 2019 the organization has experienced record recruiting. These results, combined with the underlying macrotrends that support the business model, affirm Genstar's full confidence in Cetera's strategy and the strength of its management team.

One of the many things that attracted Genstar to Cetera is our vision to transcend the transactional nature of the profession and focus on advancing the business of financial advice. The firm remains resolute in doing what's best for our advisers and, in turn, their clients. This is reflected in how we determine strategy and roll out technology, and in the culture of service and purpose demonstrated by employees each day.

As I now step into role of interim CEO, I will be working more closely with the talented management team and employees at Cetera to realize these goals and to identify a permanent, growth-oriented replacement for CEO.

Ben Brigeman
Chairman of the Board and interim CEO
Cetera Financial Group
Chagrin Falls, Ohio

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CEO/Publisher:
Suzanne Siracuse
ssiracuse@investmentnews.com

EDITORIAL
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fgabriel@investmentnews.com
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ADVERTISING
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Rich Kiesel, rkiesel@investmentnews.com
415-538-0206
Client Relationship Manager, Midwest Region:
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312-504-8755
Client Relationship Manager, East Region:
Nicole Casement, ncasement@investmentnews.com
212-210-0167
Client Relationship Manager, SouthEast Region:
Kevin Reardon, kreardon@investmentnews.com
212-210-0476
Client Relationship Manager, NorthEast Region:
Lauren DeRiggi, lderiggi@investmentnews.com
212-210-0154
Strategic Project Sales Manager:
Julie Parten, jparten@investmentnews.com
952-495-0422
Manager US Event Sales:
Dan Rubinetti, drubinetti@investmentnews.com
212-210-0432
Account Manager, US Events:
Kelly D. Maier
KMaier@investmentnews.com
Reprint Manager: Laura Picariello,
lpicariello@investmentnews.com 732-723-0569
Ad Operations Manager: Letitia Y. Buchan,
lbuchan@investmentnews.com 212-210-0451

AUDIENCE, MARKETING AND EVENTS
Director of Audience and Analytics:
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Irma Rodriguez, irodriguez@investmentnews.com
212-210-0430

PRODUCTION
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INVESTMENTNEWS OFFICES
Headquarters:
685 Third Avenue, New York, NY 10017-4024
Bureau office:
Washington:
601 13th Street, N.W. Suite 900 South
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Chief Executive Officer: Simon Stilwell
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Head Office:
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LACKING THE KNOWLEDGE TO MAKE INFORMED DECISIONS ABOUT THEIR FINANCES LEADS TO LESS FULFILLING LIVES AND CAN HURT THE ECONOMY. WHAT CAN ADVISERS DO TO HELP?

FINANCE 101: AMERICANS JUST DON'T GET IT

BY GREG IACURCI

For as long as he can remember, Zachary Beneda dreamed of joining the Air Force.

But the 23-year-old senior at Texas A&M University, who will be headed to Japan after graduation for his first active-duty assignment as an Air Force support officer, got a rude awakening when he realized he'll also have to begin paying back $90,000 in college loans.

Mr. Beneda will be required to pay $1,000 a month — about half his monthly salary as a second lieutenant.

"I was floored," he said. "I thought the military was going to take care of me and the burden wouldn't be as bad. I wasn't worrying about the loans as much as I should have."

Mr. Beneda is hardly the first to underestimate the weight of college loans, and he won't be the last.

But it's not just college cost confusion — financial mistakes are made every minute of every day. The consequences of those mistakes run the gamut, from being an annoyance (inadvertently choosing a high-interest credit card) to being financially ruinous (investing a retirement nest egg in what turns out to be a Ponzi scheme).

We teach our children to wear seat belts. Schools invest in programs aimed at helping kids practice smart internet habits. But few are talking about the dangers of too much debt or the blessing that is compound interest.

As a result, Americans are saddled with exorbitant loans and save too little for retirement. As the gap between rich and poor widens, it's clear that financial literacy is one of the factors that separate the haves from the have nots.

Financial advisers recognize the problem: 78% strongly agree that financial literacy is a concern in the U.S., according to a survey of advisers by *InvestmentNews*.

But there's a disconnect — only 4 in 10 advisers are doing anything to address the problem, meaning the majority are ignoring the issue.

That apathy could come back to haunt them. If a lack of financial knowledge is linked to a lack of wealth, as experts believe, fewer people will have the financial assets advisers depend on for their own revenue.

Advisers also realize that clients with financial

CONTINUED ON PAGE 10

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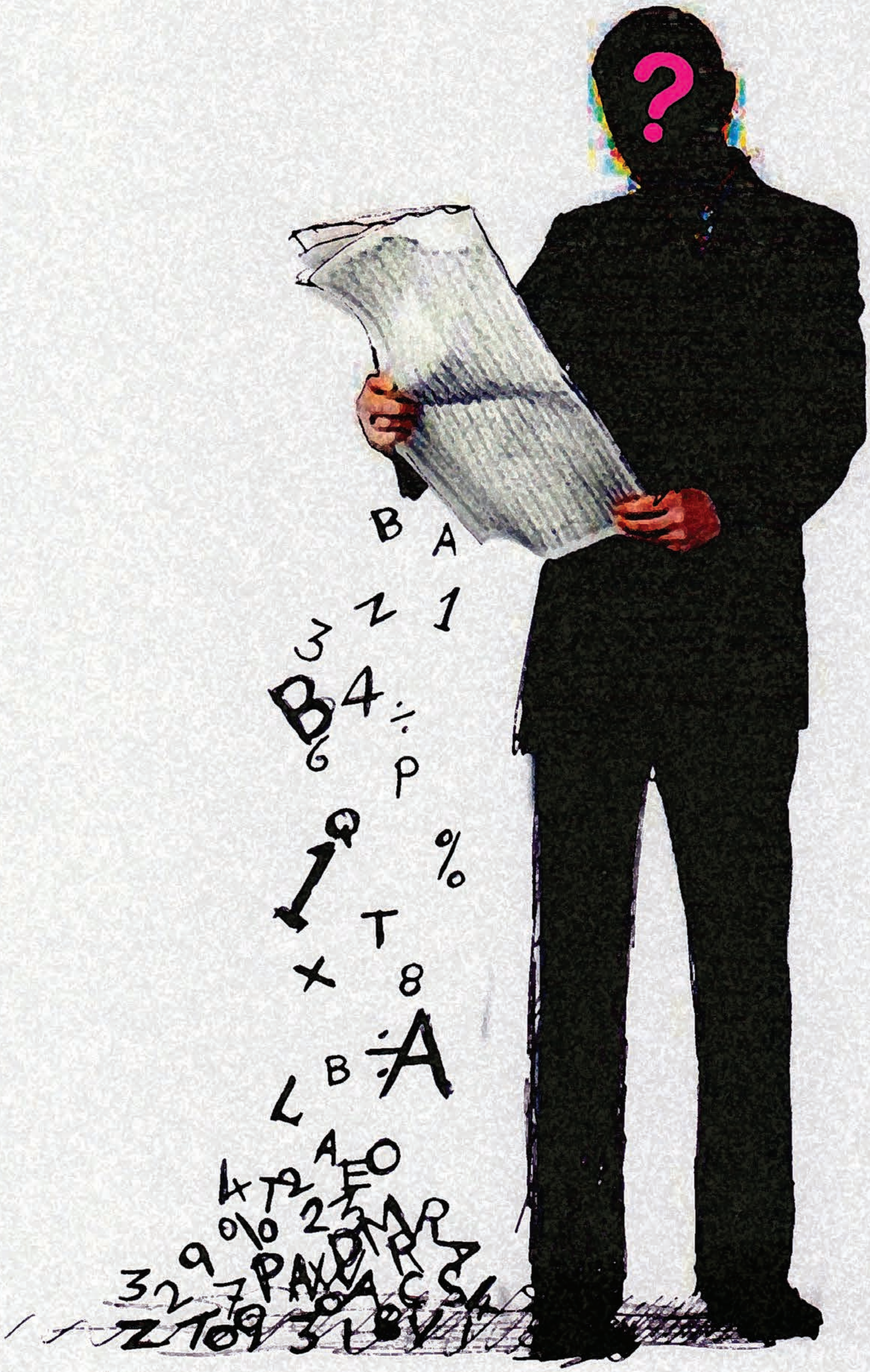
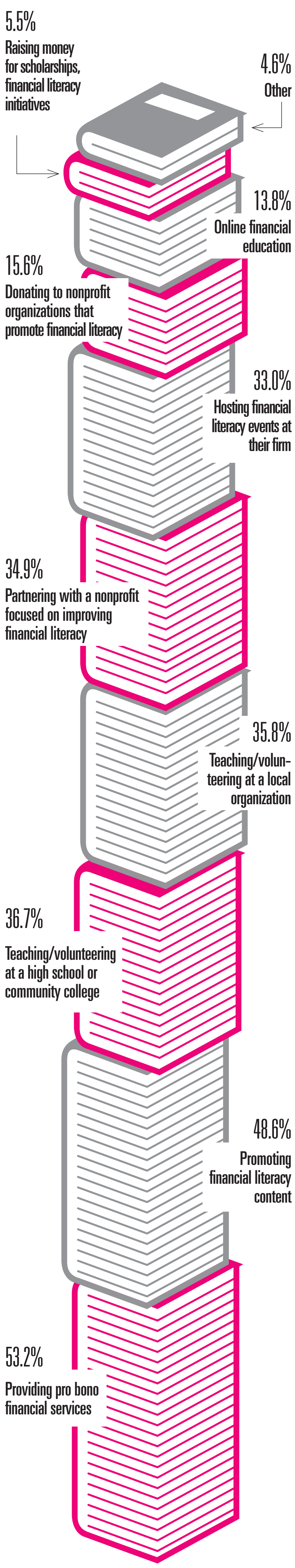


TYPES OF FINANCIAL LITERACY INITIATIVES ADVISERS PARTICIPATE IN



Source: *InvestmentNews* Research

CONTINUED FROM PAGE 8

knowledge are easier to counsel, since they better appreciate the need for professional financial advice.

"I think an educated client is always going to be a better client," said Charlie Fitzgerald, principal, founding member and financial adviser at Moisand Fitzgerald Tamayo.

Financial literacy is a fancy term for the basics of financial decision-making — the ABCs of finance. A "literate" consumer will more likely make better decisions around borrowing, saving and buying financial products.

