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2 GOLDMAN SACHS BUYS UNITED CAPITAL
3 P-E FIRM REVERENCE BUYS ADVISOR GROUP
5 EL-ERIAN WEIGHS IN ON TAX PROPOSALS
24 EDWARD JONES BUCKS ANNUITY TREND

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THE INNOVATION ISSUE

WHAT WILL IT TAKE TO INNOVATE IN A FINANCIAL ADVICE INDUSTRY THAT'S BEEN SLOW TO BREAK OUT OF THE STATUS QUO?

PAGE 8

TOPNEWS

ACCURACY / EXCELLENCE / FAIRNESS / IMPARTIALITY / INDEPENDENCE

INSIDE

MAY 13-17, 2019

5 On Technology
5 Financial Literacy
6 Editorial, Letters
24 On Retirement

Tax perspective
Mohamed El-Erian breaks down the Democratic tax and debt-relief proposals.
Page 5

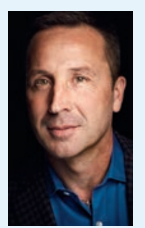
Model marketplace
Morningstar is latest company to offer digital platform for third-party investing strategies.
Page 28

ONLINE
Jennifer Kenning explains who is behind increased demand for ESG options.
InvestmentNews.com/kenningESG

EDITOR'S NOTE

Highlighting the way toward true innovation

In case you haven't noticed, *InvestmentNews* is hell-bent on stoking the fires of innovation in the financial advice profession.



FRED GABRIEL

We believe nothing is more crucial to the future of this profession than innovation. As our industry continues to adapt to new pricing models, shifting client (and adviser) demographics, and new regulatory regimes, it is more important than ever to embrace the power of innovative thinking.

That is why we're pleased to bring you our inaugural Innovation Issue. We've packed this issue with content to inspire you to think a little differently about how you run your practice and about the future of the financial advice industry.

Our cover story is based on a video webcast we recently recorded with members of the Alliance for Registered Investment Advisors, a think tank founded by some of the nation's top advisers. The topic of the webcast was innovation, specifically how to inspire it, harness it and build it into the DNA of our profession.

"Innovation means not defending what we know but embracing the unknown and having a totally open mind," said aRIA member Ron Carson, founder and CEO of Carson Group. You can watch the videocast in its entirety at InvestmentNews.com/Innovation-Roundtable.

In this issue, you can also read about the winners and finalists of our first-ever Innovation Award program recognizing firms.

Finally, you'll find links to our Genius Series, in which some of the industry's brightest talk about the ideas that inspire them most.

We here at *InvestmentNews* are honored to highlight new ideas and ways of thinking that will carry our profession into the future.

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Goldman near deal for United Capital

BY BRUCE KELLY

THE GOLDMAN SACHS Group Inc. is close to buying United Capital Financial Partners Inc., a leading roll up and aggregator of registered investment advisers, according to a report in the Wall Street Journal last Friday and *InvestmentNews* sources.

According to one industry source who asked not to be named, Goldman will pay $750 million for United Capital, a private company which is the brainchild of Joe Duran.

95 OFFICES

United Capital Financial Partners is the parent company of United Capital Financial Advisers, an RIA with $23.4 billion in assets under management and 95 offices nationally.

The move is significant for both firms. It gives Goldman a better foothold in the broader wealth management space, an industry into which the giant investment bank has said it wants to expand. In 2003, Goldman bought Ayco, which works with companies to offer financial planning to executives.

JOE DURAN

For United Capital, the sale gives Mr. Duran and his investors a significant payout after years of building the network. The deal is also a mark of validation for the independent RIA industry.

A United Capital spokesman was not immediately available to comment. A Goldman Sachs spokeswoman declined to comment.

Financial Planning magazine reported last month that United Capital had hired a banker this year to explore a sale.

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Dolly steps down at Pershing

BY RYAN W. NEAL

LISA DOLLY WILL step down from her position as CEO of BNY Mellon Pershing on July 1. The company's current chief operating officer, James Crowley, will succeed her.

Ms. Dolly joined Pershing right out of college in 1988 and was named CEO in 2016. She will serve as chairman through the end of the year, acting as an adviser to Mr. Crowley, assisting with onboarding of new business and working with Pershing's largest clients.

NEW CEO

Mr. Crowley has been with Pershing for more than 35 years. He will join BNY Mellon's executive committee and report to Todd Gibbons, vice chairman and CEO of clearing, markets and client management.

LISA DOLLY

'DO SOMETHING DIFFERENT'

In a statement, Mr. Gibbons attributed the move to Ms. Dolly's "desire to do something different after over 30 years at one firm.

"Lisa and Jim have worked closely together for several years in both running the firm and in setting the strategic direction.Given this history and partnership, our clients can expect a seamless transition between now and the end of the year."

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Conflicting tax rules create 'nightmares'

BLOOMBERG NEWS

BROKERAGE FIRMS are sending tax statements to clients and the IRS with information that differs from the taxes investors ultimately owe, leading some filers to appear to owe tax on profits they never made.

The federal tax code contains two sets of IRS rules — one that defines what information on taxable gains and losses brokerages must report to their clients and the IRS, and another that defines how individual taxpayers report those gains and losses on their returns.

Those conflicting rules mean that the brokerage statements — known as 1099-Bs — don't always reflect all of an investor's accounts or original costs. It's caused some investors to inadvertently

CONTINUED ON PAGE 30

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Reverence buys 75% of Advisor Group

BY BRUCE KELLY

ADVISOR GROUP put weeks of speculation to rest late last Thursday when it said private-equity manager Reverence Capital Partners agreed to acquire 75% of the broker-dealer network from Lightyear Capital, PSP Investments and other investors.

Financial terms of the deal were not disclosed, but market sources earlier last Thursday had privately pegged the price tag for Advisor Group, a network of four independent broker-dealers, at close to $2.3 billion.

KEY POINTS

- Sources pegged the price paid by private-equity manager for IBD network at $2.3 billion.
- Jamie Price will continue as CEO of Advisor Group, Valerie Brown will retire.

FOUR B-Ds

The four broker-dealers in the Advisor Group network are: FSC Securities Corp., Royal Alliance Associates Inc., SagePoint Financial Inc. and Woodbury Financial. According to *InvestmentNews* data, the four combined to produce $1.7 billion in total revenue last year.

Also according to *InvestmentNews* data, there were close to 11,800 total registered reps at the four firms at the end of last year, with 6,500 of those advisers producing revenues.

Under the terms of the transaction, Jamie Price will continue to serve as CEO of Advisor Group, according to the companies.

Valerie Brown, currently executive chairman, will retire. She will remain an investor in the company. Reverence, founded in 2013 by former Goldman Sachs executives, focuses on five sectors: depositories and finance companies; asset and wealth management; insurance; capital markets; and financial technology and payments.

As part of the transaction, Advisor Group, in coordination with Reverence Capital, expects to establish an adviser recognition and retention program, with details to be announced between signing and close, the companies said in a statement.

In 2016, Advisor Group, at the time a subsidiary of American International Group, was purchased by Lightyear Capital and PSP Investments. It has grown since then through acquisitions and recruiting, with client assets under administration currently at $268 billion, up $78 billion from the end of 2017, according to the company.

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SEC's Peirce says Reg BI stronger than fiduciary duty

BY MARK SCHOEFF JR.

HESTER PEIRCE

MEMBERS OF THE Securities and Exchange Commission defended their agency's forthcoming final advice-reform rule in multiple exchanges over a couple of days last week.

SEC commissioner Hester Peirce said the proposal to raise advice requirements for brokers will result in a standard for them that is stronger than the fiduciary duty investment advisers must meet.

"We have this new standard, which is something more than suitability," Ms. Peirce said at an Institute for Portfolio Alternatives conference in Washington last Tuesday. "When you lay it side-to-side against the fiduciary standard, I think one could argue that it's a stronger standard because it does require mitigation or elimination of conflicts in a way the fiduciary

CONTINUED ON PAGE 30

LPL to help advisers finance deals

BY BRUCE KELLY

LPL FINANCIAL is letting its affiliate advisers know that if they want to expand, it can help with the financing.

Indeed, the firm has kicked off 2019 by raising the issue with advisers at conferences and has increasingly been willing to discuss funding deals for practices with financing done in-house.

LPL has always had the ability to assist advisers in financing acquisitions but is being more assertive at the moment, according to executives at the firm. With 16,189 financial advisers, LPL is the largest broker-dealer for independent firms.

"What's new for us is an increased willingness for us" to work with advisers looking to buy practices, said Richard Steinmeier, managing director and head of business development. "We've always done financing in terms of acquisitions. If an adviser is buying a practice, this is providing the loan to buy it."

The financing deals are of three varieties, said Gregory Cornick, executive vice president and treasurer at LPL.

TYPES OF TRANSACTIONS

First is the most traditional, in which one practice sells 100% of its business to another. The second is a "sell and stay," in which one adviser is looking to merge with another, but also wants to continue working for a period of time.

> **"OUR PROFIT MODEL IS NOT TO MAKE MONEY ON THESE LOANS."**
>
> RICHARD STEINMEIER, HEAD OF BUSINESS DEVELOPMENT, LPL

The third type of deal is what Mr. Cornick called "partial book of business sales," in which one adviser sells some of his clients to another adviser.

"The first two are more prevalent than the last," Mr. Cornick said. "The awareness for capital need is increasing."

Mr. Steinmeier declined to specify the amount LPL has put aside for financing. The firm so far has done a handful of such transactions, he said, and just started talking about it this year at top adviser meetings.

'WE ARE CAPITAL-RICH'

LPL wants its advisers to consult with them before seeking financing at Live Oak Bank and others, he said.

"We've had these capabilities and they have been passively available," Mr. Steinmeier said. "We don't need advisers to go to a third party for capital. We are capital-rich. The balance sheet is strong."

"Our profit model is not to make money on these loans," he said. "We are doing this to facilitate the growth of our advisers."

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BLOOMBERG
R. ALLEN STANFORD

Pershing to pay Stanford Ponzi victims $1.4M

BY MARK SCHOEFF JR.

FINRA ARBITRATORS ruled that Pershing must pay $1.4 million to several victims of R. Allen Stanford's Ponzi scheme.

The three-person, all-public Financial Industry Regulatory Authority Inc. panel found in favor of six claimants who alleged Pershing aided and abetted Mr. Stanford because the firm served as a custodian and clearing firm for him. The arbitrators ruled that Pershing was negligent.

The victims invested in CDs issued by Mr. Stanford's off-shore bank in Antigua; the transactions occurred between 2006 and 2009. In 2012, Mr. Stanford was convicted of committing a $7.2 billion fraud.

Pershing had reason to believe there was something nefarious about the operations, according to the victims' attorney, Scott D. Hirsch, owner of an eponymous law firm.

"Rather than do something, they put their head in the sand and let it happen," Mr. Hirsch said.

Lawyers representing Pershing and a firm spokesman were not immediately available for comment. In 2014, Pershing won a similar Finra arbitration claim for $80 million that was later upheld in federal court on appeal.

The panel awarded $500,000 in compensatory damages to one couple, $330,000 to another victim and $200,000 each to three others.

18 CLAIMANTS

The original case included 18 claimants seeking more than $6 million in damages. The arbitrators denied the claims of all but the six who received awards. The award document doesn't explain the reasoning.

Even though not all of their clients won, Mr. Hirsch and his co-counsel Charles Scarlett, also an owner of an eponymous law firm,

CONTINUED ON PAGE 30

Investors sue B-Ds that sold GPB offerings

BY BRUCE KELLY

INDIVIDUALS ARE starting to file arbitration claims against broker-dealers that sold private placements packaged by GPB Capital, which raised $1.5 billion from investors and is under investigation by state and federal authorities.

GPB is facing a variety of hurdles right now. In addition to being investigated, the firm is more than a year overdue registering its largest funds with the Securities and Exchange Commission and making appropriate financial disclosures. GPB Capital was primarily supposed to be buying auto dealerships and waste-management businesses that were going to kick off attractive yields for clients.

GPB has told the B-Ds that sold its private placements that it is getting its financial house in order and completing an audit of its various funds. Many GPB investors are waiting in the dark to see what the future reveals about the private placements, according to plaintiffs' attorneys.

ARBITRATION CLAIMS

But at least two investors have filed arbitration claims through the Financial Industry Regulatory Authority Inc. system aimed at the broker-dealers that sold the products. While GPB Capital has a sister company that is a broker-dealer and acts as a distribution arm for its private placements, Ascendant Alternative Strategies, it does not sell directly to investors. Instead, Ascendant Alternative Strategies relies on outside broker-dealers to sell its private placements to wealthy retail clients.

One attorney, Sam Edwards, said

CONTINUED ON PAGE 32

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Beware of wiggle words in disclosures

BY MARK SCHOEFF JR.

A FEDERAL COURT recently ruled that a Texas advisory firm failed to disclose conflicts related to the sale of mutual funds, but it also said the firm didn't do so willfully — vacating the civil penalties and sending the case back to the Securities and Exchange Commission.

Although the April 30 decision by the U.S. Court of Appeals for the D.C. Circuit gave both sides a partial victory, the message to registered investment advisers is to beef up disclosure language in their Form ADVs, a compliance lawyer said.

"MAKE YOUR DISCLOSURES AS SPECIFIC AND DETAILED AS POSSIBLE."

JIM LUNDY, PARTNER
DRINKER BIDDLE & REATH

The case involved Robare & Jones Wealth Management in Houston. The SEC alleged the firm inadequately disclosed conflicts of interest from 2005 to 2013 related to a revenue-sharing agreement with Fidelity Investments that gave the firm a payment when it recommended certain funds. The advisory firm received approximately $400,000 from Fidelity.

USE OF WORD 'MAY'

The SEC said the arrangement wasn't disclosed at all until 2011, and after that point, the disclosure fell short of full transparency because it said the firm "may" receive revenue-sharing when, in fact, it did.

The firm's principals, Mark Robare and Jack Jones, appealed the SEC enforcement case to an in-house SEC administrative law judge

CONTINUED ON PAGE 32

What could Envestnet buy next?

