InvestmentNews®

JUNE 24-28, 2019

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FROM LEFT
MATT BENKENDORF, GAUTAM KHANNA, ANUPAM DAMANI, ANDREW SLIMMON, ANKUR CRAWFORD, TED THEODORE AND TOBY THOMPSON

MIDYEAR OUTLOOK

WILL TARIFF TANTRUMS AND UNCERTAINTY ABOUT FED POLICY MOVES PUT ACTIVE MANAGERS BACK IN THE GAME IN THE SECOND HALF OF THE YEAR? PAGE 10

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Cisco Systems	CSCO	4.72%
Mastercard A	MA	4.68%
Intel	INTC	4.08%
Adobe	ADBE	2.72%
Oracle	ORCL	2.66%
PayPal Holdings	PYPL	2.66%
Salesforce	CRM	2.39%

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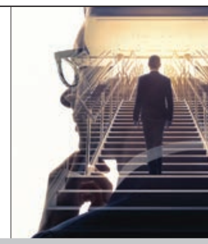


The future today
Young leaders in the advice business discuss what's ahead for the profession.

Page 14

Roth time
Several factors make now a good time to consider a Roth conversion. Here are four strategies.

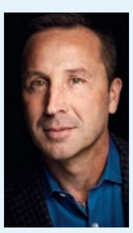
Page 22

ONLINE
10 IBDs with the most variable annuity revenue
InvestmentNews.com/IBDVA

EDITOR'S NOTE

Is active back? Markets will tell

The battle between active and passive investing is epic — so epic it makes the Hatfields and McCoys look like a basket of puppies. So epic it makes the Montagues and Capulets look like BFFs.



FRED GABRIEL

You get my point.

It was no surprise, therefore, when we assembled an oustanding group of seven active mutual managers to share their mid-year outlook, that they used the opportunity to talk about the return of active management.

If you've been living under a rock for the past decade, you may have missed the fact that passive investing has been trouncing active strategies. Investors poured $470 billion into passive equity strategies in 2018. Meanwhile, active managers suffered a net $175 billion in outflows, according to Morningstar Inc.

LONG BULL MARKET

The rise of passive, of course, coincides with a long-running bull market.

"We need a bust," said Andrew Slimmon, managing director and lead senior portfolio manager at Morgan Stanley Investment Management, at our roundtable earlier this month in New York. "I'm not so sure that passive isn't going to continue to do fine, but the whole market will continue to levitate until we get to escape velocity."

Needless to say, most of our portfolio managers are optimistic about the opportunities for active strategies in the second half of the year. Why shouldn't they be? The wildly gyrating market, coupled with a wildly gyrating administration in Washington, D.C., has set the stage for a lot of reactionary investing

For more insight into what to expect during the second half of 2019, read our story on Page 10. You won't be disappointed.

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GPB reports huge value declines

BY BRUCE KELLY

IN A BLOW to investors, GPB Capital last Friday reported significant losses in the value of its investment funds, which are in the form of private partnerships that invest primarily in auto dealerships and waste management businesses.

The two largest, GPB Holdings II and GPB Automotive Portfolio, have seen declines in value, respectively, of 25.4% and 39%.

According to a document from GPB sent to custodians and investors, that means that a client who bought $50,000 of GPB Holdings II has seen the value of his investment trimmed to $37,300. For an investor who purchased $50,000 in GPB Automotive Portfolio, that position now has an estimated value of $30,460, according to GPB.

Those two funds raised $1.27 billion from investors and make up the lion's share of GPB Capital's portfolio. In total, GPB has raised $1.5 billion; broker-dealers sold the securities to wealthy clients in chunks of $50,000 to $100,000.

GPB's five other smaller funds reported declines in estimated value of 25% to 73%, according to GPB.

$1.5B
AMOUNT GPB CAPITAL HAS RAISED IN TOTAL

ADDING IN DISTRIBUTIONS

In a statement to *Investment-News*, the company noted that if distributions were added to the fair market value, investors did better. The distributions in the GPB funds are not returns on the investments but a return of a small piece of investors' initial capital.

Adding in distributions, investors in GPB Holdings II and GPB Automotive Portfolio saw decreases in their investments, respectively, of roughly 13% and 25%, according to the company.

The company has been facing questions from broker-dealers and investors about the value of its private placements.