AMERICANS FALL SHORT

But when it comes to being financially literate, Americans fall woefully short. Although the U.S. is the world's largest economy, the Standard & Poor's Global Financial Literacy Survey ranks it No. 14 (tied with Switzerland) when measuring the proportion of adults in the country who are financially literate. To put that into perspective: the U.S. adult literacy level, at 57%, is only slightly higher than that of Botswana, whose economy is 1,127% smaller.

In another study, researchers found in 2015 that only 30% of Americans were able to answer three simple financial questions about inflation, interest compounding and risk diversification. The academics who conducted the study, Annamaria Lusardi of George Washington University and Olivia Mitchell of the University of Pennsylvania, called that success rate "discouragingly low" in light of the complex financial decisions Americans face.

Yet another study shows a downward trend in financial literacy. In 2015, 37% of individuals correctly answered four out of five financial questions, down from 42% in 2009, according to the Financial Industry Regulatory Authority Inc.'s Investor Education Foundation's most recent study of financial capability in the U.S.

"Americans are struggling and at times they're clueless — and that's a disaster recipe right there," said George Barany, director of the America Saves initiative at the Consumer Federation of America.

MORE RESPONSIBILITY

The financial literacy crisis comes at a time when Americans are being asked to take responsibility for their own financial security.

Perhaps the first serious financial decision many Americans have to make is how much debt they are willing to take on to go to college. Unfortunately, like Mr. Beneda, many students don't consider the ramifications of that debt until it's too late — when they have to start paying off their loans. The result: Average college debt per student more than doubled over the decade through 2016, to nearly $30,000.

"My parents really didn't tell me anything," said Mr. Beneda, who is the oldest of three children. "I feel like I was the test dummy."

Student loans are now the second-highest household liability, after home mortgages, and student debt is the most common form of consumer debt to become delinquent.

"It's something we should worry about," said Brigitte Madrian, dean of Brigham Young University's business school. "It could have a ton of spillovers on other economic behaviors that are important to the economy overall."

How advisers can get involved

The *InvestmentNews* 40 Under 40 financial literacy task force spearheaded an initiative this year to offer advisers a concrete way to participate in the fight against financial illiteracy.

The informal group, which came together after the most recent gathering of 40 Under 40 winners last May, asked advisers to nominate nonprofit groups that have a financial literacy mission and offer direct opportunities for advisers to contribute.

3 RECOMMENDED ORGANIZATIONS

The 11-member group, chaired by Prosperity Capital Advisors' CEO Jason Smith, evaluated nonprofits over the past couple of months. Those efforts resulted in a recommendation that advisers interested in helping the financial literacy effort consider working with one or all of these three groups: the Foundation for Financial Planning, Invest in Girls and Junior Achievement.

"Many advisers want to do something to improve financial literacy, but they don't know how to begin getting involved," said Mark Bruno, associate publisher of *InvestmentNews*. "The three groups that the task force has vetted can be a great first start for advisers."

The nonprofits target their education services toward various populations that tend to need more financial knowledge. They also offer advisers multiple ways of getting involved, such as providing pro bono financial advice for those suffering with cancer, visiting schools to discuss financial concepts, and sponsoring workshops aimed at improving financial understanding.

The three nonprofit groups will address the next gathering of *InvestmentNews'* 40 Under 40 alumni in May.

— Liz Skinner, special projects editor

PROFILES IN VOLUNTEERING

RYAN CALDWELL

CEO, WEALTH ADVISER AND PARTNER
WACKER WEALTH PARTNERS
SAN LUIS OBISPO, CALIF.

RYAN CALDWELL'S INTEREST in improving financial literacy among teens and young adults arose from both personal experience and professional frustration.

Mr. Caldwell grew up in a household led by a single mother who worked two jobs in order to put food on the table for her three children. Doing so was sometimes a struggle. Mr. Caldwell remembers having to leave their groceries at the store when his mom's check bounced.

"There was sometimes not enough food," he said. "I grew up knowing what money stress does to daily living and to the relationships in the household, and the financial challenges people have and the consequences."

Although Mr. Caldwell's education led him to a career that allows him to help people with managing their money and making good financial decisions, his chosen profession has posed a dilemma for him.

"The reality is that financial planning is expensive. It takes a lot of time and expertise, and there's the regulatory environment and overhead," Mr. Caldwell said. "So I'm consistently frustrated by the fact that the people I would be able to help the most — I can't serve them."

About nine years ago, he raised his hand when his local United Way was looking for volunteers to present a financial literacy course to high school seniors.

With Mr. Caldwell's input, the curriculum was revamped. The biggest change was the increased focus on the behavioral side of money — that is, the emotions behind financial decisions. About 30% of the revised curriculum is dedicated to the subject, he said.

"I have a firm belief that behavior, money personality, will dictate outcomes more than knowledge," Mr. Caldwell said.

Since getting his feet wet by speaking to teens, Mr. Caldwell has expanded his reach beyond high school classrooms by offering financial workshops to young adults at local companies and in college classrooms.

The 18- to 24-year-olds who largely comprise his audience are not likely to become future clients, simply due to their level of wealth.

But that is not Mr. Caldwell's aim in pursuing this passion project. His goal is much simpler: To educate more people about basic money matters — and the behavioral aspects of them — so they are better equipped to make sound financial decisions.

"I get a lot of personal satisfaction out of sharing what I've learned," he said.

— Sarah O'Brien, freelance writer

Even before they get out of college, students are faced with another important decision, one which can have consequences throughout their lives: how to handle consumer credit.

"When you get to college, there are literally people from different credit card companies on campus giving you a coupon for free pizza if you sign up for a credit card with them," said Courtney Allen, a 22-year-old senior at Flagler College. "All you see is free pizza if you give them information."

Sometimes teenagers are opening credit card accounts even before they get to college. Pat Curran, a high school teacher in Jacksonville, Fla., who has been teaching economics for nearly four decades, remembers one student who obtained a credit card with a $1,500 credit limit. She didn't have a job or understand that she'd have to pay back the expenses charged to the account — with interest, no less.

"It was a wild moment," Mr. Curran said. Shortly afterward, he wrote a credit-card lesson into his curriculum.

Given the climate of easy credit, it's not surprising that the average household credit card debt rose to $8,284 in 2018, a 25% increase from $6,642 in 2011, and is now the highest it has been in nearly a decade.

Americans are called on to make many other important financial decisions in their lives: leasing versus buying a car, renting versus owning a home, taking out a fixed-rate mortgage versus an adjustable rate, and the best type of life and health insurance to purchase.

SAVING FOR RETIREMENT

But perhaps one of the biggest financial decisions they have to make is how to save for retirement. Over time, pensions have all but disappeared for U.S. workers, unless they are in a union or work for a government entity. This shift means workers have to save the majority of money on their own in a 401(k) plan or individual retirement account. In addition to deciding how much they want to save, they

CONTINUED ON PAGE 12

PROFILES IN VOLUNTEERING

CHLOE MCKENZIE

FOUNDER AND CEO
BLACKFEM INC.
NEW YORK

CHLOE MCKENZIE'S first foray into financial services was as a mortgage trader for JPMorgan, but it was the work she did at a homeless shelter on the weekends that she found more stimulating.

Ms. McKenzie acted as a financial counselor at the shelter, trying to help people build wealth when they were starting from literally nothing. It's a moral, professional and intellectual challenge that guided Ms. McKenzie as she left Wall Street to become a teacher and later launch BlackFem Inc., a nonprofit aimed at helping women of color build wealth by making financial literacy a cornerstone of public school education.

"I've always loved education, and felt it was a place I could marry my passions — educating, working with the disadvantaged, and finance," she said.

While many financial literacy programs are standardized, BlackFem builds curricula customized to the specific needs, disadvantages and culture of individual schools and classrooms, including students with learning differences. Though BlackFem is built with low-income, urban girls of color in mind, the program works in low-income, co-ed schools as well.

"Most people think you can teach kids how to build wealth and money through allowance, but that doesn't work for kids in public housing. It excludes them from the discourse," Ms. McKenzie said.

For her, it's the same principle as an adviser's fiduciary duty to build a financial plan tailored to each client.

"If we're going to customize things for all our clients, why don't we customize it for all of our students?" she said.

One of BlackFem's programs is the "kids' credit bureau," where students get a credit score linked to homework completion, attendance and tardiness to teach them the link between financial trajectories, good behavior and academic performance.

CORE SUBJECT

The goal is to have financial education taught five days a week for all students, pre-K through 12th grade, as a core subject alongside math, science and English.

The organization also offers in-house programs for women and girls, programs training teachers how to deploy the BlackFem curriculum, and wealth education for families.

Since BlackFem launched in 2015 in New York City, it has spread to 12 states. Six thousand girls and women have gone through the in-house program, and 12,000 students through the program in schools.

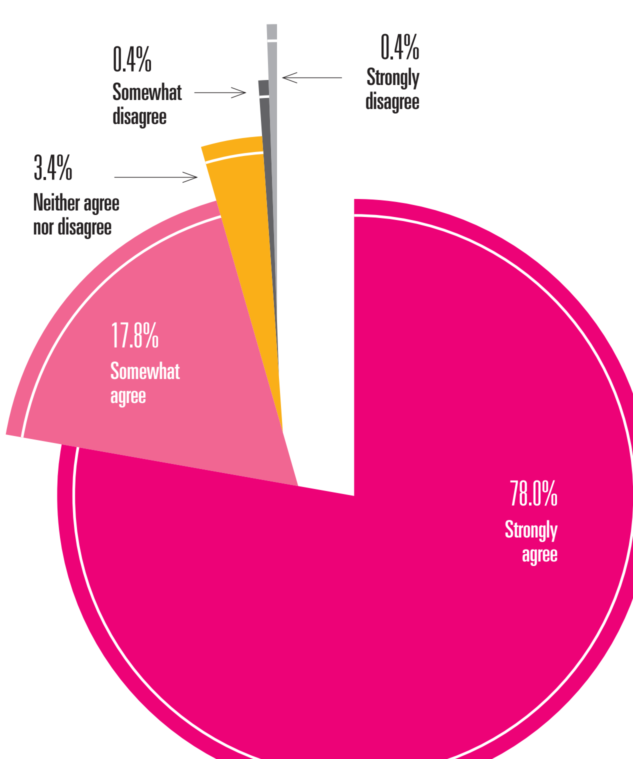
Ms. McKenzie also does financial education and coaching for individuals and institutions with her company, On A Wealth Kick.