RYAN W. NEAL

ONTECHNOLOGY

Envestnet has a clear roadmap for creating what CEO Jud Bergman calls a financial wellness platform — a cloud-based ecosystem advisers can use for financial planning, budgeting, savings, protecting capital, legacy planning and managing credit. At least on paper, it has all of the pieces it needs.

But there are still parts of the adviser's technology stack that Envestnet doesn't own; advisory firms have to fill these gaps with third-party integrations. They work fine most of the time, but never as good as when one company owns all of the underlying code, said Blake Wood, Envestnet director of product strategy. "There are areas of friction because you do things slightly different," he said.

So if Envestnet wants to build the most "frictionless" platform possible, it will need to make a few more acquisitions. Here are some possibilities, ranked in order of most to least likely.

KEY POINTS

- There are still parts of Envestnet's financial wellness platform the firm doesn't own.
- Some purchases of technology not already on hand are more likely than others.

1. Client relationship manager
Possible targets: Redtail, Junxure, Wealthbox

CRM brings in a lot of data beyond that which Envestnet's Yodlee's aggregation can pick up from financial accounts. Examples of these data include personal information like hobbies or children's birthdays, and communication history between the adviser and client.

Buying a CRM rather than partnering with third parties could bring that data in-house, helping to supercharge some of the analytics and AI tools Envestnet is building.

Envestnet Tamarac has a CRM component for RIAs using a customized version of Microsoft Dynamix, but it does not have one for enterprise clients, Mr. Wood said.

2. Marketing
Possible targets: FMG Suite, Vestorly, AdvisorStream

One area Mr. Wood said the company hasn't really been focused on is the adviser marketing side of things. It's a piece that would make a lot of sense for Envestnet to add to its ecosystem.

Financial advisers still need a lot of help with social media, managing email campaigns and content marketing.

Fidelity's eMoney Advisor, the biggest financial planning competitor to Envestnet MoneyGuide, introduced a lead capture tool and content marketing tool in 2017.

3. Risk tolerance
Possible targets: Riskalyze, FinaMetrica, RiXtrema

Envestnet has a risk-tolerance questionnaire and supports firms that have their own, but Mr. Wood said the current platform lacks "a lot of the interactivity that we're seeing in a lot of the tools out there."

These tools, particularly Riskalyze, have proven immensely popular with advisers and would fit in nicely with the ecosystem Envestnet is building.

4. Custodian
Possible targets: Apex Clearing, Folio Institutional

Rumors that Envestnet might eventually step into the asset custody and clearing business have persisted for years now. One of the smaller, technology-focused custodians could help Envestnet get even more traction with large financial institutions.

When asked, Mr. Wood said Envestnet likes to have a clear distinction between its business and the custodial business, and that its technology and TAMP work well with all major custodians.

5. Robo-adviser
Possible targets: SigFig, Advisor Engine, Investment POD

Betterment and Wealthfront likely have their eyes on going public, but could Envestnet eventually acquire any one of the smaller robo-advisers on the market?

Doubtful. Firms already use Envestnet's existing tech to build their own robo-adviser, Mr. Wood said.

Second, one of BlackRock's stated goals in taking an equity stake in Envestnet was integrating the robo FutureAdviser. Third, BlackRock has partnerships with consumer-facing robo-advisers, including Betterment.

Acquiring one just wouldn't make much sense for Envestnet.

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High schools must change course

FINANCIALLITERACY
BARRY RITHOLTZ

Graduation season is upon us, and with it, so many admonitions explaining why students are unprepared for the challenges of the real world. Graduation speeches will discuss the trillions in student-loan debt, why spendthrifts need to stop buying lattes and why we all need to save more money for retirement. Someone will mention the miracle of compound interest, misattributing the quote to Albert Einstein, along with terrible advice about "following your passion" and lots of other well-intentioned but equally worthless platitudes.

But the one that always grabs me is the lament about a lack of financial literacy. We looked at this a few years ago after the Financial Industry Regulatory Authority Inc.'s National Financial Capability Study found only a little more than a third of respondents in a survey were considered highly financially literate. This lack of basic understanding about money among a majority of Americans has been a consistent finding over the years. Look no further than the subprime-mortgage debacle and loans with teaser rates as an example of how awful things can get when consumers don't understand the financial products they buy.

It is bad enough that most people are not financially literate, but the painful reality is that investor education does not work — at least not much beyond six months. After that, it is like any other abstract subject taught in a classroom, mostly forgotten.

Academic research has confirmed this. One paper looked at more than 200 studies and concluded the lessons of financial education are fleeting, and degrade quickly without frequent use.

Nobel economist Richard Thaler has suggested several behavioral nudges that might help; he too acknowledges the limits of teaching financial literacy. Learning decays rapidly, so whatever we teach high school students is mostly forgotten by the time it's needed. By way of example, Mr. Thaler suggests trying to recall what you learned in high school chemistry.

Not that this has stopped states from mandating financial literacy for high schoolers. The Washington Post reported last month that financial-literacy classes are mandated by 19 states in order to graduate from high school, up from 13 states eight years ago. This is well-meaning, but without a radical break from how financial literacy is taught, it is destined to be ineffective.

Why? The subject is abstract and can be complex, specific skills deteriorate fairly soon after graduation, and the rote memorization and teach-to-the-test approach is ineffective for this sort of knowledge.

POTENTIAL SOLUTIONS

No. 1. Hands-on education: Teaching finance is not well-served by the standard format of classroom lectures. Instead, if we want to make students proficient in budgeting, help them understand credit and teach them about invest-

CONTINUED ON PAGE 32

El-Erian on Democratic tax proposals

BY JEFF BENJAMIN

WITH NEARLY TWO dozen Democratic candidates now running for president, many of the contenders are trying to stand out from the crowd by proposing tax hikes on the wealthy and tax breaks for those who aren't yet wealthy.

For perspective on what some of those proposals could mean, we asked Mohamed El-Erian, chief economic adviser at Allianz, to break them down against the backdrop of the roaring bull market, a strong economy and low unemployment.

Jeff Benjamin: What do you think is driving calls from politicians to increase taxes on the wealthy? Is there any justification?

Mohamed El-Erian: The increased focus on increasing taxes on the rich has been driven by the post-2008 period of low and insufficiently inclusive growth, together with concern [about] high inequality, not just of income and wealth but also opportunity. There are also technocratic arguments that support the notion, starting with the need to close certain loopholes that disproportionately favor the rich, such as the treatment of carried interest.

JB: Does raising taxes really result in higher tax revenues, or do wealthy people have the means to avoid higher taxes?

ME: If well-designed, and that's an important qualification, higher taxes on the rich can raise revenues while minimizing adverse incentive effects.

In fact, you could even have positive economic effects if the tax changes support higher sustainable demand, given that the rich have a lower propensity to consume, and if larger tax collection supports high quality, pro-growth spending, such as the modernization and upgrade of infrastructure, that crowds in higher-value private sector activity.

MOHAMED EL-ERIAN

This is particularly the case if efforts are made in the context of tax reform that removes anti-growth distortion, as well as elements like preferential tax rates for carried interest that favor the rich and that many agree can and should be corrected.

CONTINUED ON PAGE 32

EDITORIAL / LETTERS / OP-ED / GUEST BLOGS

Finra proposal to satisfy unpaid awards shows promise

THE FINANCIAL INDUSTRY Regulatory Authority Inc. finally may have come up with a fair way to ensure that investors who win arbitration awards actually receive them.

Under a new rule proposal, Finra would require firms with a track record of investor violations or a history of hiring brokers with numerous disclosure events to fund accounts that would be controlled by Finra and tapped in the event of an unpaid arbitration award.

The problem of unpaid awards has bedeviled Finra for some time. In some cases, brokerage firms that have lost arbitration cases have simply walked away from their responsibility to pay up by going out of business or declaring bankruptcy. In 2017, of the $84 million awarded through Finra arbitration, $21 million, or 25%, was not paid. The median unpaid award that year was $208,375.

While everyone agrees this is a problem, none of the proposed solutions in the past seemed to satisfy all stakeholders. For example, one proposal was to impose a levy on all Finra members to create a pool of money that could be tapped when an arbitration award went unpaid. But that proposal was criticized for forcing honest firms to help pay for the sins of dishonest ones.

THIS IS A GOOD-FAITH EFFORT TO ADDRESS A LONG-STANDING PROBLEM.

Another idea was to use Finra fine money to pay for the awards that the delinquent firms walked away from. Finra opposed that plan because it would take funding away from other investor protection programs.

The new method to take care of unpaid arbitration awards is actually part of a larger proposal by Finra to crack down on that small percentage of rogue firms that give the entire industry a black eye. The ultimate hope is that once these firms see that their past conduct will cost them additional regulatory fees, they will clean up their act.

While the proposal has promise and should be pursued, there is also a need to ensure that Finra does not abuse the new powers it would receive under the rule. That is why the regulator has set up a transparent, multistep process that shows how it will determine which "restricted" firms to impose additional fees on. Firms that are targeted will have a chance to appeal, and they will be reviewed each year to determine if they are still a risk.

Finra is making a good-faith effort to address a long-standing problem, and member firms should give this proposal a fair hearing. If it is approved, investors will benefit. And so, ultimately, will the industry.

LETTERS

Is Thaler kidding me?

What professor Richard Thaler fails to realize [in the article "Richard Thaler wants to use 401(k)s to boost Social Security payments," from April 18] is how this plan is flawed for many reasons. The first major issue with his proposal is the mechanics of how his plan would work in actuality. Anyone who has dealt with Social Security would never classify them as a world-class service provider, and I cringe to wonder how long a transfer of assets would take with Social Security. It should be pointed out that the Social Security Administration still sends benefits to 1,500 deceased individuals (I am not sure if individuals can cash their Social Security check at the pearly gates or after they enter). Mr. Thaler would rather have the government (that often runs up trillion-dollar deficits) than profit-earning companies ensuring individuals don't outlive their money. (These insurance companies, by the way, already provide the solution Mr. Thaler is proposing — and, full disclosure, I don't sell any insurance products.) It should be pointed out to Mr. Thaler that there are insurance companies that have similar credit ratings to the federal government. Lastly, who would trust Social Security to administer this plan, when they already have at least $7 billion of improper payments every year? Why would we want to give Social Security even more money to mismanage?

Peter Parlapiano
Principal
Franklin Parlapiano Turner & Welch
Houston

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2019 INNOVATION ISSUE

WHETHER YOU DEFINE innovation as embracing newness or a total transformation, the spark of change and growth an innovative idea or tool releases is key to its desirability.

For the financial advice industry, innovation is what will help advisers soar — and lead to a day when more clients are financially healthy thanks to personalized advice. It is also what will sink firms that fall behind.

While we can't predict innovation, we can describe the culture that births it and the different forms it can take, and we can warn about the forces that block it. For the first time, *InvestmentNews* is focusing the bulk of a print issue on this particular, critical topic.

Many of the features on these pages evolved out of the Innovation Summit *InvestmentNews* hosted in New York last month. We brought together our Icons and Innovators Awards alumni and others among the industry's most creative thinkers to discuss where financial advice is headed.

We began the day by asking principals of some of the nation's most successful advisory firms to talk about how they light that innovative spark within their companies. We ended the day presenting awards to inventive individuals and firms in advice (those firms are listed in this special section with blurbs about their contributions; the individuals were higlighted in our Feb. 4 issue and at InvestmentNews.com/icons).

We hope their stories and cutting-edge ideas will inspire you toward innovative thinking, and the financial advice industry toward its best future.

(Editor's note: The photos for the Sheryl Garrett and Shirl Penney quotes on page 18 were inadvertently swapped, so the quotes are wrongly attributed. Ms. Garrett spoke of just-in-time education and Mr. Penney about leadership.)

INSIDE

PAGE 10 — THE RIGHT STUFF: WHAT IT TAKES TO INNOVATE

PAGE 14 — INNOVATION AWARD FIRM WINNERS

PAGE 18 — GENIUS SERIES: EXPLOSIVE IDEAS IN 10-MINUTE TALKS

PAGE 20 — FUTURE FINTECH FOCUSES ON THE REAL CLIENT

PAGE 20 — DISCOVER YOUR OWN FOSBURY FLOP

PAGE 21 — 3 TAKEAWAYS FROM TRAILBLAZERS

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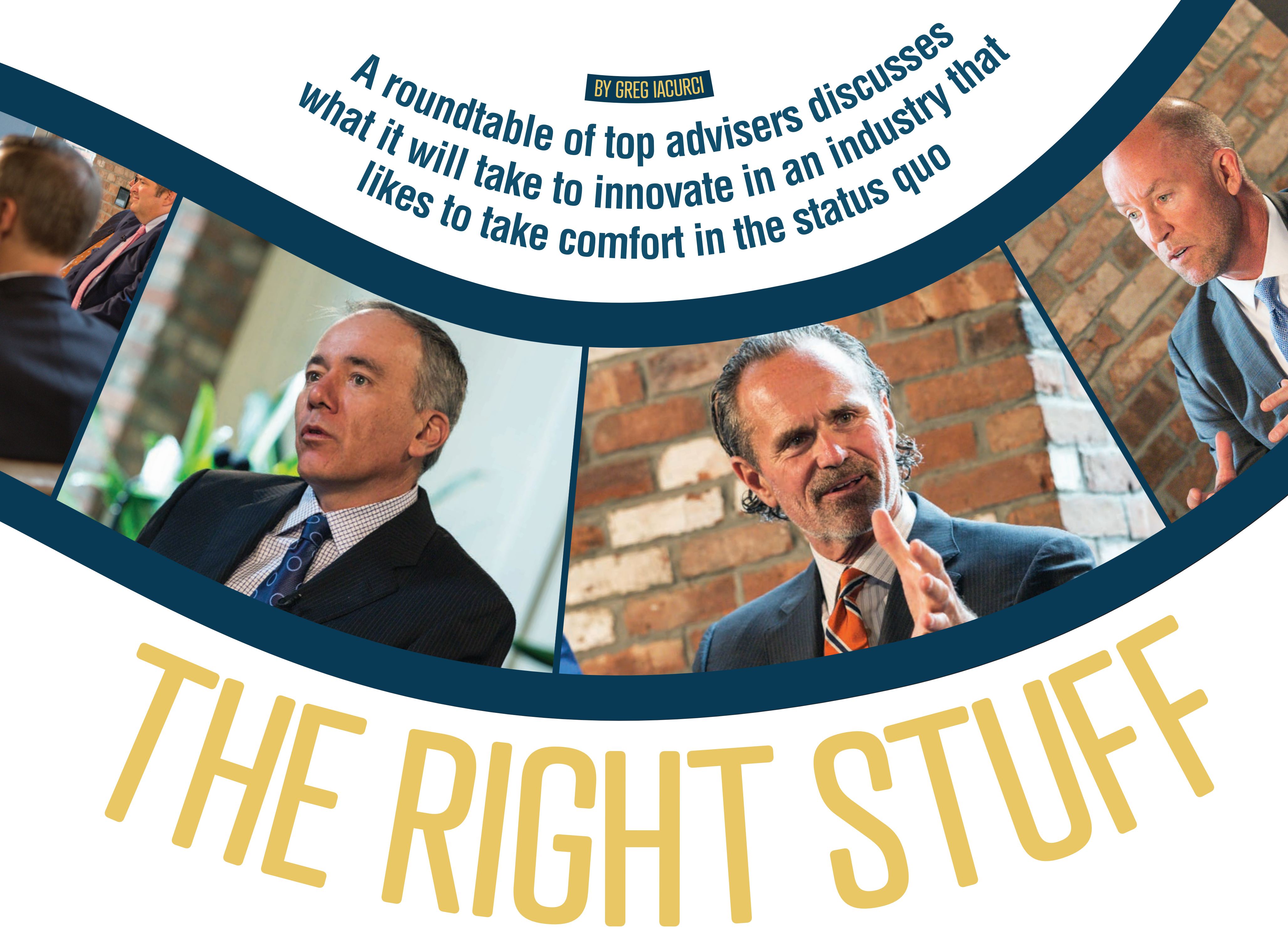