At the end of April 2018, the company missed a deadline to report financial information about GPB Holdings II and GPB Automotive Portfolio.

Since then, GPB has experienced a number of other setbacks. Most recently, Fidelity's National Financial Services was discussing whether to remove the private placements from its platform as GPB was trying to determine a value for the funds.

QUARTERLY VALUATIONS

GPB's estimated values for the funds are as of the end of 2018. The company intends to issue quarterly valuations in the future.

GPB has been in recent years a leading sponsor and manager of high-risk, alternative investment private placements sold by brokers who work at independent broker-dealers. They typically receive commissions of 7% for selling the private placements, much higher than for mutual funds.

According to its website, GPB has ownership interests in more than 160 companies.

In an email, a spokeswoman for GPB said it was asking its in-

CONTINUED ON PAGE 28

Pressure leads NJ to delay fiduciary action

BY MARK SCHOEFF JR.

KEY POINTS

- New Jersey scheduled public hearing on fiduciary rule and extended comment period.
- State received about 70 requests from industry groups.

UNDER FIRE FROM critics, New Jersey has scheduled a public hearing and extended a deadline for public comment on a proposal that would impose a fiduciary duty on anyone giving investment advice, including brokers, in the Garden State.

The hearing on July 17 at the Division of Consumer Affairs in Newark was announced in last Monday's New Jersey Register.

It was scheduled after the state received about 70 requests from industry groups opposing the New Jersey measure, according to Jason Berkowitz, chief legal and regulatory affairs officer at the Insured Retirement Institute.

"We always think it is beneficial to present views live and in-person," Mr. Berkowitz said.

Thanks to the scheduling of the hearing, the comment deadline for the New Jersey proposal was delayed from June 14 until July 18.

New Jersey is one of several states — including Nevada and, earlier this month, Massachusetts — seeking to set their own investment advice standards.

The Securities and Exchange Commission recently approved advice reform rules, including Regulation Best Interest for brokers, that the brokerage industry want to stand as the only advice law in the nation.

"Implementation of state-level fiduciary standards will result in an uneven patchwork of laws that would be duplicative of, different than and possibly in conflict with federal standards," Ira Hammerman, executive vice president and general counsel at the Securities Industry and Financial Markets Association, said in a statement.

EDITORIAL
State fiduciary efforts ebb, flow.
PAGE 8

New Jersey and the other states should stand down until they see how the SEC rules play out, Mr. Berkowitz said. The SEC package must be implemented by next June.

CONTINUED ON PAGE 28

Vol. 23, No. 25, June 24, 2019. InvestmentNews (ISSN 1098-1837) is published weekly, except bi-monthly in July and August and the last two weeks in December by InvestmentNews LLC. The agent is Crain Communications Inc., 1155 Gratiot Avenue, Detroit, MI 48207-2912. Periodicals postage paid at Detroit, MI and additional mailing offices. POSTMASTER: Send address changes to InvestmentNews, Circulation Dept., 1155 Gratiot Avenue, Detroit, MI 48207-2912. U.S. subscription price: $89 a year.

SEC wants more access to private placements

BY MARK SCHOEFF JR.

THE SECURITIES and Exchange Commission is looking for ways to allow more investors to buy unregistered securities and enable emerging companies more easily to raise capital.

The agency issued a concept release last Tuesday that examines ways to "simplify, harmonize and improve" regulations surrounding the sale of nonpublic investments, or private placements. For the most part, they are restricted to sophisticated investors who meet certain income and net worth thresholds.

JAY CLAYTON

Over the past several years, Congress has passed legislation, such as the Jumpstart Our Business Startups Act of 2012 and other measures, that have reformed SEC rules around when securities can be exempted from registration requirements. Congress has also considered updating the accredited investor standard.

The concept release indicates the SEC is poised to do more to ease restrictions on private placements, which often are riskier investments than public stock offerings. In 2018, approximately $2.9 trillion was raised in the private markets, compared with about $1.5 trillion on public exchanges, according to the SEC.

The agency will take comments on the concept release for 90 days following its publication in the Federal Register. After digesting the input, the SEC could proceed to writing a regulatory proposal.

ACCREDITED DEFINITION

The 211-page concept release covers the accredited investor definition, exemptions for so-called Regulation D, Regulation A and crowdfunding offerings, pooled investment funds and secondary trading.