It's an impressive accomplishment for anyone, let alone someone age 26. When asked what drives her, Ms. McKenzie said she grew up in a financially privileged family, but was the victim of child abuse. She credits education for her survival and sees helping others as a form of healing.

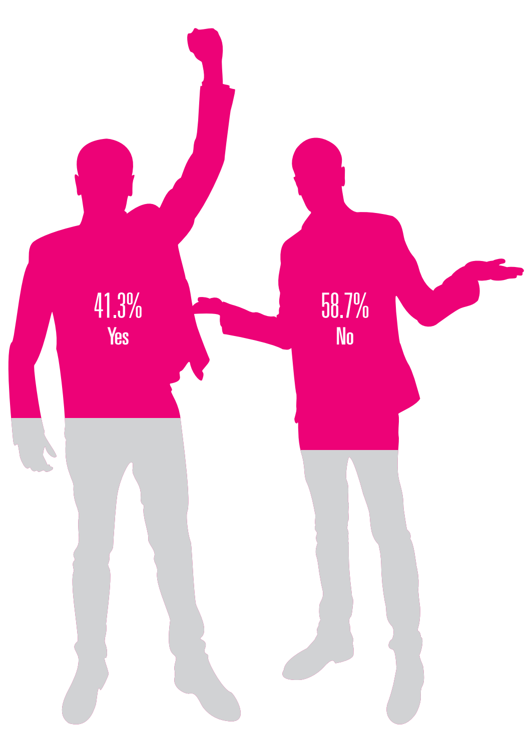
"All of that informed how I was able develop this career," she said. "When I entered the financial services industry, I realized, oh my gosh, for all of these externalities or larger issues, the main root cause is we don't have a financially inclusive society and there's no desire or huge push or movement of why wealth and financial literacy is actually the tool for us to fix these issues."

— Ryan W. Neal, reporter

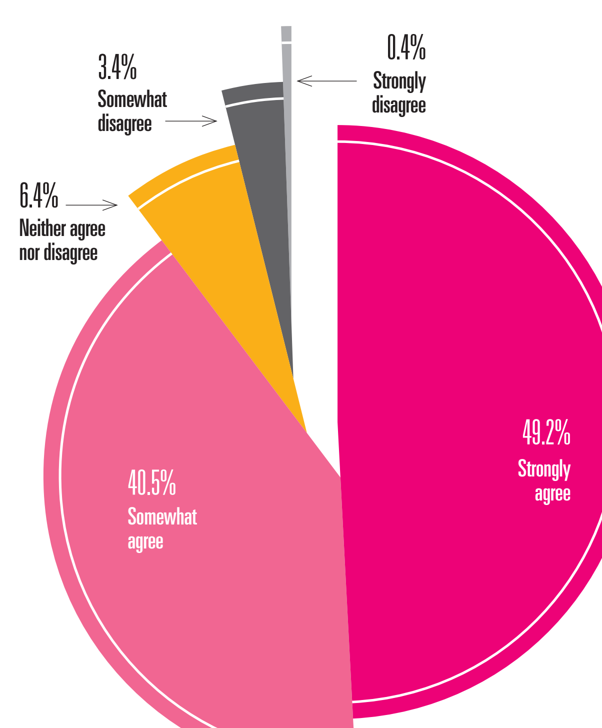
FINANCIAL LITERACY IS AN ISSUE IN OUR COUNTRY



ADVISERS INVOLVED IN INITIATIVES RELATED TO IMPROVING FINANCIAL LITERACY IN THEIR COMMUNITY



ADVISERS ENCOUNTER FINANCIAL LITERACY ISSUES AMONG CLIENTS



Source: *InvestmentNews* Research

"IT COULD HAVE A TON OF SPILLOVERS ON OTHER ECONOMIC BEHAVIORS THAT ARE IMPORTANT TO THE ECONOMY OVERALL."

BRIGITTE MADRIAN, DEAN
BRIGHAM YOUNG UNIVERSITY'S
BUSINESS SCHOOL

MORE ONLINE

To see the full multimedia game changer package on financial literacy, including video highlighting the experiences of **Pershing Advisor Solutions CEO Mark Tibergien**, visit **InvestmentNews.com/finlit.**

CONTINUED FROM PAGE 11

have to decide how to invest it.

Americans are not doing a very good job of it. The median retirement savings for Americans between ages 55 and 64 is $104,000, according to a 2015 study — an amount that would translate into only $310 a month if invested in an inflation-adjusted annuity.

Compounding the problem is the fact that Americans are living longer, which means they will more likely need to pay for things like long-term health care and stretch their savings over a longer period than previous generations.

All of this long-term planning is on Americans' shoulders, although studies show even managing one's money day-to-day seems like a challenge for most. Roughly four in 10 working U.S. adults would not be able to scrape together enough money in a month to cover the cost of a midsize budget emergency — a car or home repair, medical bill or legal expense — according to a 2017 report from the Global Financial Literacy Excellence Center.

LACK OF EDUCATION

Part of the problem is that few schools incorporate financial education into their curriculum.

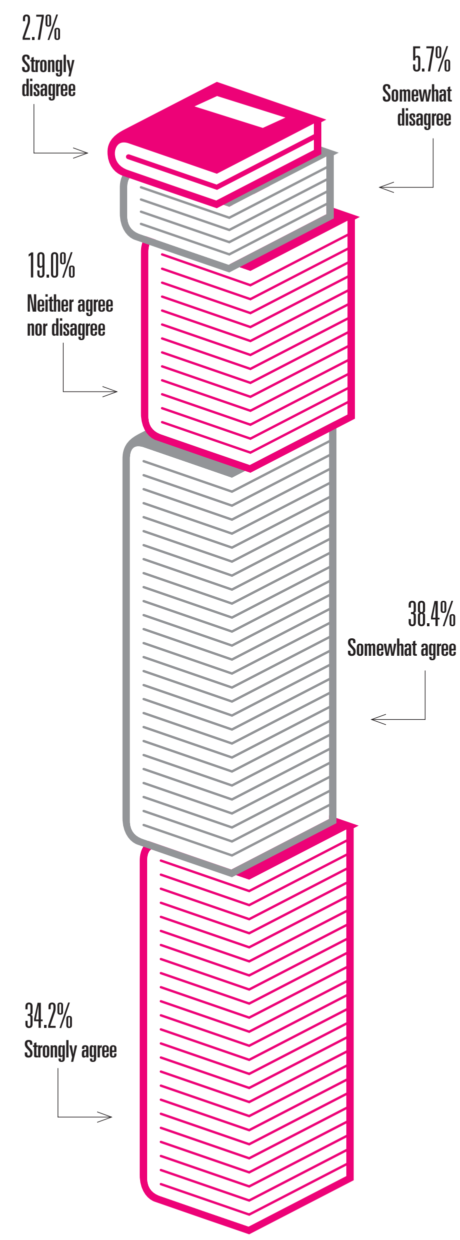
Only a third of states require high school students to take a course in personal finance, according to the Council for Economic Education.

Most teach the subject as one portion of another course of study, such as math, economics or social studies, while only five states require a semester-long, stand-alone personal finance course.

The relative unimportance policymakers and educators place on personal-finance courses is a primary contributor to the nation's dismal financial literacy. Early education around the effect of high versus low interest rates, short- versus long-term payments, credit scores and budgeting, for example, would prepare consumers for big financial decisions such as financing college, buying a home or saving for retirement. Early mistakes can set people up for years — if not a life — of financial struggle.

"It's kind of sad, to use a more pejorative term, that you graduate from high school — or more importantly, you graduate from college — and you don't have an appreciation for these basic concepts that are going to be important to your own lifestyle," Jay Clayton, chairman of the Securities and Exchange Commission, said at an investor roundtable last summer.

ADVISERS/THE INDUSTRY ARE NOT DOING ENOUGH TO IMPROVE FINANCIAL LITERACY



Source: *InvestmentNews* Research

The financial services industry bears some of the responsibility, too.

Institutions have erected barriers of entry for Americans to participate in important parts of the financial system. Banks, for example, have moved out of poorer rural areas. And banks requiring large account-opening deposits and minimum balances, and high overdraft fees — primarily affecting low-income minorities — keep many from even opening bank accounts. That's despite evidence that bank account ownership correlates with improved levels of financial literacy.

According to a 2017 report published by the Organization for Economic Cooperation and Development, 15-year-old American students who hold a bank account scored 40 points higher in financial literacy than students without one.

But unfortunately some financial firms, including some corners of the financial advice industry, see more opportunity to profit when dealing with non-savvy consumers.

MARKETING TO IGNORANCE

The financial services industry engages in consumer education efforts — but that's dwarfed by the resources devoted to marketing its products. The industry spends roughly $17 billion annually to market products and services to consumers, but only $670 million on financial education, according to a 2013 report published by the Consumer Financial Protection Bureau.

That translates to $25 spent on financial marketing for every $1 put toward financial education — meaning the public has little access to unbiased information.

While there are ethical financial advisers who recognize investors' vulnerabilities and aim to protect them, a significant portion of the industry is "designed to take advantage of that lack of sophistication," said Barbara Roper, director of investor protection at the Consumer Federation of America.

Conflicts of interest, for example, are pervasive in the advice industry. Current rules allow brokers to put their financial interests

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PROFILES IN VOLUNTEERING

LAURA STECKLER

MANAGING DIRECTOR
STECKLER WEALTH MANAGEMENT GROUP FOR RAYMOND JAMES
CORAL GABLES, FLA.

FOR LAURA STECKLER, managing director at Steckler Wealth Management Group for Raymond James, financial literacy and multigenerational planning are the cornerstones of her practice. Ms. Steckler, whose clients include more than 300 households, has spoken to dozens of clients and their children about the importance of making smart decisions around money.

"The parents are grateful that they have an objective third party to talk to their kids," she said.

However, it wasn't until she learned about Funding the Future, a nonprofit that teaches financial literacy to young people through concerts, in 2014, that she and a couple of other Raymond James advisers decided to reach a broader audience. She decided to bring Funding the Future's concerts to Miami, Fla., where she is based and where she has a partnership with the public schools in Miami-Dade County.

195 LESSONS

In 2015, she and another Raymond James colleague, Sacha Millstone, personally provided a two-year grant of $25,000 to the school system's Department of Social Sciences to create 195 financial literacy lessons for students K-12. The initiative creates age-appropriate lessons for multiple grade levels, teaching students how to establish and maintain credit scores, choose credit cards, save income for retirement, and avoid payday lenders.