A roundtable of top advisers discusses what it will take to innovate in an industry that likes to take comfort in the status quo

BY GREG IACURCI

THE RIGHT STUFF

A lack of innovation is threatening the growth that the financial advice industry has become accustomed to in recent decades, according to some top advisers.

Technology is commoditizing advice services. Without innovation "you may not be here in a couple of years," said one firm leader during a recent roundtable with the Alliance for Registered Investment Advisors, a think tank founded by advisers, hosted by *InvestmentNews* in New York.

Below is an edited version of their spirited conversation during which one executive concludes that advisers have become too comfortable in their warm and successful "RIA hot tub." A chill is coming, he warns.

The full roundtable conversation is available at InvestmentNews.com/InnovationRoundtable. Here are some of the highlights.

Roundtable panelists

Brent Brodeski, principal, Savant Capital Management

John Burns, CEO, Exencial Wealth Advisors

Ron Carson, founder and CEO, Carson Wealth

Jeffrey Concepcion, founder and CEO, Stratos Wealth Partners

Matt Cooper, founding partner and president, Beacon Pointe Wealth Advisors

John Furey, founder, Advisor Growth Strategies

Jack B. Petersen, co-founder and managing partner, Summit Trail Advisors

***InvestmentNews:* What does innovation mean to you?**

Ron Carson: Innovation means not defending what we know, but embracing the unknown and having a totally open mind. It's so easy to fall into this trap of what we're comfortable with.

John Furey: Innovation, to me, connotates growth. So if you're not innovative, it's almost impossible to grow in this industry in the future. The pace of change is accelerating in this space, and firms that aren't innovating will wind up flatlining their growth.

John Burns: As an industry and as a firm, we need to be confident of our future but, at the same time, have a little healthy paranoia as well. Industries are littered with companies that are irrelevant — that once were very, very prevalent.

***IN:* Would you characterize the financial advice profession as particularly innovative?**

Matt Cooper: Predominantly no, for the most part. If there are 17,000 wealth managers in this industry, I would say 16,500-plus are not necessarily that innovative. The industry's been providing all of us a fantastic lifestyle over the past 20 years, but I think the reality is that it's finally caught up with us. Technology's at the point where we're at an inflection — if you don't adapt and you don't change, you know, you may not be here in a couple of years.

***IN:* What gets in the way of innovation in this profession?**

Brent Brodeski: If you look at our businesses, they're relationship-oriented, and the reality is, most of our clients we've had for a lot of years. What this leads to is long-term relationships that have been very profitable. As a result, I think advisers end up in the RIA hot tub, right? It's comfortable, it's warm, and they don't want to get out.

Change is hard, when you're in this hot tub and it's comfy and it's warm, and we've always done it this way. It doesn't seem risky to just keep enjoying the current hot tub. But eventually, that's going to go cold.

Jack B. Peterson: It's more complicated. People don't want to make the change; they don't want to get out of the hot tub. But also there's only 24 hours in a day. You only have so many hours each day, and you've got the day-to-day business. You've got to get some sleep, you've got to work out, you've got to eat. You've got to force yourself to set time aside. And I think that's hard, especially for the smaller RIA, as they don't have the staff.

Jeffrey Concepcion: I agree with this whole notion of complacency, but I would take it a step beyond that. I think people think of folks in our space as business owners and most are not. There's a difference between being self-employed and being a CEO.

The reason I would suggest people don't innovate is they're in that adviser/self-employed mode. They're not thinking like a CEO, a business owner who is thinking about all the changes in the industry. They're enjoying the hot tub.

> **"TRUST YOUR TEAM AND LET CONSENSUS RULE. OTHERWISE, HIRE MONKEYS AND PAY THEM MINIMUM WAGE."**
>
> JEFFREY CONCEPCION, FOUNDER AND CEO, STRATOS WEALTH PARTNERS

***IN:* How do your innovative ideas come to you? Is the process a purposeful exercise that you bring to yourself and to your teams?**

Mr. Brodeski: While the leadership is top-down, the real action — the real activity, the tactics have to be created at the grassroots level. The rank-and-file are in the trenches, they're getting their hands dirty — they know what needs to be done. But in many cases, they're not entrepreneurial, so they need to have that vision laid out top-down, so that they can then say, on a quarterly basis, this is what we need to do now, this is what needs to happen to move the dial on our one-year, our three-year, 10-year and 25-year plans.

Mr. Burns: Automate the meaningless to spend more time on the meaningful. Typically, that's going to go directly to improving the client experience, to the relationships — not just the advisers, but relationship managers and people throughout our firm. Our chief operating officer will work with our operations team and with relationship managers, with advisers, and they'll come up with a stream of things that would save them a bunch of time if they could be automated.

***IN:* So I'm hearing that you have to create an environment at your firms where you're kind of clearing the path for people to bring those ideas forward?**

Mr. Carson: Innovation feeds innovation. Because when you're innovating, you attract people who are innovators. Growth feeds growth.

Mr. Cooper: In order for you to have the best people joining your firm, you have to be growing at 15-20% a year so that you can continue to pay those people and give them an upward path. They will create opportunities for your firm and the innovation will be great.

***IN:* All of you hire very important people in your firms. What are you listening for?**

Mr. Concepcion: Talent's a huge component to growth. So in my mind, we fall in love with people. We may not have a role open for them; they may not have experience in our industry. But if they've been wildly successful in other things, you bring them on board and you find a way to deploy that talent in the organization. It mixes things up. It changes the chemistry. It seeds innovation.

Mr. Furey: For innovation to happen, you need idea people and execution people. That's innovation. Because if you have an idea and you can't execute it, who cares?

***IN:* What is the secret for getting everybody at the firm to share your vision of where you want to take the firm?**

Mr. Concepcion: You can dictate or you can develop consensus. If you develop consensus, it probably gives that idea a chance to be enhanced and massaged and for other people to contribute. We don't vote by equity, we vote by consensus. If you're going to surround yourself with good people, be willing to be outvoted.

Trust your team and let consensus rule. Otherwise, hire monkeys and pay them minimum wage if you're not going to listen to the smart people you brought on board.

Mr. Carson: I disagree with the consensus because you get too many people. I think it depends. But having consensus of everybody, I think, leads to a lot of time and average ideas.

Mr. Cooper: You're not talking about unanimous decisions. What you're talking about is buy-in once the decision has been made. Even those who don't agree with a decision need to be on board 100% and helping to execute on the plan.

***IN:* What's the role that destruction plays in creation? I'm convinced that you have to know when to kill your good ideas if you want people to focus on something new. What's your process for identifying what needs to be destroyed?**

Mr. Furey: There's only really three to five meaningful initiatives for innovation that you could work on simultaneously. So you could have ideas and then — how we do it in my company is we say, 'Hey, if it's not on the list, it doesn't exist.' It's a great idea, but we're not going to focus on it right now, and then we focus on the best ideas.

Mr. Peterson: The problem with killing something is there's a sponsor, somebody owns it, and you've got some cost. We all look at money — sometimes cost creates an obstacle from killing something, any product, any service, any process, any technology. At any time you figure out it's either not working, not doing what it's supposed to be doing, or there's a better way to do it, it's time to think about killing that and making the change.

***IN:* So you build it into your firm, into your culture?**

Mr. Peterson: It's a failure budget.

***IN:* When you look at the profession today, where do you see the most opportunities for massive disruption?**

Mr. Cooper: I think the easy and obvious one is on investments. For those advisers that are sitting back, and their differentiating point is investments, I don't know how much longer that's going to last.

Mr. Brodeski: I think the reality is that all the components of advisory are soon commoditized, whether you're talking tax, insurance, planning.

I think the opportunity is to incorporate all those into a single operating system — a single ecosystem, a single process, a single experience delivered with a single technology. And nobody's really done that.

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Talking innovation: Members of the Alliance for Registered Investment Advisers met recently in New York. They are, left to right, Ron Carson, John Burns, Brent Brodeski, Jeffrey Concepcion, Jack B. Petersen, Matt Cooper and John Furey.

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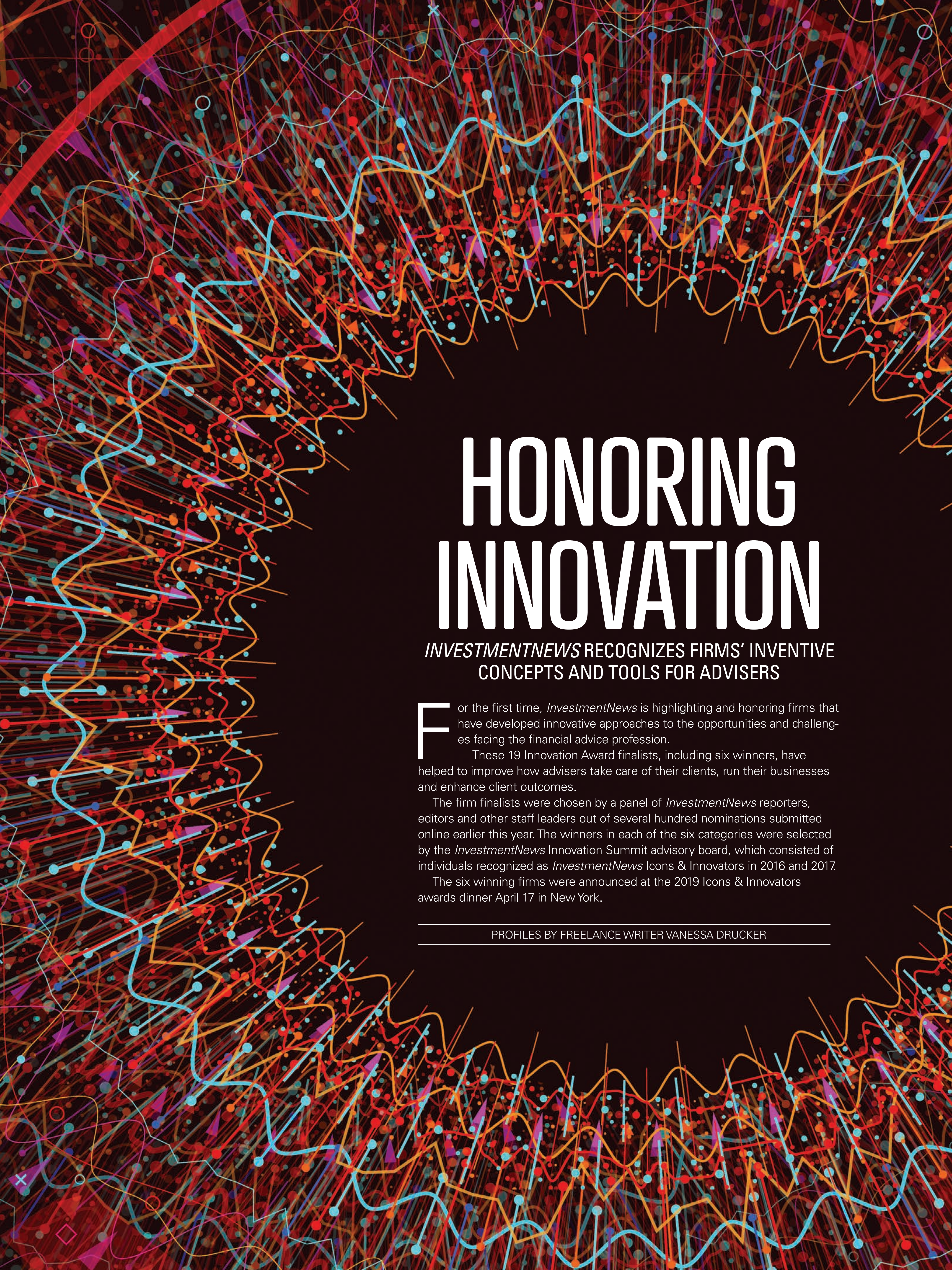

HONORING INNOVATION

INVESTMENTNEWS RECOGNIZES FIRMS' INVENTIVE CONCEPTS AND TOOLS FOR ADVISERS

For the first time, *InvestmentNews* is highlighting and honoring firms that have developed innovative approaches to the opportunities and challenges facing the financial advice profession.

These 19 Innovation Award finalists, including six winners, have helped to improve how advisers take care of their clients, run their businesses and enhance client outcomes.