"We also consider whether the limitations on who can invest in certain exempt offerings, or the amount they can invest, provide an appropriate level of investor protection (i.e., whether the current levels of investor protection are insufficient, appropriate or excessive) or pose an undue obstacle to capital formation or investor access to investment opportunities," the release states. "For example, we explore whether we should revise our investor eligibility limitations to focus more particularly on the sophistication of the investor, the amount of the investment, or other criteria rather than just the income or the wealth of the individual investor."

Alternative investment advocates assert that such products diversify portfolios and offer investors a way to hedge against general market downturns. Investor advocates warn private placements can be highly risky and often harm investors.

ORDINARY INVESTORS

SEC chairman Jay Clayton has pushed to open private markets more widely to ordinary investors so that they can be in on the ground floor of the launch of breakthrough companies.

"We are taking a critical look at our exemptions from registration to ensure that our multifaceted private offering framework works for investors and entrepreneurs alike, no matter where they are located in the United States," Mr. Clayton said in a statement.

"Input from startups, entrepreneurs and investors who have first-hand experience with our framework will be key to our efforts to analyze and improve the complex system we have today," he stated.

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Vermont starts fraud-victim fund

BY MARK SCHOEFF JR.

VERMONT VICTIMS of investment fraud will be more likely to recover money thanks to a restitution fund the state created last week.

The state will supply the fund by siphoning a portion of monetary settlements from securities enforcement cases, according to Vermont Commissioner of Financial Regulation Michael Pieciak.

He said somewhere between 12% and 15% of settlements will be diverted to the restitution fund. Last year, the state assessed about $3 million in penalties for securities violations.

Under the rules for the fund, victims can obtain the lesser of $25,000 or 25% of restitution awarded within two years of a final order. Vulnerable persons, including those age 60 and over, could receive the lesser of $50,000 or 50%.

The fund was created as part of a bill approved this year in the Vermont legislature. The goal is to give victims of financial rip-offs a way to recover some money when the perpetrators have already blown through ill-gotten gains.

"These would be folks who would be otherwise uncompensated," Mr. Pieciak said.

INDIANA, MONTANA

Vermont joins Indiana and Montana in establishing such funds. Other states may follow.

"These are conversations we have to have because these funds provide real benefits to investors," said Mr. Pieciak, who also is president of the North American Securities Administrators Association.

Christine Lazaro, president of the Public Investors Arbitration Bar Association, said restitution funds are a good idea.

"In terms of investor protection, it's an important step in ensuring that investors who are harmed are given some recovery," said Ms. Lazaro, who also is a law professor at St. John's University.

MICHAEL PIECIAK

The Vermont fund arrives while the Financial Industry Regulatory Authority Inc. grapples with unpaid arbitration awards.

"We would like to see Finra use its fine money to help provide restitution to investors who go through the arbitration process," Ms. Lazaro said.

During a session on unpaid arbitration last year at a meeting of the Securities and Exchange Commission's Investor Advisory Committee, the Financial Services Institute warned that a fund for arbitration victims should not be funded by brokerages that have done nothing wrong.

Although the Vermont fund taps money only from violators, FSI is wary of the approach.

"Similar to the arbitration fund, we would be concerned that the existence of the fund would lead to Vermont bringing additional enforcement matters and/or increase enforcement fines in order to fund the pool," Robin Traxler, FSI senior vice president of policy and deputy general counsel, said in a statement.

A recent Finra proposal would require rogue brokerages to shift money to an account that could be used in part to fund unpaid awards.

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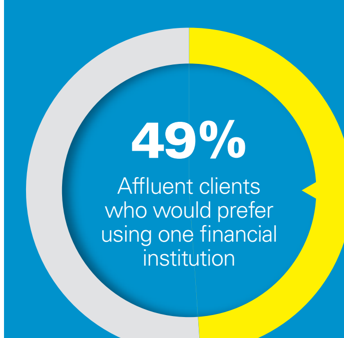
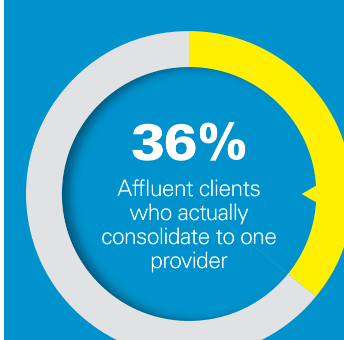
CONSOLIDATING ACCOUNTS

Many wealthy clients favor the idea of using a single institution to handle most of their financial needs, but only about a third do so





Source: Cerulli Associates

Betterment ACATS go paperless

BY RYAN W. NEAL

BETTERMENT WANTS to remove more paperwork from the day-to-day lives of financial advisers.