"It's something we grassroots built for teachers and students," she said.

Only 17 states in the U.S., including Florida, mandate courses in personal finance for high school students, according to a 2018 survey by the Council for Economic Education. Of those states, only Alabama, Missouri, Tennessee, Utah and Virginia require stand-alone courses.

Personal finance is a topic Ms. Steckler says is not being discussed enough around the dinner table or in the classroom. She wants students to live within their budgets, save, and seek out expert counsel for different financial decisions.

"Having a plan is critical," she said.

For Ms. Steckler, financial literacy was a hard-won personal lesson.

Her single mother, who struggled with mental illness, was not always employed, so by age 14, Ms. Steckler was already contributing to the household bills every month. She started working the cash register in a Brooklyn diner for $4 an hour. She followed this up with stints at a butcher and a bagel shop before she started tutoring math and science for $20 an hour.

"At a relatively young age, I understood that I needed to save money. After making a couple poor decisions in my late teens and college, I realized how important a financial education is," Ms. Steckler said.

"And I can make a difference in small or big way in my role as financial planner," she said.

— Sarah Min, former intern

PROFILES IN VOLUNTEERING

THOMAS HENSKE
PARTNER
LENOX ADVISORS
NEW YORK

MORE THAN 12 years ago, Thomas Henske began mulling over a complaint he frequently heard from clients: Their kids thought money grew on trees.

As he considered the common frustration, he realized it presented an opportunity to better serve clients.

"As part of trying to build relationships with clients, and knowing their favorite topic was their kids, we wondered if there was a way to help them teach their kids about money and keep it in the forefront of their minds," Mr. Henske said.

The idea evolved into Lenox Money-Smart Kids. Through the firm's website, any parent can access a variety of free resources to help educate their child with age-appropriate lessons, such as teaching a kindergartner about the value of coins or helping a new teen driver understand car loans.

"A 6-year-old has a different way of learning about money than a 16-year-old," Mr. Henske said. "We're not trying to make Warren Buffetts out of the kids, but instead trying to give them a way to feel comfortable around money when they're older and making decisions on their own."

Clients also can receive emails (if they opt in) on their children's birthdays with bite-size financial lessons geared toward the new age.

The basic idea is to give parents the tools to broach money topics with their kids themselves.

"We didn't want to be the ones working with the kids," Mr. Henske said. "We wanted to arm our clients so they can be the ones having discussions with their kids and having those conversations be important."

His push to increase financial literacy among children also led to a biweekly column over the last five years in his community newspaper, the Westport (Connecticut) News. With two children of his own, Mr. Henske was in a position to see firsthand what sorts of tactics worked best at different ages for teaching financial concepts and the planning issues with which parents often dealt.

Mr. Henske said that while the literacy program might not lead to his clients' kids hiring him — several decades could pass before they have assets — it has led to better client relationships and helps with client retention.

— Sarah O'Brien, freelance writer

ahead of a customer's when selling a financial product. In other words, they may choose the mutual fund or annuity earning them the highest sales commission, even if it's not in the customer's best interest. Brokers are allowed to do this under the guise of being a "financial adviser."

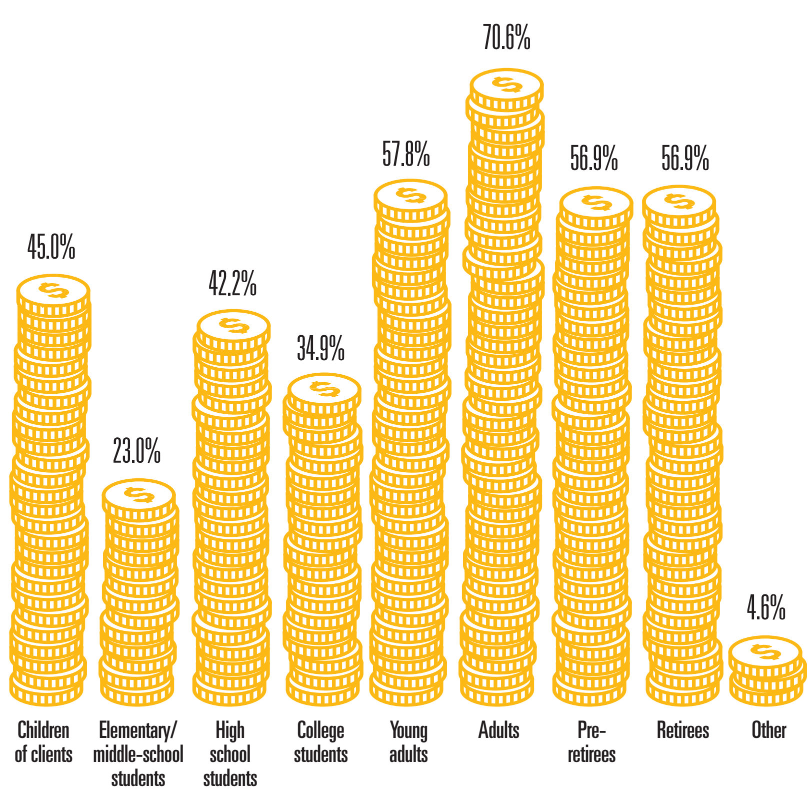
These sorts of conflicts are disclosed, but are often too complex for investors to understand. Important concepts like investment cost, risk and liquidity are beyond the reach of those lacking basic financial literacy.

"Investors are left to just trust and hope for the best," Ms. Roper said.

INNOVATIVE RESPONSE
Recent innovations have sought to address low levels of financial literacy — or even sidestep the issue entirely. Employers have foisted more responsibility on workers to manage their retirement savings in 401(k)-type plans — but have also increasingly adopted workplace financial wellness programs to help boost adults' financial savvy, automatic enrollment to tackle savings inertia, and target-date funds to ease decisions around investing.

But those improvements only cover a certain portion of the adult population, not the millions of Americans without workplace retirement plans. Automated investment platforms — so-called robo-advisers — give all consumers access to relatively low-cost professional money management and financial advice.

ADVISERS ARE HELPING PEOPLE OF ALL AGES BECOME MORE LITERATE, ESPECIALLY ADULTS



Source: *InvestmentNews* Research

Mobile technology has connected Americans with easy, simple digital savings programs and mobile banking capabilities. It's a good start.

And many advisers want to help. While around 40% of financial advisers are currently involved in initiatives related to improving financial literacy, 42% of those who aren't involved said they are interested in getting involved now or in the future, according to the *InvestmentNews* survey.

GOOD FOR THE INDUSTRY
Nearly three-quarters of respondents said it's beneficial for the financial advice and planning industry to be involved.

Financially savvy consumers are more likely to take the recommendations of their adviser, and hence make better clients, practitioners said. And, as previously illustrated, financial literacy leads to wealthier consumers — thereby boosting the potential client pool for the industry.

Further, promoting financial education to kids in the K-12 school system could boost diversity in the financial planning profession — both in age, gender and ethnicity — at a time when the vast majority of advisers are white, male and more are over the age of 70 than under 30.

"It gets kids thinking of personal financial planning as a career," said Michael Zmistowski, personal financial planner at Financial Planning Advisors. "We're getting old; we need replacements and we're not cranking them out fast enough."

And exposing young kids to financial planning gives attention to the prospect of needing a financial planner in the first place.

Through literacy efforts, advisers also can improve their client relationships.

Thomas Henske, partner at Lenox Advisors Inc., teaches clients how to talk about money and instill good financial behavior in their kids — which connects the adviser and client on a deeper, emotional level, he said.

And there are plenty of ways advisers can spread their knowledge more broadly. Mr. Fitzgerald, for example, recently taught a lesson on the basics of taxes and tax returns to economics students at Winter Park High School in Florida.

D.A. Davidson & Co., a regional brokerage, piloted a financial literacy program for teens in July at local YMCAs in California. It's expanding the program next summer to cover half of the YMCAs in Southern California, and is making the curriculum available to all its advisers by May so they can do outreach at their local community centers.

Jason Chepenik, managing partner at Chepenik Financial, started the 4.01k Race for Financial Fitness in 2015 to help raise money for Junior Achievement. It's since expanded from Orlando to eight cities across the country, and raised more than $250,000 this year.

The vast majority of advisers — 81% — said they were interested in getting involved purely because it is personally rewarding to help others.

"This needs to happen," Mr. Curran said. "And I'll probably work on it until my dying day."

giacurci@investmentnews.com
Twitter: @gregiacurci

Financial education resources

Many organizations aim to spread financial literacy across the country and around the globe — and offer curricula and tools to make it happen. Here are a few of the largest.

Dave Ramsey, Foundations in Personal Finance: The group equips educators at middle schools, high schools and colleges (as well as the home-schooled) with resources to help young people develop good financial habits. **Daveramsey.com/school**

EVERFI: Brings together the public and private sectors to change how education is delivered, with a focus on technology. Financial education is part of its offering. **Everfi.com**

Foundation for Financial Planning: Known mostly for its pro bono efforts, the foundation also offers resources for broader financial education, and recommends connecting with the Financial Planning Association and National Association of Personal Financial Advisors for additional opportunities. **Foundationforfinancialplanning.org**

Habitat for Humanity: The well-known nonprofit that builds houses around the world for families in need also requires its beneficiaries to complete a financial education program. **Habitat.org/impact/our-work/financial-education**

Invest in Girls: The group partners with high schools in the Eastern U.S. to teach personal finance and inform girls about careers in finance. Students are introduced to female role models in the industry. **Investgirls.org**

Jump$tart Coalition for Personal Financial Literacy: The group supports 100 national organizations and 51 state coalitions committed to financial literacy for young people. **Jumpstart.org**

Junior Achievement: The organization aims to prepare young people for a lifetime of success in the world economy. It offers a variety of programs around financial literacy as well as ways to get involved. **Juniorachievement.org**

Money Smart Week: The effort, started in 2002 by Chicago organizations and the Chicago Fed, has turned into a nationwide week of events. The main initiative runs March 30 to April 6 this year. **Moneysmartweek.org**

United Way: The nonprofit and its 1,200 local offices aim to help communities with health, education and financial stability. **Unitedway.org**

INDUSTRY

$2.7B AMOUNT WELLS FARGO SAYS IT MAY HAVE TO PAY FOR LEGAL COSTS ABOVE WHAT IT HAS ALREADY SET ASIDE FOR SUCH EXPENSES.