The firm finalists were chosen by a panel of *InvestmentNews* reporters, editors and other staff leaders out of several hundred nominations submitted online earlier this year. The winners in each of the six categories were selected by the *InvestmentNews* Innovation Summit advisory board, which consisted of individuals recognized as *InvestmentNews* Icons & Innovators in 2016 and 2017.

The six winning firms were announced at the 2019 Icons & Innovators awards dinner April 17 in New York.

PROFILES BY FREELANCE WRITER VANESSA DRUCKER

INVESTING SOLUTIONS

ENVESTNET

2019 INNOVATION WINNER

More than five years ago, Envestnet introduced its Quantitative Portfolios in a systematically constructed separate account format. Clients continue to own the underlying securities and can therefore tax-manage and customize their portfolios. QPs also deliver factor-enhanced strategies, such as value, momentum or quality, which attempt to deliver excess returns through tilts. In 2018, three new QPs added exposure to small caps, international and emerging markets. Before, such strategies would only have been available through mutual funds or smart-beta ETFs. Plus, each of the series of QPs is suitable for a low investment minimum.

Envestment recently added tax overlay services to the QPs, letting investors control unrealized gains. Since the client owns the individual positions of the tax lots in the QP, loss-harvesting programs can be tailored to their unique circumstances, with losses harvested at any point throughout the year. Moreover, Envestnet's overlay services program can manage the portfolio while adhering to a client's specified capital gains budget.

Its QPs also can screen out certain securities to align with specific client values. Envestnet's allocation to best-in-class companies provides impactful exposure while managing environmental, social and governance risk.

Finally, Envestment has met the challenge of balancing a combination of parameters through an iterative formulation involving hundreds of tests. Multiple dimensions include investment minimums, the number of positions, tracking error, sector neutrality, frequency of rebalancing and turnover.

TD AMERITRADE INSTITUTIONAL

TD AMERITRADE launched its Institutional Model Market Center in 2017, the first to offer advisers free access to institutional-grade money-manager models. The product allows advisers pull strategies "off the shelf" from prominent asset managers like Goldman Sachs, Russell Investments, State Street Global Advisors and WisdomTree Investments.

With one click, advisers can subscribe to the models, using characteristics like risk category, asset class, security type and past performance. They can then implement one or multiple models, with tax-efficient rebalancing. As the industry's first investment model supermarket, the Model Market Center has broken new ground on regulatory compliance, legal and pricing structure.

Outsourcing investment management can help advisers create efficiencies and scalability and even give human RIAs a hand as they compete against robo-advisers. The structure also lets advisers bypass hiring an overlay manager. Until now, that would have demanded significant fees and ceding control — which does not always sit well with fiercely independent RIAs.

VESTMARK

THE FLEXIBLE VestmarkONE platform allows advisers to access and tailor investment solutions that are curated from a network of RIAs and portfolio strategists. The platform, which incorporates multiple programs and custodians, each with different nuances, seamlessly runs all the programs together — from onboarding accounts, through allocations and funding. Advisers can model, trade and rebalance with tax efficiency across a range of asset classes.

As a breakthrough feature, Vestmark offers comprehensive block trading at the sleeve, account or practice levels. A first in the industry, block-trading capabilities encompass widely used option strategies like covered calls and protective puts. These tools can include automated encumbrances to create guardrails, and hard stops to prevent the sale of underlying securities.

Six of the top 10 broker-dealers now use this Vestmark software. That level of adoption has helped clarify solutions, lowering costs for end investors. The capability to build tailored portfolios at scale allows an adviser to change an allocation in thousands of portfolios with one instruction.

Alerts and visual heat maps help monitor portfolio drift, restriction violations, cash requests and performance outliers.

RETIREMENT SOLUTIONS

RETIREE INC.

2019 INNOVATION WINNER

Retiree Inc. pioneered the first robo for retirement income with IncomeStrategy.com, which was launched in 2018 for consumers. Its other main platform, IncomeSolver.com, is designed for financial advisers. Both these platforms focus on withdrawal strategies during the decumulation stage.

The Retiree solution coordinates the impact of withdrawal sequences, collating ingredients from Social Security, Medicare, dynamic Roth conversions and tax minimization.

The software platform follows research published in the Financial Analyst Journal and the Journal of Financial Planning. Empirical evidence indicates that smart withdrawal sequences can add approximately seven extra years to a retiree's financial solvency and make the average person's money last longer. Much of the rest of the industry, including major financial planning apps, still relies on generalized modeling and conventional rules of thumb.

The software can help retirement advisers move beyond product solutions to embrace comprehensive strategies that can generate increased income for clients. It can account for complex details and the interdependency of key elements such as details of the tax code. For example, Roth conversions can affect Medicare premiums and Social Security taxes. Retiree's software can help advisers extend retirement resources for clients and showcase their own alpha.

RAYMOND JAMES FINANCIAL

RAYMOND JAMES recognized the need to assemble and provide a central repository for longevity planning, so the firm leveraged insights from 40 financial advisers on its retirement solutions advisory board and its partnership with the MIT Age Lab to better understand the longevity-related needs of advisers and their clients. Those include housing, caregiving, transportation and health care.

The premise is that since retirees are living longer, they must save and plan more effectively to live comfortably into the future. Starting with education, Raymond James has broadened out to develop business relationships that navigate age-related topics, with programs such as a Medicare consultation service, geriatric care management, concierge health services, elder fraud protection and end-of-life planning.

All of these issues are nuanced and unique to each individual. Raymond James has made it a priority to ensure these resources are available to advisers on a national level, regardless of location or asset level. That took time, feedback and diligence to ensure that advisers would have access to well-vetted business relationships based on rigorous assessments of legal, security and supervision requirements.

BETTERMENT FOR BUSINESS

BETTERMENT FOR BUSINESS has revolutionized the traditional 401(k) for both plan sponsors and participants. More than 400 plan sponsors benefit from a digital, low-cost option for administration, record keeping, customer service and compliance. Employees receive an easy-to-use, transparent option that includes automatic enrollment. They also obtain personalized, on-demand retirement advice about savings rates, account types and investment selection.

The company selects best-in-class ETFs for participants, while optimizing the allocation of portfolios according to each individual's needs.

Betterment also developed its RetireGuide to allow users to calculate and track their saving and spending during retirement. By inputting information on marital status, location, planned retirement dates, income, current savings accounts and holdings, they can gather a holistic view of their financial wellness. Participants can also consult directly with a financial adviser. The program examines what employees already are saving in their 401(k) plans, and how those existing accounts might correlate with other investments.

Betterment has improved participants' lives by allowing them to maximize their money through smarter technology and better advice.

EDUCATION MATERIALS

WHEALTHCARE PLANNING

2019 INNOVATION WINNER

Whealthcare Planning has created two cloud-based resources to aid financial planners with issues related to aging, cognitive impairment, financial abuse and decision-making. For advisers, the Whealthcare Academy is offered on a paid subscription basis. It comprises over 100 educational videos, white papers and research authored by internationally acclaimed experts in financial planning, psychiatry and geriatrics.

It is complemented by the Whealthcare Education Center, which houses free, similar content for the general public. Subjects range from health-care costs, family agreements and technological support to patient empowerment and loneliness.

Cases of senior fraud and abuse have doubled over the past five years and financial advisers are on the front lines in protecting older adults and their families from suboptimal financial decisions and elder manipulation. Agencies at both the state and local levels are actively regulating advisers to encourage them to be more vigilant about diminished capacity and exploitation.

Consider that a Harvard study has concluded that financial decision-making capacity peaks at age 53 and often declines rapidly thereafter. Whealthcare Planning has identified four age-related areas of transition: finances, daily living, health care and driving. Ignoring any or all of these issues can blow a hole in the best-intended financial plans. Advisers report that despite an instinctive reluctance to discuss these sensitive topics, clients are grateful for an opening to explore them.

CHEPENIK FINANCIAL

THERE IS A free lunch after all! Chepenik Financial has demonstrated, with a novel twist on an old idea, that educating employees about retirement can actually be enjoyable. It proved that employees are more likely to engage, and ultimately participate, if companies can lower anxiety levels about a stressful topic like saving for retirement.

To create interest, Chepenik partners with a local food truck, which is wrapped with amusing signage and slogans like "Let's Taco-Bout Retirement." Employees are given meal vouchers as an inducement to explore retirement programs. Typical topics for discussion include the importance of saving, budgeting and debt management. Print materials are available, and educational counselors ready to answer questions in a laid-back, unpressured fashion.

The program is expanding, with plans for an Asian bao truck in the works, as well as parties with games, music and hot dogs. Since the program is provider-agnostic, the employer gets all the credit for the fun and entertainment.

HERITAGE FINANCIAL ADVISORY GROUP

HERITAGE FINANCIAL ADVISORY GROUP built its educational "Ask the Advisor" brand as a weekly digital platform produced in various formats, including long-form videos and shorter YouTube videos, podcasts, blogs and social media posts. The financial literacy program creates short shows that tackle engaging topics at the intersection of finance and current events. The show's producers discovered that a three- to four-minute format is optimal for engaging attention in a digital framework and that a sprinkling of current events helps spark more interest than do the more vanilla financial topics.

The target audience represents an underserved market of 35- to 55-year-olds with assets under $250,000. Heritage attempts to dispel conventional wisdom and alter the mindset that financial advisers are only suitable for the wealthy. Its mission is to educate younger people about money in a convenient digital/social media format.

It is challenging for a smaller, digitally driven platform on a limited budget to compete in a 24-hour news cycle and also follow compliance guidelines. The goal is to provide listeners and viewers with free, thoughtful material that will encourage them to develop positive lifelong financial behaviors and spending habits.

ADVISER FINTECH

EMONEY ADVISOR

2019 INNOVATION WINNER

EMoney Advisor's end-to-end client portal offers advisers a fully integrated mobile solution, providing a unified experience across all devices and making it easy for clients to access accounts on the go. Originally launched in 2001, eMoney Advisor aggregates more than 12 million accounts and $2 trillion in assets for over 3.1 million investors, all in real time.

The product provides a host of critical functions, from interactive charts and detailed summaries of accounts to an unlimited digital-document storage vault. Clients can create budgets, track spending and set alerts for key financial events. Moreover, the full-spectrum portal assembles a collection of tools to enhance collaboration between clients and their advisers.

For instance, virtual conferencing and screen sharing allows clients to meet with advisers from any location, and client tasking helps them to keep on top of goals. Additionally, automatic onboarding lets clients add their financial information to the portal in their own time. They can populate the system by providing answers to a set of dynamic questions that adjust based on prior responses.

These solutions together have boosted client satisfaction and improved retention for advisers. Specifically, advisers using eMoney Advisor with clients cite significantly increased assets under management, an ability to deliver more holistic advice, the capture of newly discovered assets, improved time efficiencies and higher recurring revenue.

UNITED CAPITAL

THE FINLIFE CX suite of tools incorporates United Capital's technology and investment management platforms, which recently have been enhanced with best-in-breed defensive strategies. These tools bring together on-demand, 24/7 staff training and coaching, a mobile-enabled client portal, and access to a central hub that syncs an adviser's existing CRM, portfolio accounting system and planning software.

This confluence of asset and financial life management support allows RIAs to add value, while preserving their own brands and independence. Advisers can help their clients solve big-picture, highly complex issues. By understanding their clients' ultimate goals, advisers can identify acceptable trade-offs and consolidate a plan for a holistic financial life.

Firms have been signing up rapidly with FinLife CX, with collective assets under management reaching over $20 billion. In the past three years, United Capital has diversified into fintech and financial life management. Seamless compatibility with a variety of CRMs has required significant development resources, but the ease of adoption for RIAs has justified these efforts, the firm said. The ultimate benefit is that the system enables clients to gain clarity, confidence and control.

IMPACT FINANCIAL SYSTEMS

THE IMPACT FINANCIAL SYSTEMS automation platform provides a multicustodian suite of tools for advisers for onboarding clients, moving assets and maintaining client accounts. This digital ecosystem covers the entire client lifecycle, from prospecting, risk-profiling, goal-setting and portfolio construction to account funding and account maintenance.

Clients can choose between self-service accounts and using traditional or electronic access to advisers. Such a digital transformation would normally require expensive tech resources and years to put together.

The system liberates advisers from routine paperwork and manual processes, saving time and eliminating redundancies. These advances represent a leap in thinking for the benefit of the entire advisory industry. Best practices spur improvements for all players, so that the spirit of collaboration promotes a win-win across the board.

Although IFS is a relatively small group of just 40 people, it has gained the trust of some of the world's largest brokerage and wealth organizations, such as LPL, Ameriprise, Advisor Group, Envestnet and FutureAdvisor/BlackRock, which have used its platform to win clients and achieve efficiencies.

ADVISER FINTECH-PLATFORMS

RBC CORRESPONDENT AND ADVISOR SERVICES

2019 INNOVATION WINNER

RBC BLACK is the first custodian-driven adviser platform that fully integrates five independent financial tools — account aggregation, CRM, risk analysis, goal-based financial planning and trading/rebalancing — into one suite. RBC Correspondent and Advisor Services' RBC BLACK, which provides small advisers with economies of scale usually only enjoyed by giant wirehouses, costs firms 80% less than the price of purchasing its five technologies separately.

While many other platforms integrate technologies, and many custodians offer "open architecture," RBC BLACK represents a distinctive approach. Others let users toggle among technology providers, but RBC actually displays all tools on one primary dashboard.

Advisers save time otherwise wasted on troubleshooting aggregation, or double-keeping information. This close collaboration with the five fintech partners has generated new solutions around identity verification, security, data flows, data presentation, data syncing and compliance reporting.

The RBC BLACK platform provides multiple benefits, allowing advisers to aggregate and advise on held-away assets, collaborate with clients to build a financial plan, anchor client expectations on a shared understanding of risk, and engage clients with targeted and relevant content. It can demonstrate to clients a clear rationale for why particular investments are being made.

MORGAN STANLEY

MORGAN STANLEY'S WEALTHDESK advisory platform combines client relationships and portfolios with planning, advice and implementation in one dashboard. WealthDesk, which was developed in-house, assembles applications in four cornerstone areas. First, goal-planning, portfolio construction and implementation have been integrated. Second, institutional-caliber risk analytics reveal the potential impact of any contemplated portfolio changes. Third, new tools help advisers align their pricing with value delivered. Finally, a consolidated summary for clients streamlines planning goals with information on portfolios, performance and profiles.