The digital advice company is making the Automated Customer Account Transfer Service, or ACATS, completely paperless for financial advisers using Betterment for Advisors, the white-label version of the Betterment robo-adviser.

ACATS is a system for electronically transferring the securities held in a client's account at one brokerage or bank to another firm. Assets are moved in-kind to avoid taxable gains.

Yet the process still requires a lot of work on the adviser's part, said Alex Choi, head of distribution at Betterment for Advisors. Advisers have to do a lot of printing, scanning and uploading of documents, and the process involves several emails between the client, the old custodian and the new one.

"I'M INTERESTED TO SEE HOW THAT WORKS FOR THE DELIVERING CUSTODIAN."

NINA O'NEAL, PARTNER AND INVESTMENT ADVISER, ARCHER INVESTMENT MANAGEMENT

Even at a digital advice platform like Betterment for Advisors, which added support for ACATS in November, advisers have to print out PDF client agreements and confirm that all of an account's assets are transferrable. If some assets aren't, the adviser would have to call into Betterment's support team to coordinate which assets could be brought over.

Betterment for Advisors is removing all that, letting advisers select securities from a dropdown menu and digitally submit the request to transfer. The workflow is completed with just a few clicks, and clients can approve the transfer via an automated email.

FIVE OR SIX DAYS

Going paperless means an ACATS transfer will typically arrive in five or six days, Mr. Choi said. The existing

CONTINUED ON PAGE 28

Lessons from 'Avatar' and 'Avengers'

"Avatar" and "Avengers: Endgame" sit as No. 1 and No. 2 on the list of the highest-grossing movies in history (not adjusted for inflation). Both have taken in over $2.5 billion dollars at the box office. "Endgame" became China's highest-grossing foreign film of all time just a few weeks after being released this spring. Both movies paint a scene for the future of business for financial advisers,

GUESTBLOG
JAMIE HOPKINS

and the tagline is this: Experience is important.

"Endgame" was the culmination of years of build-up: "Iron Man" in 2008 was the first of 22 movies that led up to, well, the end of the game in the Marvel Cinematic Universe — and the end of a huge planning phase for Disney. Nothing is or ever has come close to what Disney has built in the MCU.

TECH DISRUPTION

Technology has been deemed a disrupter to the traditional movie theater and cinematic experience. Companies like HBO, Netflix and Hulu are delivering top-notch productions to your home. Movie theaters have responded by adding restaurants, full-service bars and comfy recliners. Despite tech disruptions, certain types of movie experiences like that of the MCU are thriving.

"Avatar" created a similar movie theater experience to the MCU. The 2009 movie was filmed in a way viewers had never seen. It was made for the new types of 3D and specialty screens around the country — something you couldn't replicate at home.

Both "Avatar" and "Endgame" cultivated an experience unlike

CONTINUED ON PAGE 27

diversity&INCLUSION

Businesses set a powerful example

In recent years, the idea of being good corporate citizens has gained currency in executive circles. Businesses rightly recognize that just by their example, they can serve as powerful drivers of change, beyond what an individual person can do alone.

GUESTBLOG
PATRICK FARRELL

First, and most importantly, the country is becoming more diverse, and financial advisers on the front lines of the industry should reflect that, whether it's in terms of race, ethnicity, sexual orientation, gender, economics or even language.

At my firm, Spanish speakers make up nearly two-thirds of our home-office team. That mirrors our community of Miami-Dade County, where, according to the U.S. Census Bureau, 65% of residents over 5 years old speak Spanish at home.

NEW CLIENT MARKETS

This type of diversity allows firms and advisers to explore new opportunities in places the wealth management industry has overlooked historically and to relate better to clients who could otherwise have reservations about working with an adviser.

To be clear, just because an adviser isn't a minority or bilingual doesn't mean they can't work well with clients who are. Indeed, as long as an adviser can build a rapport and understand how a client's investment goals are shaped by their background (and then make informed recommendations based on that understanding), that's all that matters in most instances.