Merrill to drop Lynch name for wealth unit

BLOOMBERG NEWS

BANK OF AMERICA Corp. is planning to drop Merrill Lynch from the branding of its investment bank, while it will use the name Merrill for its wealth management unit.

KEY POINTS

- Bank of America announces branding changes.
- The firm took steps to dissolve the Merrill legal entity in 2013, but had kept the name.

The Charlotte, N.C.-based lender will refer to its investment bank as BofA Securities and drop the U.S. Trust name from its private bank, the company said last Monday.

Bank of America acquired Merrill Lynch, known for its "thundering herd" of brokers pitching stocks to Main Street, in the depths of the financial crisis. The company took steps to dissolve the Merrill legal entity in 2013, but had kept the brand name across retail and institutional businesses.

HERE ARE THE KEY CHANGES:

- BofA Securities will be the name for the bank's institutional broker-dealer businesses, including its global markets, investment banking and capital markets divisions.
- Merrill will be the brand for the bank's investing and wealth-management unit.
- U.S. Trust will be renamed Bank of America Private Bank.

The moves are part of a campaign rolled out last year with an ad by CEO Brian Moynihan, who took over in 2010 after Kenneth Lewis stepped down. The bank posted a record net income of $28.1 billion in 2018, and is remaking its image after crisis-era legacies, including the acquisitions of Merrill Lynch and Countrywide Financial Corp.

Billionaire investor Warren Buffett, whose Berkshire Hathaway Inc. owns about 9.5% of the bank, said financial stocks are a good investment, specifically praising Bank of America's chief in an interview with CNBC last Monday.

"Brian Moynihan has done such a good job running that company since he took over — he was the most underestimated bank executive in the country," Mr. Buffett said. "Everything he's said he would do, he's done it, and he's beat it. He sets tougher targets for himself all the time and he's been smart about repurchasing shares."

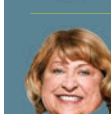
Top trade group pay for CEOs

Here's what chief executives at financial adviser and industry trade groups made in 2017, the latest IRS Form 990 filings recently made available. Read Mark Schoeff Jr.'s full story on this data at InvestmentNews.com/payCEO.

PAUL SCHOTT STEVENS
Investment Company Institute
Pay: **$2.5M** | Annual increase: **0%** | Firm revenue: **$73.9M**

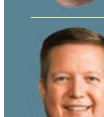
KENNETH BENTSEN JR.
Securities Industry and Financial Markets Association
Pay: **$2.4M** | Annual increase: **4.3%** | Firm revenue: **$46M**

KEVIN KELLER
Certified Financial Planner Board of Standards Inc.
Pay: **$1.1M** | Annual increase: **22%** | Firm revenue: **$38.2M**



CATHY WEATHERFORD (RETIRED)
Insured Retirement Institute
Pay: **$831,400** | Annual increase: **0.1%** | Firm revenue: **$6.8M**

DALE BROWN
Financial Services Institute
Pay: **$758,264** | Annual increase: **10.7%** | Firm revenue: **$9.6M**



KEVIN MAYEUX
National Association of Insurance and Financial Advisors
Pay: **$504,630** | Annual increase: **N/A*** | Firm revenue: **$11.9M**

KAREN BARR
Investment Adviser Association
Pay: **$449,352** | Annual increase: **2.5%** | Firm revenue: **$5.5M**

LAUREN SCHADLE
Financial Planning Association
Pay: **$346,953** | Annual increase: **7%** | Firm revenue: **$10.1M**

GEOFFREY BROWN
National Association of Personal Financial Advisors
Pay: **$197,616** | Annual increase: **8.2%** | Firm revenue: **$3.5M**

Source: IRS Form 990 filings, which cover either the calendar year of 2017 or organizations' tax years that ended at some point in 2017.
* Mr. Mayeux was hired in 2015, which makes 2016 reporting a patchwork not easily comparable.

Active managers change 401(k) sales divisions

BY GREG IACURCI

SEVERAL ACTIVE asset managers are changing how they distribute funds in the 401(k) market, with some restructuring or scaling back their sales forces amid a challenging environment of fee compression and a flight to passive management, while others are taking the seemingly rare step of ramping up their retirement teams.

Schroders, Cohen & Steers Inc. and ICMA-RC, for example, have grown their footprints in the market by expanding their salesforces dedicated to DC plans and advisers.

> **"A LOT OF COMPANIES ARE TRIMMING BACK ON THEIR DC SALES FORCE."**
>
> MARC BROOKMAN, DEPUTY CEO OF NORTH AMERICA, SCHRODERS

Meanwhile, firms such as Thornburg Investment Management and Mainstay Investments have laid off some retirement sales associates, while others, such as AllianceBernstein, have reorganized by merging their retirement and retail groups together.

"Given the growth of DC, asset managers want to be sure they're focused on it and have a path to success, but it's extremely competitive," said Jennifer DeLong, head of DC at AllianceBernstein.

Schroders last month hired Joel Schiffman as head of U.S. defined contribution and insurance sales, a new position at the firm meant to build out the firm's retirement-plan distribution. Marc Brookman, deputy CEO of North America, was hired last year. Mr. Brookman had previously overseen Morgan Stanley's retirement group within its wealth management business.

Schroders, which sub-advises funds for Hartford Funds, plans to add to its DC sales team, launch more products with the firm for the retirement market, and ramp up marketing, Mr. Brookman said.

GROWN FROM SCRATCH

ICMA-RC, which markets funds under the Vantagepoint brand, has grown its client-facing DC sales team from scratch over the past year and a half, and the team now has six people. Craig Lombardi was hired two years ago as the firm's managing vice president of DCIO (defined-contribution investment only).

The firm manages $28.5 billion, about 40% of which is held in stable value funds. ICMA-RC has historically distributed funds through public-sector plans but is shifting to distribute in 401(k) plans, too.

"Ten to 15 years ago, you'd take your most popular retail mutual fund and bring it into the DCIO space and just sell it because it was popular," Mr. Lombardi said. "The market has changed."

Cohen & Steers, an active manager focused on real estate and real assets, has assembled a team of four retirement specialists since Charlie Wenzel, head of wealth management defined contribution, joined the firm three years ago. That team complements the firm's 19 generalist wholesalers calling on broker-dealers and registered investment advisers.

However, while some teams are growing a specialized, separate retirement sales group, others are reevaluating.

"A lot of companies are trimming back on their DC sales force," Mr. Brookman said.

Large flows to target-date funds and index funds, as well as a decrease in asset management fees, have eaten into profit margins for many active managers, especially those whose parent companies don't own a record keeper to help distribute proprietary investments.

"If you don't have a significant index or target-date franchise or you don't own a record keeper, it's a very tough market," said Fred Barstein, founder and CEO of The Retirement Advisor University.

giacurci@investmentnews.com
Twitter: @gregiacurci

Advertorial

Matthews Asia

Six Sources of Alpha in Emerging Markets

David Dali
Portfolio Strategist
Matthews Asia

The emerging markets ("EM") equity asset class has evolved considerably over the past decade such that many active EM equity managers may find it challenging to create long-term alpha over the benchmark. Countries such as China and India are moving to the fore, historical drivers of growth are changing and technology, innovation and health care are becoming a larger part of the opportunity set. It has been difficult for EM investment teams to keep up with these changes.

The thesis for outperformance is fairly straightforward—combine exposures such that you address the largest weight biases, current shortcomings and forward-looking attributes of the MSCI Emerging Markets Index. The way I see it, there are six primary issues to address when creating exposure best suited to generating long-term outperformance.

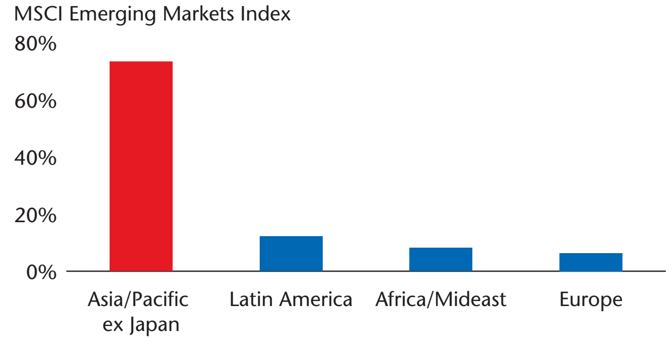
1. Address the elephant in the room by getting the Asia component right

Benchmark weighting bias: Asia is now 73% of the EM benchmark.

To succeed in EM, you need deep expertise in the benchmark's largest weights--China, South Korea and India--which alone account for nearly 54% of the benchmark. The universe of accessible Chinese names has more than doubled from approximately 2,700 Hong Kong and U.S.-listed Chinese companies to roughly 6,400 names, including China's locally listed companies in Shanghai and Shenzhen, as of September 30, 2018. Over 80% of these new names are small- and mid-cap stocks, a significant portion of which are not covered by analysts at present. The point here is that most active EM investment teams just do not have the research bandwidth to handle China's expansive equity universe.

Figure 1. Regional Equity Weights

MSCI Emerging Markets Index



Indexes are unmanaged and it is not possible to invest directly in them.
Data as of 12/31/18. Source: FactSet Research Systems, Inc.

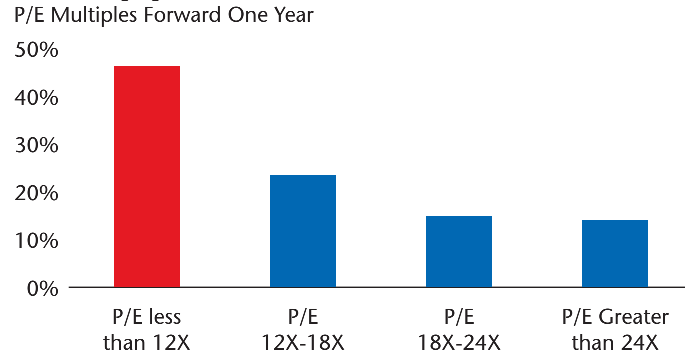
2. Build a better value portfolio to address the benchmark's bias toward low quality

Benchmark weighting bias: Overexposed to low-quality value

Today, the EM benchmark has factor exposure significantly weighted toward value. Simple screens show that of the 1,150 or so companies within the benchmark, roughly 46% of them have forward-looking price-to-earnings (P/E) ratios below 12X as of December 31, 2018—a significant discount or value orientation versus most developed markets, especially the S&P 500 Index. Specifically, there are quality-oriented businesses that sometimes trade cheaply compared to their intrinsic value. Capturing the "quality value factor" is not easy. Two-thirds of the benchmark names trading at 12X forward P/E or below reside in Asia—the majority of which are in China and South Korea.