An overarching theme is that the product enables advisers to be more personal and high-touch with clients across their financial lives. Each enhancement contributes to a fuller discussion about goals and lifestyles, going well beyond investment performance. And a scalable and consistent risk-management process refines conversations with clients about risk tolerance.

On the technology front, the cross-platform approach propelled Morgan Stanley to centralize functionality.

FOLIO FINANCIAL

WHAT MAKES Folio Financial's Digital Wealth Platform unique is its flexibility, modularity and personalized investment capabilities for all levels and types of clients at a low cost. The DWP platform empowers advisers and investors through both stand-alone robo-advice and outsourced turnkey asset management.

Investments run the gamut from stocks, ETFs, ETNs, ADRs, REITs and mutual funds to bonds and alternatives. Interactive, goals-based investor questionnaires capture essential information from clients. An automated portfolio construction engine supports each firm's advice methodology, capital market assumptions, and preferred investment products.

Predictive analytics examine goals, while scenarios and stress tests help fine-tune recommendations. Other functionalities include streamlined and paperless account management, low-cost window-trading, automated tax management, sustainable and impact investment options, private placements and alternatives.

Folio Financial has built its platform with maximum flexibility, allowing firms to maintain their hallmark brands and advice methodology. They can use DWP as a white-labeled custom solution or control it through a robust suite of software interfaces.

PRACTICE MANAGEMENT

PERSHING

2019 INNOVATION WINNER

Advisers use Pershing's Business Metrics Tool to track key performance indicators, such as productivity, profitability and client ratios. This interactive tool helps them reduce risk, measure capacity and results, and gauge trends. The hands-on benchmarking is particularly valuable for viewing the status quo relative to future plans, or comparing the firm against the industry. Users can compare themselves to similar firms by revenue size, business model or practice structure.

Pershing's benchmarking, unlike those of its competitors, is not derived only from its own clients but from the entire span of RIAs, broker-dealers and hybrids.

Pershing clients can input and manipulate their own information with real-time access. From strategic direction to succession planning, clients sharpen their understanding of their position in the space, and clarify their evolving needs.

A rapid succession of mergers is driving the industry toward an RIA model. The Business Metrics Tool can play a key role in educating advisers and clients who are involved in that process, such as wirehouse partners that are creating their own RIA from several locations. It enables them to analyze appropriate economics and initiatives to drive profitable growth.

CHARLES SCHWAB

CHARLES SCHWAB'S DIGITAL Account Open tools have completely eliminated paper forms from the account opening process. The streamlined product, launched in 2018, enhances efficiency and information safety, with faster and more secure processes and less potential for fraud.

Moreover, it is intuitive and exceptionally easy to use — transforming an onerous chore into a simple process that can be completed in less than 10 minutes. Clients can even provide approvals from their mobile devices, without requiring a "wet" signature or third-party electronic signature. The system employs smart field technology to automatically prefill available client information.

The transition to digitization will require behavioral and attitudinal changes as advisers shift away from ingrained processes and offline workflows. Schwab said it believes the transition will pay off, as DAO's end-to-end digital process reduces errors on allocations compared to paper forms, helps to eliminate the need for follow-up calls from client to advisers, and dramatically reduces the amount of work that has to be redone.

LPL FINANCIAL

LPL FINANCIAL LAUNCHED its Virtual Services in 2018 to help advisers focus on clients while continuing to generate revenue. The aim is to save advisers time and to keep them from getting caught in the weeds of routine management, such as administrative tasks and marketing. LPL's size, scale and range of tools distinguish this offering from those of competitors.

Additionally, since none of the work is outsourced, it can be tailored directly to each particular client's requirements. Advisory firms can select from one or all of the four types of support to fit their desired cost structure: Virtual Admin, Virtual Chief Marketing Officer, Virtual Chief Financial Officer and Virtual Chief Technology Officer.

Virtual Services are a work in progress. Whenever advisers give feedback, LPL adapts and responds to their needs. It can be challenging to anticipate market appetite for such services and then staff and train accordingly. So far, however, staffing and demand are tracking according to plan. LPL said it's committed to helping advisers handle the back-end tasks of running a practice and providing them with more freedom to engage meaningfully with their clients.

XY PLANNING NETWORK

XY PLANNING NETWORK has created an innovative model geared toward next-generation clients, namely the underserved Gen X and Gen Y investors who lack access to financial planning under traditional service models. While the industry may lament the difficulties of serving that segment profitably, XYPN is committed to carving out a viable offering for an audience that extends beyond baby boomers.

The firm's Turnkey Financial Planning Platform was developed to support independent financial advisers who are paid through a monthly retainer. The system runs from soup to nuts, providing advisers with compliance support, a versatile set of software products, customized practice management coaching, facilitated study groups and lead-generation opportunities. Membership also provides a sense of community, which many isolated independent advisers lack.

One notable challenge for this group of advisers has been the absence of payment processors that allow them to bill monthly retainer clients in a compliant way. XYPN therefore developed AdvicePay to solve that problem.

THE GENIUS SERIES

Experts deliver explosive ideas in 10-minute talks (watch them at the links provided)

Joseph Coughlin

Director
MIT AgeLab

"I want you to start a whole new business around embracing emotion, embracing connectivity and empathy with that client. So, first role, adviser as curator. Help people curate what those possible lives in retirement are going to be. They don't know. It is up to you to collect ideas from clients, from your back of house, whatever it might be. And have a multidisciplinary team talking about housing, transportation, care provision and the like. The jobs, if you will, of longevity."

InvestmentNews.com/Coughlin

Sheryl Garrett

Founder
Garrett Planning Network

"Innovation without leadership is like movement without direction. It's merely creative thinking. There's a difference — I think we would all agree — between being a creative thinker and being an innovator. You can't innovate on your own. You have to lead and inspire and have your team come along with you to help you turn the big thinking into reality."

InvestmentNews.com/Garrett

Shirl Penney

Founder, president and CEO
Dynasty Financial Partners

"We have recognized that just-in-time education in financial literacy helps. Training somebody, teaching someone who is just getting ready to make a purchase on a home, or make a decision as to 'Do I buy or rent?' — that's the best time to get that education. Because it's top of mind, you're probably willing to open your mind and listen to the pros and cons, and it applies to you now. That's what the public needs."

InvestmentNews.com/Penney

John Streur

President and CEO
Calvert Research and Management

"Clients today don't want to avoid problems; they want to invest in the companies that are solving them, and if possible, they'd like to be involved in the very act of changing companies. Engagement results in making companies better. It results in being able to support higher valuations throughout the market and making companies more valuable."

InvestmentNews.com/Streur

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ENT-3120 (R-8/2018)

Future fintech delves into who the client really is

BY RYAN W. NEAL

ADVISER TECHNOLOGY has historically focused on improving back-office efficiency. That is starting to change.

Adviser fintech is increasingly focused on making experiences better for clients, said Dani Fava, director of institutional innovation at TD Ameritrade Institutional. Ms. Fava's comments were made at *InvestmentNews*' Innovation Summit in New York last month.

For Ms. Fava, the most interesting area of fintech innovation is in voice recognition.

"We see the future of voice making email obsolete," she said.

RISK ANALYTICS

Voice technology also can help improve risk-analytics technology, an area Ms. Fava said is most in need of innovation. Current risk questionnaires only assess a client at one point in time, and people rarely give honest answers. She would like to see risk analytics digitally pull information about a client's spending, how they manage budgets or pay bills, and use voice or facial recognition to evaluate subconscious reactions to financial questions.

Envestnet executive managing director Frank Coates agreed, adding that voice can go beyond providing a new way to interact with computers. Advisers should be able to get information more naturally, such as just asking, "Which clients should I be most concerned about," and getting an actionable answer.

"We can do a ton with predictive analytics based on knowing their finances," he said. The challenge is getting the required data.

"It's still really difficult to get all of that data into a format that it can be spoken to and asked those questions," Mr. Coates said.

Orion Advisor Services CEO Eric Clarke, a 2019 *InvestmentNews* Innovation Award winner, said data applications in the client experience go beyond voice recognition. For example, technology can help advisers quantify the value they provide to clients, something the industry has traditionally done a poor job of, he said.

"WE SEE THE FUTURE OF VOICE MAKING EMAIL OBSOLETE."

DANI FAVA, DIRECTOR OF INSTITUTIONAL INNOVATION TD AMERITRADE INSTITUTIONAL

Mr. Clarke also sees voice and facial recognition software playing a role in how advisers influence client behavior.

'BEHAVIORAL COACHING TOOLS'

"We need more and better behavioral coaching tools that help advisers help clients receive better outcomes," Mr. Clarke said. "Advisers can show clients what they need to do to become a better investor."

This could help improve the negative opinions many investors feel toward the financial advice industry, he said.

Outside of how clients interact with advisers, Ms. Fava sees a great deal of innovation in investment management, which is contributing to driving down prices. New developments in artificial intelligence are improving asset allocation strategies and creating actively managed portfolios around new sets of data.

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Discover your own Fosbury Flop

GUESTBLOG ERIC CLARKE

I had the good fortune to spend time with some of the most forward-looking individuals in our industry at *InvestmentNews*' 2019 Innovation Summit last month. Joe Duran, chairman of this year's event, encouraged attendees to look for innovation outside the boundaries of our own four walls. The legendary Mark Tibergien spoke of the need for an industry steeped in investment management to focus on the client experience. Shirl Penney called on us to light the way to better outcomes by improving financial literacy.

If there's one thing to take from the myriad perspectives presented, it's this: Do not assume there is a single path to innovation.

In other words, you don't need to completely upend the way you do your work and serve your clients to benefit from new ideas. I believe dogmatic thinking about what change and new ideas "should" look like can limit what you accomplish, and may discourage some businesses from welcoming much-needed changes.

NEW LOOK AT OLD PROBLEM

Instead of pulling up your whole practice or tech stack by its roots, look for ways to innovate on the building blocks of your business. Find a new way to look at an old problem.

If you're not sure where to begin, consider an example from the keynote speaker at a recent Orion event. Business strategist Kaihan Krippendorff spoke of legendary high jumper Dick Fosbury, who made his mark, quite literally, by looking at his technique from another point of view.

In Mr. Fosbury's time, the straddle jump was the dominant style of high jumping: Athletes crossed the bar face down, bringing over one leg after the other.

Mr. Fosbury bucked the trend by crossing the bar backwards. He hurled himself in the air, back to the ground, before thumping back-first against the mat. He called it the "Fosbury Flop." Critics and sports headline writers called it "lazy." Compared to the straddle jump, it looked ungainly and easy.

Then Mr. Fosbury won a gold medal in the 1968 Olympics with his "flop." The critics vanished. It turns out his technique was not only easier, but mechanically superior. Other athletes tried the Fosbury Flop and reached the same conclusions. In fact, 34 of the 36 Olympic high jump medalists from 1972 to 2000 earned their medals using Mr. Fosbury's technique.

Think about what your own Fosbury Flop might look like. How much more productivity and value could you generate if you reexamined the way you generate reports or send personal reminders to clients? How long has it been since you've given serious thought about the tools and methods you use to court prospects?

GO FOR GREATNESS

I don't doubt you've found solutions that work well. But don't let "good enough" shut out your firm's potential for greatness.

Our industry holds up titans like Amazon and Apple as examples of innovators, and for good reason. And it's true that sometimes your business needs to invest heavily in itself to stay competitive. But huge, paradigm-shattering ideas aren't the only way to improve your business. You can reap the rewards of innovation by attacking smaller challenges from new angles and using the tools you already have in a different way.

Eric Clarke is the founder and CEO of Orion Advisor Services.

Success factors

Which of the following factors will most significantly contribute to your firm's success in the next one to two years? (Advisers were asked to select up to two.)

Factor	Percent
Client acquisition and targeting	33%
Client retention	33%
Growth in fee-based business and services to clients	29%
Having the right employees in the right roles	23%
Effective use of technology	17%
Efficient and effective business workflows and operations	14%
Executing marketing strategies	10%
Economy, markets and investment performance	9%
Access to new technology	8%
None of the above	3%

Source: "The Evolution of Independence" by *InvestmentNews* and Cambridge Investment Research, 2018

3 takeaways from advice industry trailblazers

In mid-April, *InvestmentNews* hosted its third annual Innovation Summit. I was honored to be chairman of the event and facilitate a day of sharing, learning and celebrating this year's award winners.

On a lovely spring afternoon in New York, a room full of industry leaders watched an action-packed lineup of TED-style talks and fireside chats with a galaxy of wealth management's most influential folks.

The summit's format encouraged everyone to share openly how they are adapting their firms to changing times and help each other build the most competitive firms they can for the future. It was a uniquely collaborative environment.

There were more insights than could be reasonably shared in one article! However, I'm happy to offer three of my big takeaways from listening to all of these brilliant folks.

1. The largest and most interesting market opportunities are not millennials! Almost all industry research and talk seems to focus on the millennial generation, but there was barely a word mentioned about them at the summit. Instead, there was a consensus about the major opportunities hiding in plain sight:

- Dealing with the impact of people living longer than ever.
- Working with women in a way that is more inclusive and relevant to their concerns.
- Making wealth management relevant beyond investing and planning.

2. Innovation goes well beyond technology. Even though it was an innovation summit, there was very little talk about fintech. I heard far more of a focus on how successful wealth management firms are adapting new ways of expanding services to clients, discussions about how pricing will evolve, and a really fascinating conversation about the evolving role of business leaders in shaping innovation within their firms. Some of my favorite points were:

- Look beyond your four walls and beyond the industry for how client needs and habits are evolving.
- Bring in a diverse set of opinions. A broader mix of age, race, gender, religions, backgrounds, skills and even aptitudes and personalities on a team accelerate innovation and keep you competitive.
- Innovation requires some failures, so don't try to avoid them, embrace them. Lots of small failures lead to big successes.
- Create a culture of never-ending improvement, and don't be the only source of it. Empower people to shape their work and improve the firm.
- Question everything, even your sacred cows, because they might be holding you back.