Another advantage of people from different backgrounds working together is creating solutions that arise from multiple points of view. Contributions from more di-

CONTINUED ON PAGE 27

The ups and downs of state fiduciary rules

JUST AS ONE STATE this month announced its intention to pursue a fiduciary rule, another postponed its efforts amid industry pushback.

It's been a series of starts and stops in states since threats to the Labor Department's fiduciary rule for retirement accounts grew in 2017. Although broker-dealer common-law standards of care have differed among states for decades, several states have initiated specific fiduciary laws and regulations in the last few years, which have made varying degrees of progress.

Nevada passed a bill in 2017 revising its standing fiduciary law that applied to "financial planners" to include brokers and investment advisers. The Nevada Securities Division released its proposed regulations to implement the law this January, after which it took comments. The industry now awaits the final rule.

Other states — such as Maryland, New Jersey and New York — have waded in at differing depths. The Maryland bill was rejected in committee in April. New Jersey, previously on the fast track, has now extended its comment period (to July 18) and scheduled a hearing (for July 17). *InvestmentNews* senior reporter Mark Schoeff Jr. reported last week on an effort by industry groups to scuttle New Jersey's fiduciary requirement, which resulted in about 70 letters opposing the measure. That campaign seems to have had its intended impact — at least for now.

But in comes Massachusetts on June 14 with its own notice of intention to propose a fiduciary rule. Now that the Securities and Exchange Commission's advice reform package has passed, and doesn't meet Secretary of the Commonwealth William Galvin's criteria for toughness, the state is ready to act.

So what are brokers and advisers to make of all this?

Certainly, brokers and firms that do business in multiple states will find it challenging to meet what the industry calls a "patchwork of rules." But as presidential administrations change, and with them rules finalized by previous agencies, confidence in even one set of federal rules becoming long-standing could be misplaced.

And, whether broker-dealers or investment advisory firms like it or not, states have the right to propose such rules. As the SEC explains on its website, states' "blue sky" laws "cover many of the same activities the SEC regulates, such as the sale of securities and those who sell them." The Uniform Securities Act, a model statute from the 1950s meant to guide state efforts, includes language indicating that it is unlawful for those giving advice "to engage in dishonest or unethical practices as *the Administrator may define by rule*." Emphasis here has been added to highlight the fact that if a state passes such a law, determination of what is dishonest or unethical may lie with the state's chief regulator.

But getting past the burden on firms, could investors of a particular state benefit from its higher advice standard? Some states fear that the information asymmetry inherent in financial advice relationships combined with some pay incentives that encourage actions removed from considerations of a client's best interest render state fiduciary standards helpful. The industry counters that investors are harmed by such standards that impose greater costs on firms and eventually wind up pricing less-wealthy clients out of the financial advice market. This was the same argument made against the DOL fiduciary rule.

> **PROGRESS IN STATE EFFORTS WOBBLES BUT WON'T FALL DOWN.**

But would that happen?

It's hard to say in advance, and these state efforts may actually prove a useful testing ground. A study conducted by academics Michael Finke and Thomas P. Langdon published in the Journal of Financial Planning in 2012 took advantage of variations in state common-law fiduciary advice standards to gauge whether stricter standards within states resulted in fewer registered representatives doing business in those states, and whether reps there felt constrained in their ability to offer services to lower-wealth clients. In both cases, the researchers found no statistical differences among states, no matter the advice standard.

Would it be different for statutory law or regulatory law? Maybe. We'll certainly find out if a state actually makes it through the certain process of getting a fiduciary rule on the books and firms have time to adapt to its requirements. Then we would discover the true, lasting impact of a heightened investment advice duty on firms and investors.

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ACTIVE MANAGERS ANTICIPATE HOW CHANGES IN THE MARKET COULD LET THEM PROVE THEIR METTLE

BY JEFF BENJAMIN

PHOTOGRAPHY BY MATT FURMAN

ROUNDTABLE PARTICIPANTS
TOP ROW, FROM LEFT: ANKUR CRAWFORD, ANDREW SLIMMON, MS. CRAWFORD, MATT BENKENDORF AND TED THEODORE. SECOND ROW: GAUTAM KHANNA, ANUPAM DAMANI AND TOBY THOMPSON. THIRD ROW: MR. BECKENDORF AND MR. THEODORE

WAITING FOR A BREAK

TEN YEARS into a historic bull market run that has proved an ideal environment for passive, index-based investing, active managers are champing at the bit for a break in the cycle that would let them strut their stuff.