Figure 2. Equity Valuation Buckets

MSCI Emerging Markets Index
P/E Multiples Forward One Year



There is no guarantee any estimates or projections will be realized. Indexes are unmanaged and it is not possible to invest directly in them.
Data as of 12/31/18. Source: FactSet Research Systems, Inc.

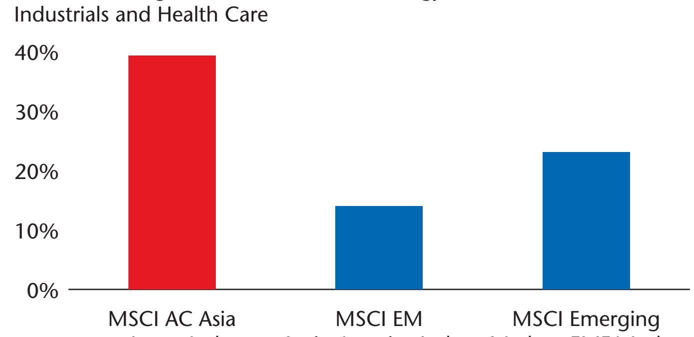
3. Acknowledge the benchmark's increased technology bias

Benchmark weighting bias: Tech-related sectors, including information technology and communication services, now make up the largest part of the benchmark

As of December 31, 2018, the information technology and communication services sectors made up more than 28% of the benchmark, up from less than 10% of the benchmark 10 years ago. This ramp up in the weight of technology demands a certain level of specialization in order to capture the increased innovation within the asset class. Innovative companies come in all shapes and sizes depending on your definition. A deeper dive reveals that innovation largely resides in Asia.

Figure 3. Innovative Sectors

MSCI Emerging Markets Index
Combined Weight of Information Technology, Communication Services, Industrials and Health Care



Indexes are unmanaged and it is not possible to invest directly in them.
Data as of 12/31/18. Source: FactSet Research Systems, Inc.

Investments involve risk. Past performance is no guarantee of future results. Investing in international and emerging markets may involve additional risks, such as social and political instability, market illiquidity, exchange-rate fluctuations, a high level of volatility and limited regulation.

4. Understand the benchmark's underweight to small-cap stocks

Benchmark shortcoming: Not enough small caps mean investors may be missing out on the growth potential of small and midsize companies.

It's difficult to generate alpha when 100% of the stocks within your benchmark are covered by analysts. In emerging markets, small-cap opportunities are almost endless for a talented stock picker. Using basic screens, there are more than 14,000 investable companies in the EM universe—over 74% are small caps. Yet the benchmark today is comprised of less than 5% small caps. Unfortunately, this is one of the largest shortcomings of the EM benchmark but one that talented investment teams can exploit. Again, the challenge for investors is to find strategies managed by investment teams that have the bandwidth to adequately cover the small-cap universe. This challenge is magnified when looking for small caps in China A-shares and fast-growing "Next 7" markets like India and Indonesia not to mention in non-benchmark countries like Vietnam

5. Overcome slowing growth among more developed countries in the benchmark with exposure to faster-growing economies

Benchmark shortcoming: Secular decline of EM growth

Many emerging economies have become largely developed or have failed to enact reforms necessary to sustain high levels of growth. The problem is that the benchmark, and the ETFs that track it, hold substantial allocations to historical drivers of growth instead of the next generation of economic leaders. For example, many fast-growing economies that drove the benchmark higher over the past 15 years are still large weights within the benchmark today. Their respective growth rates, however, have fallen dramatically. In 2018, the wealthiest 10 EM economies (which include some of the largest in the benchmark) are expected to grow in aggregate just above 3.1%. In contrast, for the Next 7 (inclusive of India, Indonesia, Vietnam, Pakistan, Bangladesh, Sri Lanka and the Philippines) the expected GDP growth in aggregate is just over 6%! The problem for investors is that these fast-growing, Next 7 economies represent only about 12% of the benchmark.

6. Add exposure to consumer-driven sectors to address the benchmark's cyclicality and volatility

Benchmark shortcoming: Overexposed to cyclical sectors

For me, one of the single-best things an investor can do to build "all weather" emerging markets exposure is to purposefully attempt to offset the cyclical factor within the benchmark. By no means do I believe you should eliminate cyclicality in its entirety. There are times when cyclical exposure outperforms. Balancing that cyclicality, however, is critical to building long-term outperformance—not to mention a potentially smoother ride. As mentioned earlier, the benchmark is value-oriented but it is also fairly cyclical. As of December 31, 2018, almost 46% of the MSCI Emerging Markets Index was comprised of financials, materials, real estate and consumer discretionaries—all cyclical sectors. If you add technology, which regresses as largely cyclical, then the benchmark is almost 70% cyclical exposure, making it very susceptible to the peaks and troughs of the global economic cycle. An investor can mitigate this cyclicality by adding the consumer and growth factors. Consumer exposure typically has been less volatile than cyclical exposure. Consumer exposure tends to contain domestically oriented businesses whose assets and liabilities are largely in local currency, not exposed to global trade or cross-border financing risks. Not only can the lower consumer beta be additive to an EM allocation but we have also found that the historical returns of EM consumer sectors have outperformed the more cyclically oriented sectors for the 10 years ending December 31, 2018, which is also additve.

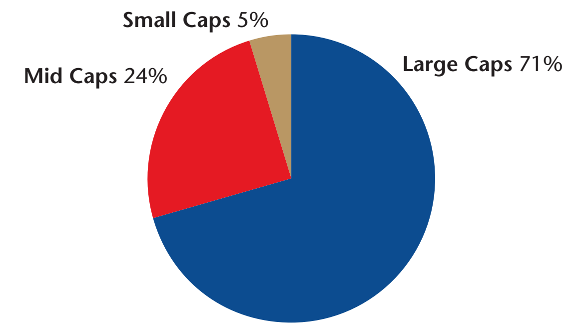
CONCLUSION: SO WHAT CAN YOU DO?

The vast majority of EM investment teams are not built to address all six challenges within the EM benchmark. The challenge is to build the exposure without becoming too "benchmark-like."

One approach could be to start with what you have and add what you don't. In my experience, most investors I speak with lack three things within their EM exposure. First, investment teams managing of some of their current EM strategies simply don't have the bandwidth to cover Asia and what the China and India of tomorrow may mean to investors going forward. Secondly, most EM exposures lack the alpha generation of small caps. And lastly, and potentially most important, almost all portfolios I see allocate inadequately to arguably the best diversifier—the consumer.

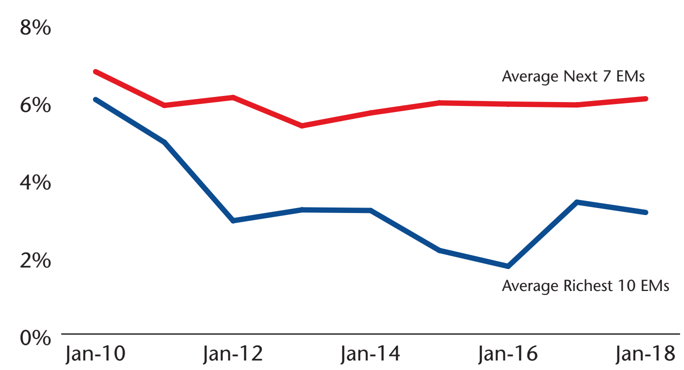
Figure 4. Weights by Market Cap

MSCI Emerging Markets Index



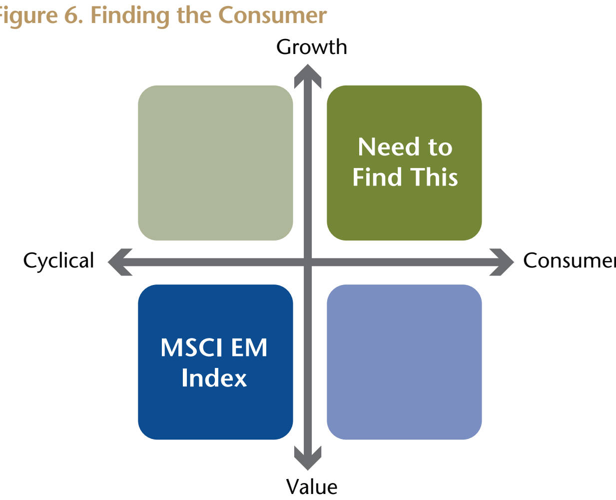
Small caps represented by stocks under US$3 billion in market cap. Mid caps represented by stocks from US$3-10 billion in market cap. Large caps represented by stocks from US$10–25 billion in market cap.
Data as of 12/31/18. Source: FactSet Research Systems, Inc.

Figure 5. GDP Growth Comparison



Source: IMF World Economic Outlook, October 2016. Data for 2016 through 2019 is estimated. There is no guarantee any estimates or projections will be realized. The 10 richest EM economies are represented by Brazil, Chile, Hungary, Korea, Malaysia, Mexico, Poland, Russia, Taiwan and Turkey. The Next 7 EM countries are represented by Bangladesh, India, Indonesia, Pakistan, Philippines, Sri Lanka and Vietnam.

Figure 6. Finding the Consumer



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0% MANAGEMENT FEE SOCIAL FINANCE INC. IS CHARGING FOR TWO NEW U.S. STOCK ETFS, FOR AT LEAST THE FIRST YEAR.

United Capital gives crash course in alts

BY JEFF BENJAMIN

AS VOLATILITY surges back into the stock market, United Capital Financial Advisers is arming its troops with more sophisticated hedging strategies, including access to options trading in client portfolios.

Building out its investing platform with recently added strategies from SpiderRock Advisors and iCapital Network, United Capital has spent the past two months hosting two-day symposiums in Dallas to teach advisers ways to use alternative strategies to hedge market risks.

"There's a lot of concern about the increased level of volatility in the markets, so we started looking at some defensive strategies, and ways to be innovative," said Kara Murphy, who took over as United Capital's chief investment officer nine months ago.

By mid-March, United Capital will have trained 120 of its 200 advisers in the two-day symposiums. Some additional training is required for options trading.

120 NUMBER OF ADVISERS UNITED CAPITAL WILL HAVE TRAINED BY MARCH

FIRST SESSION RESULTS

Since the first training session during the third week of January, "we've had over $180 million's worth of client proposals on the platform, and half have been executed so far," Ms. Murphy said.