3. Our industry is increasingly being shaped by an ever-expanding set of brilliant women and younger leaders. I was encouraged to see over a third of the leaders on the panels and award recipients were women, and there was also an encouraging slate of younger folks sharing their insights. That's a big improvement from the first summit I attended just a few years ago.

Unfortunately, there is still not yet enough ethnic diversity, but it's an encouraging sign that the industry profile is evolving and new leaders aren't just paying lip service to progress. They believe that diversity is an asset. It is clearly a priority for every participant to have a broader set of perspectives shaping wealth management in years to come.

If there was one overarching theme shared by all the speakers, it was an optimism about the future and the incredible advantages of evolving and innovating within your firm sooner than later.

I felt an overwhelming sense that there has never been a more disruptive time, and so there has also never been a more rewarding time to innovate in almost any aspect of your wealth management practice. The flip side of the coin is that staying with the status quo has never been more costly. I left feeling invigorated, excited about the future of our industry and already looking forward to next year's summit.

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

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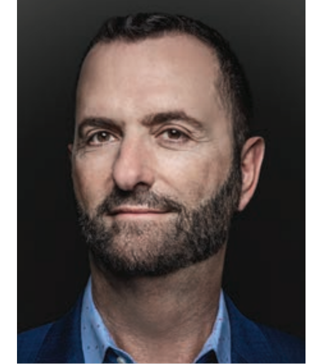
How Aspiriant's advisors help clients feel successful through giving

Using Schwab Charitable to maximize the impact of philanthropy

As chief operating officer and a member of the executive committee at the San Francisco-based registered investment advisor Aspiriant, Michael Kossman understands the philanthropic motivations of his firm's clients. Recently, he discussed how his firm integrates philanthropy into its wealth management strategies with Schwab Charitable. His comments to* InvestmentNews *Content Strategy Studio appear in edited form below:



MICHAEL KOSSMAN
Chief Operating Officer
Aspiriant

***INVESTMENTNEWS* CONTENT STRATEGY STUDIO: Tell us about the work you do at Aspiriant and the role of charitable giving in that work.**

MICHAEL KOSSMAN: At its core, the RIA business is really about helping people make good decisions that enrich their lives. Of course, that can mean many different things. At our firm, we do financial planning and provide investment advice to help clients grow their financial resources to the point where they can achieve their goals. I always feel really good about that, especially in the many frequent cases when those goals include charitable giving.

INCSS: What happens when charitable giving becomes part of the conversation with you and your clients?

MICHAEL KOSSMAN: Once we start talking about charitable giving, our clients become excited because they realize they can make an even greater impact through their generosity. With a thoughtful giving strategy, they can affect the lives of people in their community and even the entire world in a very positive way. And when they involve their families in their charitable decisions, they can extend a legacy of giving. Our discussions of giving strategies typically include the benefits of using Schwab Charitable, such as being able to donate appreciated assets or investments. All of the benefits aren't necessarily commonplace, so our conversations really provide a lot of value to clients.

INCSS: How does Schwab Charitable help your clients with their giving?

MICHAEL KOSSMAN: Since Schwab Charitable offers a donor-advised fund, it was created to manage charitable donations of individuals, families and organizations. Our clients can open an account in the fund with cash, appreciated securities or other financial instruments, and then advise Schwab Charitable on how to invest and grant the assets in the account.

The simplicity of execution is one of the great values of Schwab Charitable. If a client mentions that they want to give, say, $20,000 to the same charity they contributed to last year, we can make a note of that and execute on it by scheduling a recurring grant for them. It makes their lives that much easier.

INCSS: Can you give a specific example of what one client did?

MICHAEL KOSSMAN: One of our clients wanted to help make a difference to an organization that was important to her and which supports HIV/Awareness, environmental efforts and programs surrounding domestic violence. She used her donor-advised fund account at Schwab Charitable to recommend grants to the group. The process was easy, all the paperwork and record keeping was taken care of, and our client is delighted that she was able to make an impact in a way that is important to her.

INCSS: You say that the process was easy. How does Schwab Charitable help advisory firms?

MICHAEL KOSSMAN: As our firm's COO, I appreciate efficient and effective processes. Schwab Charitable has helped on really important practice management pieces with donor-advised fund accounts and charitable situations when we've had a particularly unusual situation with a client. For example, there was a case when a client, an insider at a publicly held company, wanted to contribute appreciated, restricted shares to a donor-advised fund account. This was a complicated transaction, and Schwab Charitable was very helpful in getting it done.

INCSS: Any other positive experiences with Schwab Charitable?

MICHAEL KOSSMAN: Yes, my own. I have a donor-advised fund account and think the technology and the ability to find and research charities is great. If you want to have a conversation with somebody about your charitable goals, Schwab Charitable can help facilitate that conversation. And something that has been really helpful for me is the annual contribution reporting that comes out in time for tax season. I can see all my charitable tax receipts in one place, which makes it easier to complete my taxes. ■

To learn more, download the Schwab Charitable information kit at schwabcharitable.org/advisors or call 888-733-0630

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"Schwab Charitable makes it easy to support my clients' philanthropic goals."

Michael Kossman | Aspiriant

Give your clients a smarter way to give.

For more and more high-net-worth clients, philanthropy is an important part of how they manage their wealth. In fact, 94% say they want to learn more about charitable giving.[1] And 80% of advisors rank charitable planning as a top value-added service, which helps attract new clients and grow existing relationships.[2] Schwab Charitable has the experience, tools, and people to help you do exactly that.

To learn more, download the Schwab Charitable information kit at schwabcharitable.org/advisors or call 888-733-0630

[1] 2016 U.S. Trust Study of High-Net-Worth Philanthropy.
[2] 2018 RIA Benchmarking Study from Charles Schwab, fielded January to March 2018. Study contains self-reported data from 1,261 firms. Results for firms with $250 million or more in assets under management.

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“THEY’RE NOT GOING TO STOP LOOKING IN THIS AREA UNTIL IT STOPS WORKING.”
— ALEX RUSSELL, MANAGING DIRECTOR AT BATES GROUP, ON REGULATORS’ FOCUS ON MUTUAL FUND SHARE-CLASS VIOLATIONS, INCLUDING IN 529 PLANS

Edward Jones bucks trend, doesn’t sell indexed annuities

BY GREG IACURCI

EDWARD JONES has taken a contrarian stance on indexed annuities, declining to sell the products even though its peers are doing so and the products are increasingly popular industrywide.

The St. Louis-based brokerage, which has 17,500 advisers and brokers, is the lone company among the full-service national brokerages not to sell indexed annuities, experts say.

Steve Rueschhoff, principal for insurance and annuity products at Edward Jones, said the firm’s decision not to offer indexed annuities is in line with its philosophy of keeping its investment products “relatively straightforward” for clients and advisers.

Part of that philosophy involves not cluttering up its investment platform with too many choices, Mr. Rueschhoff said. While other broker-dealers partner with 20 to 30 insurance carriers, Edward Jones partners with just six providers.

The annuities Edward Jones does offer — variable, single-premium immediate, deferred-income and multiyear guarantee annuities, as well as fixed annuities with income riders — already provide clients “ample” value and choice, Mr. Rueschhoff said.

RECORD SALES

Indexed annuities notched record sales last year. The $69.6 billion in sales shattered the previous record, set in 2016, by $9 billion, largely a result of market volatility toward year-end and rising interest rates. The Limra Secure Retirement Institute, an insurance industry group, projects sales will rise to $96 billion by the end of 2023 — a 38% increase.

Distribution grew noticeably in the broker-dealer channel last year. Independent B-D sales jumped

43% to $10.6 billion, while those among full-service national brokerage houses grew 53% to $3.9 billion, according to Limra.

Wade Dokken, the president of WealthVest, which designs and distributes indexed annuities, said higher sales among brokerage firms partly reflect increasingly consumer-friendly products coming to market that offer shorter surrender periods and better interest rates for investors.

“I think every major firm is reevaluating [indexed annuities], and if they are small with them they’re looking to make them bigger,” Mr. Dokken said.

Sheryl Moore, president and CEO of consulting firm Moore Market Intelligence, questions whether Edward Jones is acting in its clients’ best interests by not offering the products, arguing that indexed annuities offer more competitive rates than other types of fixed annuities.

However, Mr. Rueschhoff believes clients can accomplish their goals with the firm’s current offerings. Indexed annuities aren’t an outlier, he said — there are several other financial products wirehouse offer that Edward Jones doesn’t.

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“AMERICANS KNOW HOW IMPORTANT IT IS TO SAVE FOR RETIREMENT, BUT THE TRUTH IS MORE THAN A THIRD OF THOSE SURVEYED ARE OVERWHELMED BY THE PROCESS.”

KEVIN KELLER, CHIEF EXECUTIVE OF THE CFP BOARD OF STANDARDS INC., ON A NEW STUDY THE BOARD CONDUCTED WITH MORNING CONSULT THAT ALSO FOUND ONLY ONE-QUARTER OF AMERICANS FEEL FINANCIALLY PREPARED FOR RETIREMENT

Grown children may be hazardous to your wealth

MARY BETH FRANKLIN

ONRETIREMENT

Baby boomers redefined parenthood over the past few decades, often serving as friend and confident — as well as banker — to their now adult children. Many continue to subsidize their offsprings’ living expenses well into early adulthood, even at the expense of their own retirement savings, according to a new study released last month.

I remember reading scary statistics about the cost of raising children when I was a young mother in the ’80s. The costs have continued to grow exponentially since then.

KEY POINTS
- Many parents subsidize their offsprings’ expenses into early adulthood.
- 70% of parents say financial independence is harder today.

By 2015, American parents spent $233,610 on average from birth to age 17, according to a 2017 report from the Department of Agriculture. That estimate includes food, housing and transportation to health care, child care, clothing and education — but not college.

As a result of mounting debt, higher costs of living and other hurdles, 80% of early adults (those ages 18 to 34) say it is harder to become financially independent now than it was for previous generations, and 70% of their parents agree, according to a new study conducted by Merrill Lynch in partnership with AgeWave.

The study surveyed a nationally representative sample of more than 2,700 people, focusing on Americans ages 18 to 34. It found that young adults cite finances as their No. 1 source of stress and the top barrier to achieving their life goals, such as buying a home and starting a family.

‘THE FAMILY BANK’

Nearly three-quarters of early adults said they had received financial support from their parents in the last year, and 58% said they would not be able to afford their current lifestyle without ongoing parental support.

“As a huge percentage of early adults turn to the family bank, it has become the new normal,” said Ken Dychtwald, founder of consulting firm AgeWave.

Parents spend over $500 billion a year on their adult children, he said, about the same amount people contribute to their retirement accounts.

“It’s generational generosity without a whole lot of boundaries,” Mr. Dychtwald said. “Parents are really trying to help their kids get on firm financial footing.”

Guilty as charged! Although my two 30-something sons, who graduated from public universities free of debt, are self-supporting as they pursue creative careers, my husband and I tend to help them out with some big-ticket items. Need a new mattress? Merry Christmas! Can’t afford a needed car repair? Happy birthday! I’m just glad they pay for their own insurance and cell phone bills.

More than half the young adults surveyed defined financial success as being debt-free. That’s understandable as millennials face cumulative student loan debt of nearly $1.6 trillion — a 500% increase over the last 15 years — and average credit card debt of $3,700.

500%
INCREASE IN STUDENT LOAN DEBT OVER LAST 15 YEARS

EARLY WITHDRAWALS

One in four young adults with a 401(k) has already made an early withdrawal, primarily to pay off debt, the study found.

Family support is not a one-way street. As lifespans increase, children may provide support to their parents. Nearly 90% of young adults in the survey said they would be willing to support their parents in the future.

That, too, sounds familiar. My husband likes to remind, or threaten, our sons: They may be changing his diapers someday.

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

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Taking a long-term approach to equities that may pay off now

An interview with Principal portfolio manager Daniel R. Coleman

Equity markets have demonstrated they can deliver desirable returns to investors over most long-term periods. Dividends account for a sizeable portion of those returns, and a dividend-oriented approach to equity investing has proven effective in producing long-term gains with lower volatility than a method focused solely on capital appreciation. Recently, *InvestmentNews* Content Strategy Studio spoke about this dividend orientation with Daniel R. Coleman, chief investment officer at Edge Asset Management, an investment boutique within Principal Global Investors, and manager of its Principal Equity Income Fund. Edited excerpts of the conversation follow:

DANIEL R. COLEMAN
Chief Investment Officer
Portfolio Manager
Edge Asset Management

***INVESTMENTNEWS* CONTENT STRATEGY STUDIO:** **Let's start with a question some investors may ask given the age of the current bull market — is this a good time to invest in an equity income fund?**

DANIEL COLEMAN: Irrespective of the cycle — and kidding aside, given where I sit — I think it's always a good time to invest in an equity income fund because you get current income via dividends plus potential capital appreciation. The beauty of that is you're getting a certain amount of return from the dividend, plus potential growth of that dividend, regardless of what happens in the market. If markets are doing well, your return is enhanced; if the market's going down, the dividend yield provides a buffer. That's a wonderful combination, and our fund's performance reflects that. When the market is racing ahead, we'll tend to largely participate in the upside but underperform our benchmark a bit. But when the market's down, we tend to be down less, and we do well during periods of volatility.

Dividends are important. Going back to the Great Depression, between 40% to 45% of the return of the S&P 500 Index has come from dividends. So if you don't have a dividend, you have to make it all up in capital appreciation to achieve comparable returns. And that's a lot to make up. Also, statistics going back to the 1970s show that dividend-paying companies as a group, and especially those that are growing their dividends, meaningfully outperform the market with less volatility as measured by standard deviation.

Since we manage our fund with a five-year time horizon, where the market is at any particular moment doesn't matter all that much because over those five years one cycle may be ending and another one beginning. Instead of trying to time the market, which is near impossible to do well consistently, we look for individual companies that are good businesses now and that will likely be good businesses in five years, and which can be bought at a good price. Investing in a company with a sustainable competitive advantage at an attractive price is a great recipe, and having a repeatable process supports consistent results over the long-term.

INCSS: What makes your strategy different from other equity-income approaches?

DANIEL COLEMAN: First, we really are long-term, buy-and-hold investors. When your horizon is five-years-plus and you don't trade much, costs are lower. Equally important is that our six analysts spend their time identifying businesses we would like to own. Those businesses can be in any sector, because we believe you can find good investment ideas for the next five years in every sector if you dig. And then we're patient and wait until we get an opportunity to buy that investment at the right price.

INCSS: What makes a business one that you would like to own?

DANIEL COLEMAN: We have five criteria. First, we look at competitive advantage. Maybe the company has a brand that's unique, or a cost advantage, or patents — but it's something that allows them to grow faster than the industry and the marketplace as a whole. And importantly, we look for companies that can sustain that competitive advantage, because past success is no guarantee of future results.

Next, we look at financials. We use a Bloomberg model for operating variability that takes into account the balance sheet, returns on capital and debt, and spits out an objective rating of where a company stands in the marketplace. We concentrate on the high-scoring companies.

Third, we look at the complexity of the company, which translates into how many variables we have to take into account to come up with its earnings and valuation. Having many different business lines isn't necessarily bad, but is inherently more difficult to assess and potentially increases the risk. As a result, we may or may not take them on, but if we do, we would pay less to reflect the risk.

Fourth, we look at the potential growth of profitability. We're trying to identify companies with the opportunity for a meaningful inflection in their sales and earnings growth. This is what drives meaningful stock price appreciation over time, and should also enable those companies to grow their dividends.

And, finally, we look at shareholder friendliness. Clearly, dividends are critical. Does management pay an attractive dividend? Are they committed to it? Do they grow that dividend consistently? If they make acquisitions, are those acquisitions accretive immediately? And if they do share repurchases, are they actually reducing the float outstanding or are they just buying back options?

We've invested according to this formula for more than 20 years, and we currently have about 70 investments in the portfolio and make perhaps seven to 10 additions a year. That means our current holdings will likely drive performance of the fund over the next two years because we don't change the portfolio all that much in any one year. Changes come when we get a chance to buy a company we like very much at a discount to where it was trading or where we think it will be in five years. Wall Street tends to put a lot of emphasis on short-term issues. Those may impact earnings next quarter, but because our focus is on potential growth over the next handful of years, often times it's that short-term noise which gives us those attractive entry points in companies we have strong conviction in.

INCSS: Those who favor a capital gains approach to investing over dividends maintain that companies can reinvest profits better than investors and that capital gains are better than dividends from a tax point of view. What's your opinion?

DANIEL COLEMAN: Think of it this way — if you were a real estate investor, would you rent out your building for free and then hope to get all your return when you sold the building? Of course not. And now that the tax rate on capital gains is about the same as the rate on dividends, it's really a matter of paying the tax now or later; you're still paying the same amount, but with dividends you have the cash in your hand. Also, that yield is really nice to get when the market's going down because it serves as a cushion. And last but not least, we believe companies that pay dividends tend to be better run businesses, and we seek to invest in those that reinvest in their business for growth and also pay a dividend. When done well, that leads to strong shareholder returns today and down the road. ■

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10 PERCENTAGE POINTS COMPANIES MOST THREATENED BY AMAZON'S EXPANSION UNDERPERFORMED THE S&P 500 INDEX THIS YEAR THROUGH APRIL 25, ACCORDING TO CFRA RESEARCH'S "DEATH BY AMAZON" GAUGE

Morningstar to offer investment model

BY RYAN W. NEAL

MORNINGSTAR IS THE latest company to offer advisers a digital marketplace of third-party investment models and strategies.

The new model marketplace will be available on Morningstar Office Cloud for no additional costs and will feature products from 13 asset managers. Morningstar is also embedding its database, ratings and analytics into the platform so advisers can research and screen models against a number of qualitative and quantitative factors.

> **KEY POINTS**
> - The new model marketplace will be available on Morningstar Office Cloud.
> - Despite the explosion of investment models, adoption remains low among advisers.

Morningstar head of software products Dermot O'Mahony compares the marketplace to an "app store of investment models" that will make developing and managing investment strategies easier for advisers.

"[Model Marketplace] combines information and automation to empower advisers to truly think in their clients' best interests, by giving them more time to provide personalized advice while lowering costs and increasing transparency among choices," Mr. O'Mahony said in a statement.

For asset managers, it's an opportunity to get their products directly in front of advisers. Morningstar said it does not accept incentives from the participants.

The Department of Labor's fiduciary rule, which could be making a comeback, helped increase the popularity of investment models. Until recently, access to models was dominated by turnkey asset management platforms and custodians.

NEW AVENUES

Now technology vendors are providing new avenues for advisers to access these strategies. InvestEdge, Orion Advisor Services and Riskalyze all have model marketplaces.

Despite the explosion of investment models and marketplaces to distribute them, adoption remains low among advisers. Many advisers still tie their value propositions to managing assets, and their current strategies have been working just fine since 2008, said Cerulli Associates director of advice relationships Scott Smith.

> **"THEY WANT TO PROVIDE AS MUCH VALUE AS THEY CAN."**
> SCOTT SMITH, DIRECTOR OF ADVICE RELATIONSHIPS, CERULLI ASSOCIATES

"Advisers have to be convinced this will help them make their practices better," said Mr. Smith.

So why are so many vendors producing a product that's in low demand? Morningstar didn't respond to a request for comment, nor did the other vendors.

Mr. Smith suggested fintech firms want to be advisers' central hub, and a model marketplace lets them provide the starting point of portfolio construction for free.

"They want to provide as much value as they can for the tools they already have in place," he said.

For a company like Morningstar, which provides investment research analytics, it also increases the value it provides large asset managers. Even if it isn't accepting payments, each of the 13 firms on the marketplace is probably a Morningstar client in some capacity, Mr. Smith said.

The tough part is just getting advisers to admit they aren't better at generating returns than a model, he said.

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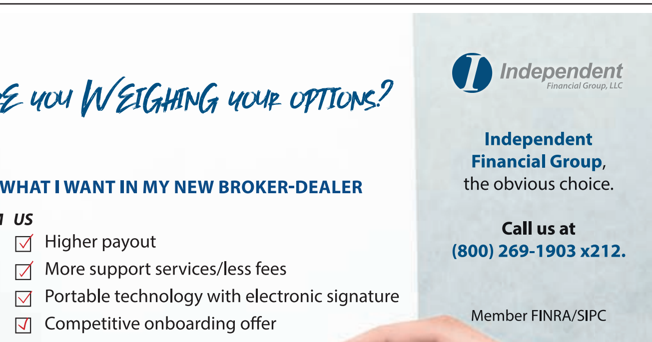

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Fidelity to start trading bitcoin

BLOOMBERG NEWS

FIDELITY INVESTMENTS, which began a custody service to store bitcoin earlier this year, will buy and sell the world's most popular digital asset for institutional customers within a few weeks, according to a person familiar with the matter.

The company, one of the largest asset managers in the world, created Fidelity Digital Assets in October in a bet that Wall Street's nascent appetite for trading and safeguarding digital currencies will grow. It also puts Fidelity a step ahead of its top competitors, which have mostly stayed on the sidelines so far. The company said in October that it would offer over-the-counter trade execution and order routing for bitcoin early this year.

Fidelity would join brokerages ETrade Financial Corp. and Robinhood in offering cryptocurrency trading to clients, though Fidelity is only targeting institutional customers and not retail investors like ETrade and Robinhood, said the person, who asked not to be named discussing private matters. A study released by Fidelity on May 2 found that 47% of institutional investors think digital assets are worth investing in.

50%
JUMP IN PRICE OF BITCOIN THIS YEAR

"We currently have a select set of clients we're supporting on our platform," Fidelity spokeswoman Arlene Roberts said in an email. "We will continue to roll out our services over the coming weeks and months based on our clients' needs, jurisdictions, and other factors. Currently, our service offering is focused on bitcoin."

INVESTOR PREFERENCES

According to the survey, which questioned 441 institutional investors from November to February, 72% prefer to buy investment products that hold digital assets, while 57% choose to buy them directly.

The hurdle to making crypto appealing to more mainstream investors is that it continues to be plagued with fraud, theft and regulatory infractions.

Bitcoin has jumped more than 50% this year, extending the wild price swings that have attracted many individual investors to the mostly unregulated coin. The original digital currency gained widespread notoriety when it surged 1,400% in 2017, only to tumble 74% last year.

Retirees win $1.8M arb against Raymond James

BY MARK SCHOEFF JR.

RETIREMENT INVESTORS won a $1.8 million Finra arbitration award against Raymond James in a case involving penny stock investments in energy companies.

A Financial Industry Regulatory Authority Inc. arbitration panel found in favor of 20 claimants who alleged they were hoodwinked by a broker in the then-Morgan Keegan branch office in Jackson, Miss.

The penny stock sales involved shares in CanWest Petroleum Co. and Ridgeway Petroleum Inc., two Canadian companies. The investments were put into individual retirement accounts. The companies were pitched by the Morgan Keegan broker as the next energy industry breakthroughs.

In reality, the broker pushed companies that had no hope of profit in transactions prohibited by the firm, according to the claimants' attorney.

"These were sure losers," said Judson Lee, owner of an eponymous law firm in Madison, Miss. "Any financial adviser who peeled back the layers to look at this would know they were unsuitable for clients. This was a wholesale failure to supervise a broker."

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IN RESEARCH

States approve big LTC insurance rate hikes

BY GREG IACURCI

WHILE INSURANCE companies have increased premiums with regularity over the past several years — often leaving policyholders to choose between paying the higher bill, lapsing their policies or receiving reduced benefits — it appears insurers have recently been getting approval from states for much larger rate increases.

"If you look back over the last five or six years ... I think it was difficult receiving the large increases, triple-digit-type increases, from any of the states," said Thomas McInerney, president and CEO of Genworth Financial Inc. "I think that has changed."

RECOGNIZE INSURER NEEDS

All state regulators recognize there are "significant needs" for actuarially justified premium increases, Mr. McInerney said during a recent first-quarter earnings call.

"We are seeing some states where in the past they hadn't approved and now they're talking about doing some approval," Marianne Harrison, president and CEO of John Hancock, said during the insurer's Q1 earnings call.

Genworth, the largest LTC insurer by number of policyholders, received approval in Q1 to increase premiums an average 62%. The move affects a select group of policyholders who cumulatively pay $241 million in premiums.

That level is elevated from prior years. Genworth raised costs an average 45% last year. In 2016 and 2017, the insurer raised premiums an average 28% each year.

Roughly 40 to 45 states have approved "significant premium increases on some policy forms," Mr. McInerney said, sometimes more than 200%. Some especially expensive policies require "300%-type increases," he said.

Read the full story at InvestmentNews.com/LTC.

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PERSHING TO PAY

CONTINUED FROM PAGE 3

were happy with the outcome.

"This was truly a panel that listened to both sides, weighed the evidence and ultimately made the right call," Mr. Hirsch said.

Repercussions of Mr. Stanford's Ponzi scheme, overshadowed only by the $65 billion rip-off by Bernie Madoff, continue today. Only about 6% of investors hurt by Mr. Stanford have recovered their money, according to Mr. Hirsch.

Sen. John Kennedy, R-La., has made advocacy for Stanford victims a priority. He brought up their plight at a Senate subcommittee hearing last Wednesday when questioning SEC chairman Jay Clayton.

"They haven't recovered as much as I had hoped," Mr. Kennedy said.

BLOOMBERG
R. ALLEN STANFORD

The Finra arbitration decision is a bright spot for Stanford victims, Mr. Hirsch said. He and his colleagues have similar cases in the arbitration pipeline.

"This is certainly, in our estimation, a milestone," he said. "We're hoping this is the first of many recoveries for Stanford victims."

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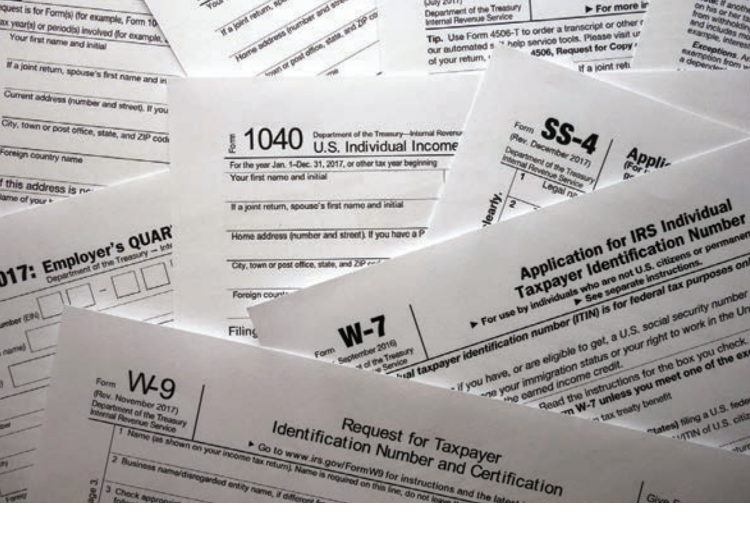
TAX 'NIGHTMARES'

CONTINUED FROM PAGE 2

draw the attention of government auditors.

That the statements can cause problems for unwary investors "is a dirty little secret," said Robert Green, accountant and chief executive at GreenTraderTax. "Brokers don't want this publicized."

Edward Zollars, a certified public accountant, said his firm, Thomas Zollars & Lynch, had a client who'd exercised $135,000 in stock options granted for $39,000. The client's recent statement, from ETrade, showed those figures but another one as well: a $96,000 "realized gain," or the difference between the two figures.



While the statement made it look like the client owed ordinary taxes of around $35,000 on that gain, he didn't. The statement didn't reflect that the client's employer had already withheld tax when the options were exercised. ETrade didn't respond to requests for comment.

"You can get in trouble just following the 1099," Mr. Zollars said, adding that it can create tax-season "nightmares."

In most cases, brokerages are simply following IRS rules — which in this case predate, and weren't changed by, the 2017 federal tax overhaul. But nine clients of accountant Mark Fichtenbaum this year received 1099-B forms from online broker and wealth manager TD Ameritrade with incorrect values for their investments in options tied to the S&P 500 stock index.