In April, the program will be extended to independent financial advisers accessing the United Capital platform through the affiliated FinLife Partners, which combine to manage more than $20 billion.

"The genesis for this was to provide a clearer investment path with a more defined set of outcomes," said Ms. Murphy, who emphasized that options introduce a host of new strategies, including income streams, downside protection and reduced market exposure.

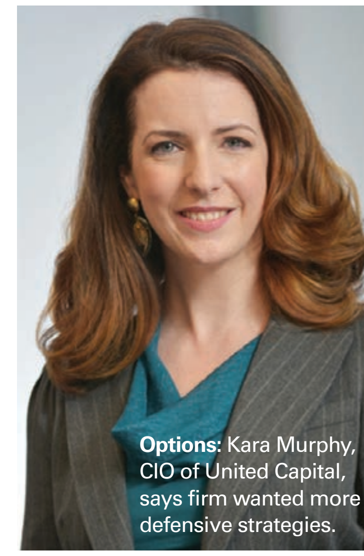
In addition to the options trading, the United Capital platform has an alternative investing overlay strategy and provides access to a dozen hedge funds.

"I don't care which of our tools a client uses, I just want to make sure it's appropriate and that we have a full set of tools, so we can react to their needs," Ms. Murphy said. "Prior to this, what we offered was pretty straightforward."

Options-trading experts say it should be a part of every adviser's tool kit.

"I'm a big believer in the product, because they can be used by investors and advisers at any level," said John Smollen, executive vice president at the options exchange Miami International Holdings.

Steve Williams, president of Blackstone Wealth Management, said, "Anyone not using options is leaving money on the table."



Options: Kara Murphy, CIO of United Capital, says firm wanted more defensive strategies.

"It's a good way to hedge your portfolio," he added.

jbenjamin@investmentnews.com
Twitter: @benjiwriter

Shell-shocked investors leery of Asia stock rally

BLOOMBERG

BLOOMBERG NEWS

ASIA STOCKS just notched their best streak in a year, China is in a bull market and momentum indicators are white hot. But while money managers say they welcome the recovery from last quarter's pummeling, they have yet to find any good reason to trust it.

Even the ones who avoided selling everything before markets turned around are preaching caution. Andrew Jackson, head of Japanese equities at Soochow CSSD Capital Markets, is long some technology shares but says he will sell at the first sign of trouble. Olivier d'Assier at Axioma advises buying cheap hedges as the U.S.-China tariff saga drags on.

KEY POINTS

- Asian equities have big quarterly reversal.
- Investors say region's economy and politics are still too unstable to trust.

Chalk it up to shell shock spurred by what may end up being the biggest quarterly reversal for Asian equities in a decade. After plunging in October and December, shares everywhere have rallied amid trade optimism and a pause in Federal Reserve rate hikes. The MSCI Asia Pacific Index has climbed 13% from its 2018 low, while the benchmark for American shares has rallied almost 19%.

Though stymied last Tuesday, the MSCI Asia Pacific Index posted a six-day advance that qualified as the longest in a year, helped by President Donald J. Trump's tweeted optimism about trade negotiations and a delay in tariffs. China's CSI 300 Index and Shanghai Composite Index entered bull markets last Monday on indications the government will weaken its leverage crackdown.

DRUBBING STILL FRESH

Still, with December's drubbing fresh in mind, investors were practically unanimous that it remains too early to sound all-clear on the region's economies or politics.

"It would need to have a significant level of improvement toward those tariffs being repealed for the markets to have a very strong positive reaction," said Kerry Craig, a Melbourne-based global market strategist at JPMorgan Asset Management.

Mr. Craig and Hiroshi Matsumoto of Pictet Asset Management said that progress is good, but obstacles remain. Mr. Craig positioned toward a "more defensive allocation" with a focus on the Fed March meeting more than anything else.

Mr. D'Assier, head of applied research for Asia Pacific at Axioma, is worried about more than the U.S.-China trade war.

"Investors need to focus more on downside risk protection than upside potential," he said. "This means risk assets need to be hedged with negatively correlated ones."

The cost of hedging against declines for gauges including the Nikkei 225 Stock Average and Hong Kong's Hang Seng Index has recently fallen.

"If we can remove one monkey [the trade war] from our backs, great, but we still have the others," Mr. d'Assier said, citing Brexit, populism in Europe, weak German leadership, partisan politics in the U.S. and a huge debt pile. "So proceed with caution as risk-taking won't necessarily be rewarded from now on."

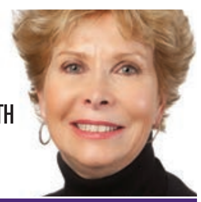
In Sydney, Nick Twidale, chief operating officer at Rakuten Securities Australia, is bracing for a volatility bump.

"Investors will continue to trade from a positive standpoint, but anything that comes out that could possibly derail a China-U.S. trade deal will probably lead to some strong profit-taking flows and a decent downside correction and increase in volatility," he said.

"THERE IS MOMENTUM, AND IT'S CONTINUING AT A STEADY PACE."

— DAVID JOHN, SENIOR POLICY ADVISER AT AARP, ON STATE AUTO-IRA PROGRAMS AFTER THE NEW JERSEY ASSEMBLY PASSED SUCH A BILL LAST WEEK

2019 is key year for Social Security



MARY BETH FRANKLIN

ONRETIREMENT

I'd like to try to clear up some confusion about Social Security claiming strategies that was triggered by my previous column. I wrote that people who reach their full retirement age of 66 in 2019 are the last group of people eligible to file a restricted claim for spousal benefits, which allows their own retirement benefits to continue to grow by 8% per year up to age 70. This strategy is available to married couples and to eligible divorced spouses who were married at least 10 years, divorced and are currently single.

One reader posted in the online comments sections that he was "confused and bothered" by my article.

"I'm turning 66 in 2019 and plan to claim spousal benefits when my spouse turns 66 in 2020," the reader wrote. "I was born before the cutoff and she was born after the cutoff, Can anyone clarify?"

I apologize for the confusion. I did not mean to suggest that 2019 is the last year that this strategy will be available. People who were born on or before Jan. 1, 1954, can exercise this valuable claiming strategy any time between the ages of 66 and 70, which means the spousal benefit strategy will be available to some people through 2023, depending on their personal situation.

This reader's situation is an excellent example of someone who is eligible to file a restricted claim for spousal benefits because he was born before the cutoff date. But he can't claim spousal benefits on his wife's earnings record until she files for her Social Security. And she apparently doesn't want to file for her Social Security benefits until she reaches her full retirement age next year.

MILLIONS STILL ELIGIBLE

So, yes, this reader can file a restricted claim for spousal benefits in 2020 when he is 67 and receive those benefits for three years, up to age 70. In the meantime, his own retirement benefits will continue to accrue delayed retirement benefits worth 8% per year between 66 and 70. At 70, he should file for his own maximum retirement benefits.

Millions of other people are also still eligible to use this claiming strategy.

Of the nearly 4 million people born in the United States in 1953, the final birth year for people eligible to use the spousal claiming strategy, about 80% are still alive, according to the Census Bureau and the Bureau of Economic Analysis.

MARRIED, WIDOWED, DIVORCED

There are currently about 50 million Americans age 65 and older, according to the "2017 Profile of Older Americans" published by the U.S. Administration on Aging. As of 2017, about 70% of older men and 46% of older women were married. Widows account for about 33% of older women — about three times the rate of widowed men. Divorced and separated spouses represented about 15% of the older population — a threefold increase since 1980.

People who were born after the Jan. 1, 1954, cutoff date will never have the option of claiming only spousal benefits while their own retirement benefits continue to grow. Whenever they claim Social Security benefits, they will be paid the highest benefit to which they are entitled at that age, whether on their own record or as a spouse.

That's unfortunate for Ellen, who was born after the cutoff date. She is 63, divorced and was hoping to claim benefits on her ex's earnings.

She could claim Social Security now — three years before her full retirement age — but the Social Security Administration must pay Ellen based on her own earnings record first, reduced for early claiming, and layer any excess spousal benefits on top of her own retirement benefits only if they are larger than her own — also reduced for early claiming. She can't claim only spousal benefits and defer claiming her own until they are worth more because she was born too late.

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

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

Should your client invest in 'opportunity zones'?

The Tax Cuts and Jobs Act passed by Congress in December 2017 included many changes to the tax code. One was the creation of "opportunity zones": state-designated and U.S. Treasury-approved areas where "new investments, under certain conditions, may be eligible for preferential tax treatment."

Opportunity zones are specifically designed to incentivize investment in economically distressed communities and, for investors, they offer some intriguing and potentially significant financial benefits.

Understanding the potential benefits of opportunity zones is critical.

Broadly speaking, the opportunity zone provision allows investors to defer taxes on a gain from the sale of an asset. There are some similarities between the tax benefits of opportunity zone investments and those available under a 1031 exchange — where investors can defer capital gain and depreciation recapture taxes from a property sale if they reinvest the proceeds in a replacement property. But there are some significant differences as well.

While a 1031 exchange only permits tax deferral on the sale of investment real estate, opportunity-zone benefits apply to the sale of a range of assets, including real estate, a business or highly appreciated stock, and thus are potentially beneficial to a wider range of investors.

TAXPLANNING

TIM WITT

Opportunity-zone real estate developments may offer a higher internal rate of return than investments in existing stabilized assets, but the nature of a development project means that investors aren't going to receive any cash flow for the first few years of the investment.

Additionally, after the initial deferral, investors have an opportunity for two modest step-ups in basis: 10% if the investment is held for five years and 15% after seven years (if the five- and seven-year periods end prior to Dec. 31, 2026).

If the investment in the project is held for 10 years, however, there are no capital gains or depreciation recapture taxes on that investment. This makes the longer-term IRR potential for opportunity zones, both pre- and after-tax, look attractive, but investors with liquidity needs inside of that 10-year time horizon should think carefully. The fit for an opportunity-zone investment should be evaluated on an individual basis.

There's no limit to how many 1031 exchanges an investor can execute. The initial gain deferred upon an investment becomes taxable on Dec. 31, 2026.

Certain product sponsors plan to return some capital through the refinancing of a project's construction loan to help with tax payments. Investors should keep enough liquid assets available to pay future taxes and not rely on a potential sponsor distribution.

Advisers should be careful not to let the tax tail wag the investment dog. Evaluate the quality of every investment independently, and don't make any decisions solely for tax benefit.