Under an accounting system known as mark-to-market, the statements are supposed to reflect values as of the last business day of the year, usually Dec. 31; instead, they showed the reflected values on the last day the options traded. Due to the stock market's volatility last December, the different dates made the investors look to the IRS like they'd made millions more in taxable profits than they actually had.

GET THE TAX BACK

In an April 3 letter to one client, TD Ameritrade said GainsKeeper, the trade-accounting software company it uses to prepare the statements, deploys its own methodology to track the values.

TD Ameritrade said in the letter that it cannot amend the document, but that under special IRS rules for the contracts, the customers would get the tax back in the following year, when the amounts reversed.

"So we're going to give the government $1 million for tax on phantom gains and get it back the next year? Seriously?" said Mr. Fichtenbaum, counsel to Twenty-First Securities Corp., a brokerage and financial services firm.

Stevie Conlon, a tax and regulatory counsel for the Wolters Kluwer's unit that oversees GainsKeeper, said that due to murkiness in IRS rules on computing values for assets like options contracts, the firm relies on separate rules in estates and gift-tax laws.

"There's no explicit guidance that tells us how to do it," she said, adding that another broker "could come up with a different price."

Even though individual investors receive separate account statements from brokerages that correctly show their gains and losses, many individual investors rely on the 1099-Bs to tell them how much tax they owe on profits and losses in stocks, commodities, regulated futures contracts and options, among other securities, as well as on barter transactions.

Read the full story at InvestmentNews.com/taxnightmares.

PEIRCE, REG BI

CONTINUED FROM PAGE 3

standard does not."

The SEC released its reform proposal more than a year ago and may introduce final regulations within weeks. The centerpiece of the package is Regulation Best Interest, which SEC chairman Jay Clayton asserts is a step up from the current suitability requirement for broker recommendations to clients. Ms. Peirce concurred — and went a step further.

NO DETAILS

But House Democratic lawmakers and investor advocates assert Regulation Best Interest is weaker than the fiduciary standard. They are concerned that Reg BI, as it is known, does not detail how brokers should mitigate conflicts.

"Sadly, the SEC has adopted such a weak interpretation of the [Investment] Advisers Act fiduciary standard that it may be fair to say that Reg BI is stronger, assuming the SEC doesn't allow disclosure alone to satisfy the mitigation requirement," Barbara Roper, director of investor protection at the Consumer Federation of America, wrote in an email. "But that is hardly an endorsement of Reg BI. Instead it just highlights the missed opportunity to do something meaningful to improve investor protections."

In her appearance at IPA, Ms. Peirce also said preserving investor choice is important.

"I want to make sure that other [broker] option is available, especially for people without much money and who can't afford to pay advisory fees — especially if you're staying in the same investments for a long period of time," she said.

In Senate testimony last Wednesday, Mr. Clayton reiterated that it is important that the advice-reform package regulates brokers and advisers separately to foster competition.

In response to a question from Sen. Chris Coons, D-Del., Mr. Clayton said the new SEC rule would maintain options for financial advice between brokers' "fee-for-service model" and advisers' "fee-for-account model."

'LAWFUL BUT MADE YOU SICK'

Reg BI, he said, addresses abuses on the brokerage side. There were complaints that "there was too much activity that people said was lawful but made you sick. We need to fix that," he said.

Mr. Clayton said Reg BI aims to ensure investors receive similar care from brokers and advisers.

"It is my intention that, regardless of whether the retail customer chooses a broker-dealer or an investment adviser, the retail customer will receive recommendations (from a broker-dealer) or advice (from an investment adviser) that are in the best interest of the retail customer, and that do not place the financial professional's interests ahead of the interests of the retail customer," Mr. Clayton wrote in his prepared testimony.

JACKSON MIGHT OPPOSE

In order for the SEC to approve a final Reg BI, three of the current four members must vote in favor. Ms. Peirce and fellow Republican member Elad Roisman are expected to support the regulation along with Mr. Clayton, while Democratic commissioner Robert Jackson Jr. is expected to oppose it. A fifth Democratic seat on the commission is open.

No date has been set to release the final Reg BI, Mr. Clayton told reporters after the Senate hearing.

"We're getting a lot closer," he said.

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GPB OFFERINGS

CONTINUED FROM PAGE 4

that his client, a 63-year-old nurse, invested $175,000 in a GPB Capital private placement and bought the investment from Arkadios Capital.

Last month, Mr. Edwards' firm, Shepherd Smith Edwards & Kantas, filed a Finra arbitration claim against Arkadios and its CEO, alleging the firm misrepresented the private placement which was not suitable for his client.

"This is in the very early stages," Mr. Edwards said, adding that the lack of transparency and understanding of the ultimate value for the various GPB funds was preventing many clients from moving forward with claims against broker-dealers that sold the product.

David Millican, CEO and owner of Arkadios Capital, said the firm sold "a very small amount" of GPB private placements. Any claim against him personally was "bogus," as he did not know the client, he said.

Another attorney, Scott Silver, said that last month he had filed a $400,000 arbitration claim for a client who bought GPB private placements from SagePoint Financial Inc., one of the broker-dealers in the Advisor Group network.

"There was a lack of due diligence," Mr. Silver said. "Clients were assured that the assets were strong, their principal was secure and the private placements would provide an income stream for years to come."

A spokesman for Advisor Group, Chris Clemens, did not have a comment for this story.

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DISCLOSURE CASE

CONTINUED FROM PAGE 4

and won. But the full commission overturned the ALJ decision and imposed $50,000 in penalties on Mr. Robare, Mr. Jones and the firm.

Mr. Robare and Mr. Jones then appealed to the D.C. Circuit, which found they were negligent in disclosing conflicts of interest but did not hide them willfully. The court vacated the civil penalties. Now, it's back in the SEC's hands to decide what kind of punishment to mete out.

Mr. Robare and Mr. Jones created model portfolios for their clients comprised of no-transaction-fee mutual funds, according to a blog post by their firm's lawyer, Alan Wolper, partner at Ulmer & Berne. He said Fidelity told them they would receive a "small fee if they happened to select 'eligible'" funds, but that they could choose funds based on objective criteria.

The two entered the agreement and then hired consultants to write their Form ADV disclosure.

"Having surrounded themselves with experts and advisers, they firmly believed that any conflict of interest, whether actual or potential, that was created by the deal with Fidelity was adequately disclosed to the world on their Form ADV," Mr. Wolper wrote in his blog post.

But the D.C. Circuit still found they committed fraud.

"I think we're strangled with a strange legal standard here," Mr. Wolper said in an interview.

SHARE-CLASS INITIATIVE

The case has direct implications for the recent share-class disclosure initiative the SEC conducted. In that program, the agency encouraged investment advisers to report themselves if they failed to disclose they received 12b-1 fees for selling the funds. The firms that stepped forward had to repay their clients but avoided fines.

It now appears the SEC is starting enforcement investigations into firms that didn't self-report. Those probes are extending into revenue-sharing. The D.C. Circuit's decision strengthens the SEC Enforcement Division's hand, according to Jim Lundy, partner at Drinker Biddle & Reath.

"This is a precedent that may embolden the asset management unit to be aggressive regarding the disclosure requirements of RIAs," Mr. Lundy said.

Investment advisers should review their Form ADV disclosures, according to Mr. Lundy.

"If you want to stop the disgorgement clock from ticking, you need to go in and make your disclosures as specific and detailed as possible," he said.

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EL-ERIAN

CONTINUED FROM PAGE 5

JB: What are other budget solutions politicians could consider?

ME: One of the key fiscal issues facing the country is how to step up efforts to modernize and upgrade pro-growth infrastructure without putting an unduly heavy burden on the budgetary accounts. Fortunately, there are windows for this at this time, including public-private partnerships. And they come during a period of relatively low interest rates.

JB: Do you think the U.S. is transitioning into a socialist society?

ME: The main transition is one to a more inclusive, market-based system.

JB: What are your thoughts on Modern Monetary Theory as an economic solution to the country's fiscal challenges?

ME: More than the MMT is in play here. The combination of persistently low interest rates and no inflation scare following years of aggressive monetary policy are playing a role, as is concern that the benefits of central banks' unconventional policies have predominantly benefited the rich.

And all this comes at a time of pent-up frustration with the aftermath of the global financial crisis characterized by low and insufficiently inclusive growth.

JB: Some presidential candidates have proposed variations on tuition-free college. Sen. Elizabeth Warren has gone further by proposing student-loan forgiveness. Does that make sense to you?

ME: For pockets of excessive indebtedness, such as certain segments of student loans and Greece, debt reduction should be considered — not because it's the easy thing to do but rather because it's the only way to deal with an overhang that can damage both actual and potential growth.

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HIGH SCHOOLS

CONTINUED FROM PAGE 5

ing, a better approach would be a learning experience from real life. Student-run businesses on campus and internships or actual jobs in finance do better at showing students how to do these tasks.

No. 2. Repetition: Unless financial literacy is constantly reinforced it fades pretty fast. Core concepts need to be repeated and reinforced after graduation.

Some of the burden for repetition and reinforcement must fall on the private sector, particularly the financial industry itself. More firms need to make a commitment to integrate financial literacy in their client-services operations. The key is keep the basic concepts of compounding, cost drag, valuations, diversification and cyclicality in front of customers, ensuring they understand and are familiar with the terms and concepts.

No. 3. How to think: The idea of giving students a list of facts to memorize and then testing them has been shown to be of limited use in real-life problem-solving. This approach to teaching is the educational equivalent of fast food.

A complement to the real-life experiences (above) is a more Socratic method of instruction. Rather than mere lecturing, instructors should lead students on a guided hunt for information. Let the students figure out the ideas for themselves, with the instructor as the pilot. This sort of approach leads to harder-won knowledge, which tends to be more durable.

Rather than teaching a body of information to remember, education also needs to give students the skills to think critically, to puzzle through problems, to be skeptical, to ask questions. Unfortunately, this broader approach to problem-solving and independent thinking is rarely on the curriculum, no matter the subject being taught.

Financial literacy is critically important, and will become more so as social programs such as Social Security and Medicaid become stressed. If we continually fail to provide the tools for people to become financially literate, we are asking for more of the kind of problematic behavior that contributed so much to the last crisis.

> **SOME OF THE BURDEN FOR REPETITION AND REINFORCEMENT FALLS ON THE PRIVATE SECTOR.**

Barry Ritholtz is a Bloomberg Opinion columnist. He founded Ritholtz Wealth Management.

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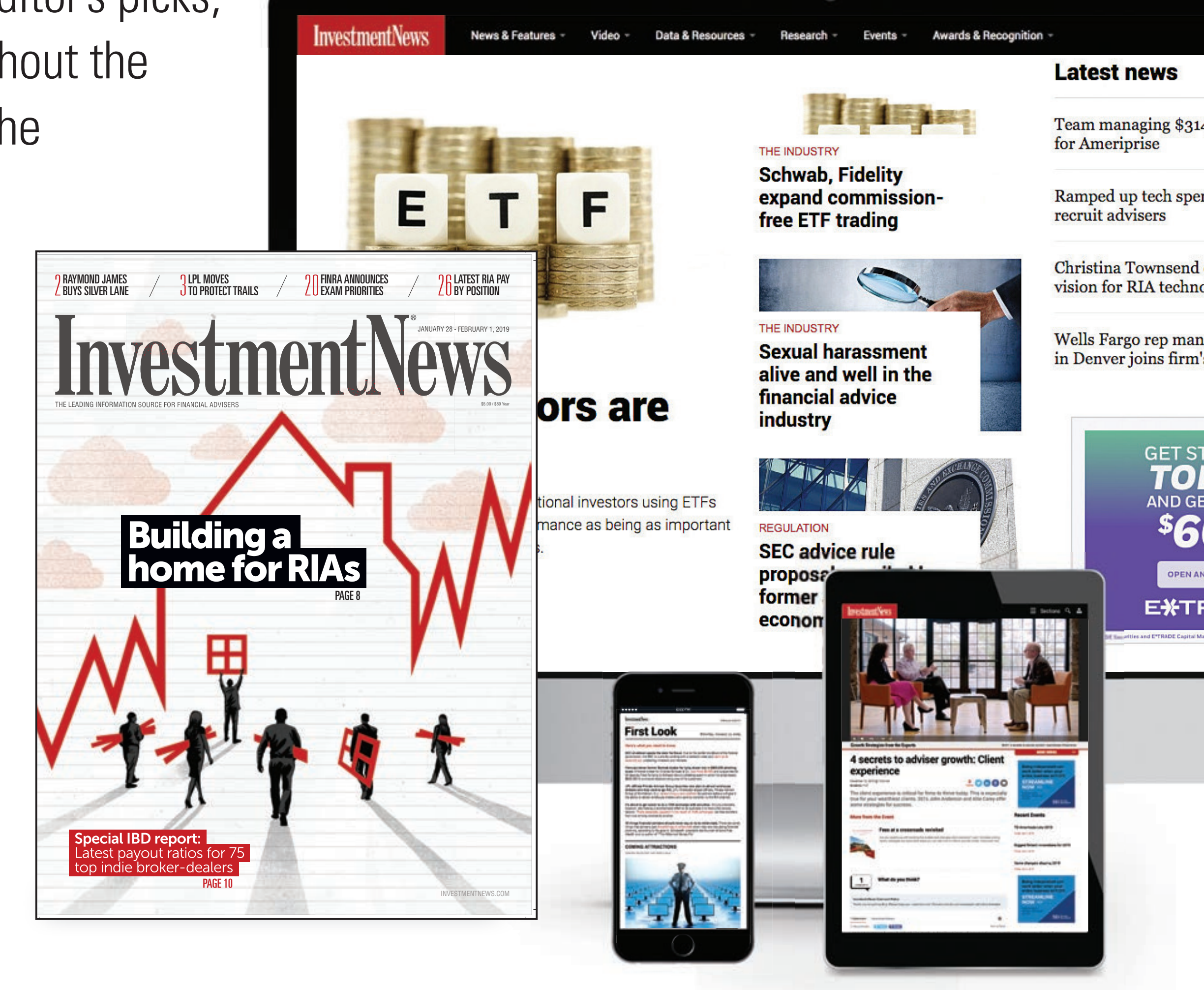

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