Tim Witt serves as director of research and due diligence officer for Livonia, Mich.-based Concorde, a broker-dealer registered with Finra.

Naming a trust as IRA beneficiary

BY GREG IACURCI

FINANCIAL ADVISERS may be wondering how best to bequeath clients' individual retirement account assets to heirs in the event of their death. The question becomes, should they name a trust rather than an individual as a beneficiary of the IRA?

There are many pros and cons to doing so, and practitioners often stumble through the web of complex rules, tax and estate planning experts say. But getting it right is critical.

"It's important because for the overwhelming majority of clients, it's their biggest asset," Richard Behrendt, an estate planner and former attorney at the Internal Revenue Service, said of IRAs.

"But it's tricky," he added. "Even a lot of attorneys don't know exactly how to do this, in my experience."

Individual retirement account assets can't be put into trusts directly during a client's lifetime without destroying the IRA's tax shelter. Rather, a trust must be named as the beneficiary of the client's IRA. The trust inherits the IRA upon the client's death, and beneficiaries of that trust have access to the funds.

> **"EVEN A LOT OF ATTORNEYS DON'T KNOW EXACTLY HOW TO DO THIS."**
>
> RICHARD BEHRENDT, ESTATE PLANNER, BEHRENDT LAW

Asset protection is the primary reason to do this. Trusts shield IRA assets in the event of lawsuits, business failures, divorce and creditors, for example. While taxpayers enjoy state and federal protections for IRA assets during their life, heirs who inherit an IRA directly — not through a trust — lose those protections.

Trusts also allow for a measure of control over the assets. The terms of a trust can dictate how distributions are made if an heir is a minor, disabled, financially unreliable, incapacitated or vulnerable to being preyed upon, for example.

"Some people call it ruling from the grave," said Ed Slott head of the eponymous retirement advice firm.

Naming a trust as an IRA beneficiary is less practical for those who plan to bequeath their IRA to a spouse, as opposed to children or other heirs. Spousal rules are more lenient, Mr. Behrendt said. Spouses can roll the decedent's IRA assets over into their own IRA tax-free.

PROHIBITIVE COST

Clients may find the cost to create and maintain a trust, and the associated complexity, to be disqualifying.

"If you're going to inherit $50,000, by the time you pay the trustee or accountant, it's not worth it," said Steven Siegel, president of The Siegel Group.

There are many technical rules to follow. For one, the IRA beneficiary form must indicate before a client's death that the trust is the primary beneficiary. After death, the IRA must be retitled as an inherited IRA.

And required minimum distributions would still be required for the IRA. This is one area where selecting the proper type of trust is important — advisers recommend selecting what's known as a "see-through."

STRETCH IRA

Structuring a trust this way maintains the IRA's preferential tax treatment, allowing a trust beneficiary to spread RMDs over a long period of time based on their life expectancy, what's known as a stretch IRA. The RMD amount would be based on the oldest beneficiary of the trust. Beneficiaries with separate trust shares would have different RMDs.

The trust's language must also indicate that distributions from the IRA can only go to "designated beneficiaries," rather than going to pay expenses, for example, said Mr. Behrendt, owner of Behrendt Law.

The risk of not structuring as a see-through or including this language, he said, is the IRA assets are distributed and the resulting tax paid within a much shorter time frame, potentially five years.

giacurci@investmentnews.com
Twitter: @gregiacurci

PORTFOLIOCENTER

CONTINUED FROM PAGE 2

older software like PortfolioCenter. There's also the issue of Envestnet Yodlee's data aggregation.

“Does the platform make money by monetizing the adviser data or client data? Envestnet Yodlee has a large business monetizing data flow,” Mr. O'Mahony told *InvestmentNews*.

Meanwhile, Orion Adviser Services is offering advisers nine months of free access to its suite of portfolio accounting technology, including its Eclipse trading platform, if they switch from PortfolioCenter. Orion also is providing free access to its conference, Ascent on the Road.

“We've helped hundreds of firms convert from PortfolioCenter,” Kyle Hiatt, head of sales at Orion, said in a statement. “For firms using legacy tech, switching to a new system is inevitable. That's why we've devoted significant resources to a painless conversion and ongoing training and service experience."

“REMEMBER THAT PORTFOLIO ACCOUNTING SOFTWARE IS THE HUB OF YOUR DATA.”

SUSAN GLOVER, PRESIDENT, SUSAN GLOVER & ASSOCIATES

Orion founder and CEO Eric Clarke suggested PortfolioCenter users may not receive the same level of support at a technology giant like Envestnet.

“More and more, we're hearing from advisers that they simply aren't receiving the level of support they expect from their tech provider, but how could they when in some cases they are one of 100,000 and working with a company trying to integrate over a dozen acquisitions?” Mr. Clarke said in a statement.

To combat competing offers, Envestnet is waiving two years' worth of Tamarac licensing fees for PortfolioCenter RIAs and offering free implementation, training and access to Envestnet's user conference.

“Another added benefit for PortfolioCenter users is they won't have to worry about tackling a data conversion if they decide to leverage the Tamarac platform, as the PortfolioCenter framework is part of our underlying technology,” Andina Anderson, Envestnet Tamarac executive managing director, said in a statement.

Tim Welsh, president of Nexus Strategy, said the biggest issue with PortfolioCenter is that it's a desktop product. With the entire industry moving to the cloud, advisers will have to switch to something else eventually.

"Tamarac will not support a desktop product long-term, so the advisers' fear on PortfolioCenter is that they will be forced to upgrade to Tamarac, a much, much more expensive platform," Mr. Welsh said.

Ms. Anderson said her company will not force anyone to switch portfolio management tools, and will continue supporting RIAs using PortfolioCenter, as it has “for over a decade.”

Susan Glover, president of consulting firm Susan Glover & Associates, said many advisers were considering leaving PortfolioCenter before the announcement in favor of a more modern tool. But she's cautioning her clients against making a hasty decision.

“Once I saw the [blog] post about Morningstar's webinar, I thought, ‘Oh my God, I hope people aren't just jumping ship because of some perception that isn't true,’” Ms. Glover said.

“For those who were already thinking of moving, maybe now is the time to elevate that priority, but remember that portfolio accounting software is the hub of your data,” she said.

rneal@investmentnews.com
Twitter: @ryanwneal

CRISIS MEMORIES

CONTINUED FROM PAGE 2

portfolio in late February, just two weeks before the market bottom.

“By the fall of 2008 this particular client was calling me once a week and the conversations got more and more panicked,” he said.

Despite his best efforts, the client converted a $3.5 million balanced portfolio of stocks and bonds into a bundle of 1-year CDs earning 1%.

That anecdote speaks to the extreme anxiety that enveloped the financial services industry seemingly caught flat-footed by a global financial crisis that started to unfold in early 2007 as a subprime mortgage crisis.

James Gambaccini, managing partner at Acorn Financial, recalls the summer of 2008 when a client brought in an elderly neighbor who was worried about the $4 million she had invested in four bank stocks. Mr. Gambaccini said the widow, in her late 70s, was living off the dividends and refused to diversify away from one of the riskiest sectors at that time.

“I told her Lehman Bros had just failed over the weekend, and we need to sell some of these bank stocks,” he said.

The widow listened but declined to follow Mr. Gambaccini's advice.

Within months, the $4 million portfolio had declined in value to $220,000, and the dividends were gone. Shortly thereafter, the woman had to sell her home to finance a move into a senior care facility.

ADVISER AS PSYCHOLOGIST

Thomas Balcom, founder of 1650 Wealth Management, said one lesson he learned from the financial crisis is that a big part of his job is being an amateur psychologist.

“As we were getting close to the bottom, I had one client panic and insisted we sell everything in his $750,000 portfolio, even though we told him he owned structured notes that would have protected his portfolio,” Mr. Balcom said. “My own father wanted to do that same thing, but I was able to explain to him that by sitting in cash he would never recoup his losses.”

Kenneth Nuttall, director of financial planning at BlackDiamond Wealth, also had to deal with a nervous parent.

“My mother follows the market, but she lets me handle the money,” he said. “A few days before the March 9 bottom, she told me she wanted to sell everything.”

Mr. Nuttall recalled telling his mother that her desire to sell was a major buy signal, and that's what they did. He still jokes with her whenever markets get choppy about that reverse market call.

For many advisers, the months leading up to March 9 are recalled as a blur of endless phone calls, meetings and long days.

Eric Walters, president of SilverCrest Wealth Planning, recalls his personal tipping point during a meeting with a client who started insulting him out of frustration.

“Once it got personal, it really got to me,” he said.

Mr. Walters recalled being so stressed out during that period that he started tearing up when the client began insulting him.

“She stopped what she was saying and asked if I was OK,” he said. “She apologized for how hard it was on me and vowed to stop fretting about the market so much, and she did.”

jbenjamin@investmentnews.com
Twitter: @benjiwriter

RULE CONCERNS

CONTINUED FROM PAGE 3

sociation, said in a statement to *InvestmentNews*. “It's the right thing to do, right now.”

SEC chairman Jay Clayton argues the best-interest proposal significantly strengthens broker advice requirements from the current suitability standard. On March 14, Mr. Clayton will testify before a House Financial Services subcommittee, where he is likely to face tough questioning from skeptical Democrats.

UNPAID ARBITRATION

Among 27 bills on the agenda at last Thursday's hearing were measures to reform the accredited investor standard, ease SEC regulation of small investment advisers, change auditing requirements for small broker-dealers and require the Financial Industry Regulatory Authority Inc. to establish a fund to finance unpaid arbitration awards.

There was some tension over the arbitration bill.

Sen. John Kennedy, R-La., is a co-sponsor of last year's Compensation for Cheated Investors Act, which was written by Sen. Elizabeth Warren, D-Mass. Mr. Kennedy indicated his concerns about what he called a high rate of unpaid arbitration awards.

Thomas Quaadman, executive vice president of the U.S. Chamber of Commerce and head of its Center for Capital Markets Competitiveness, told senators arbitration winners should be paid by the Securities Investor Protection Corp., rather than Finra, if the losing brokers welch.

Mr. Kennedy disagreed.

“SIPC isn't getting the job done,” he said.

Senate Banking Committee chairman Mike Crapo, R-Idaho, said his goal in considering the bills is “identifying areas where we can find bipartisan consensus in the new Congress.”

mschoeff@investmentnews.com
Twitter: @markschoeff