"We need a bust," said Andrew Slimmon, managing director and lead senior portfolio manager at Morgan Stanley Investment Management.

"I'm not so sure that passive isn't going to continue to do fine, but the whole market will continue to levitate until we get to escape velocity," he said, referring to a break from such guardrails as Federal Reserve monetary policy.

At a roundtable discussion hosted by *InvestmentNews* earlier this month, seven portfolio managers shared their outlooks for the second half of this year. They generally agreed that the surprising resilience of the financial markets and the economy, especially since the election of President Donald J. Trump, has made it hard for active managers to stand out.

The markets and the economy continue to project a Teflon-like quality, whether they're faced with trade tensions, uncertainty about Fed policy moves or the generally contentious state of Washington politics, said Ted Theodore, chief investment officer at TrimTabs Asset Management.

"This is the most hated bull market in my memory, and I will take the prize here for being the oldest [roundtable participant], 55 years in the business," he said.

Mr. Theodore is upbeat on the outlook for U.S. markets, and among the indicators that he sees as bullish is the strength of the U.S. labor market.

"I've never experienced as good a labor market as

CONTINUED ON PAGE 12

MATT BENKENDORF

CHIEF INVESTMENT OFFICER AND PORTFOLIO MANAGER, VONTOBEL ASSET MANAGEMENT

Responsible for $32 billion as CIO, including the Virtus Vontobel Global Opportunities Fund (WWOIX) and the Virtus Vontobel Emerging Markets Opportunities Fund (HIEMX)

ANKUR CRAWFORD

PORTFOLIO MANAGER, ALGER

Responsible for $12.9 billion, including the Alger Focus Equity Fund (ALZFX) and the Alger Capital Appreciation Fund (ACAZX)

ANUPAM DAMANI

MANAGING DIRECTOR AND PORTFOLIO MANAGER, NUVEEN

Responsible for $14 billion in TIAA-CREF Emerging Markets Debt Fund (TEDLX) and TIAA-CREF International Bond Fund (TIBEX)

GAUTAM KHANNA

SENIOR PORTFOLIO MANAGER, INSIGHT INVESTMENT

Responsible for the $3.1 billion Insight Core Plus Fund (DCPYX)

ANDREW SLIMMON

MANAGING DIRECTOR AND LEAD SENIOR PORTFOLIO MANAGER, MORGAN STANLEY INVESTMENT MANAGEMENT

Responsible for $4.9 billion, including MSIF Global Concentrated (MLNIX) and MSIF Global Core (MLMIX)

TED THEODORE

CHIEF INVESTMENT OFFICER, TRIMTABS ASSET MANAGEMENT

Responsible for firmwide assets of $150 million, including TrimTabs All Cap US Free-Cash Flow ETF (TTAC)

TOBY THOMPSON

VICE PRESIDENT AND PORTFOLIO MANAGER, T. ROWE PRICE GROUP

Responsible for $25 billion, including the T. Rowe Price ActivePlus Model Portfolios and the T. Rowe Price Target Allocation Active Series Model Portfolios

CONTINUED FROM PAGE 11

we have today in the post-war period," he said.

Mr. Slimmon, like most of the portfolio managers who participated in the roundtable discussion, is banking on the human tendency "of constantly reacting" to create opportunities for active managers.

The best recent example of an opportunity for active managers that was spawned by human behavior was the 20% peak-to-trough pullback late last year that dragged the S&P 500 Index down 6.2% for 2018. The S&P started this year with a 13% first-quarter rebound off that pullback at the end of 2018, but it has given back some of those gains in the second quarter.

The portfolio managers were optimistic about the opportunities for active management in the second half of the year.

"The good news is you're coming out of a period that couldn't have been any better for passive, so intuitively it must be good for active now," said Matt Benkendorf, chief investment officer and portfolio manager at Vontobel Asset Management.

"If you look at what central banking policy has been around the world, it should be no shock that passive has done well," he said. "I think we are probably in one of the most difficult investment environments we'll ever see."

The markets' relatively smooth ride upward over the past 10 years has relaxed investors and advisers to the point where their biggest concern now is the "fear of missing out by not investing more," Mr. Benkendorf said.

'WALKING RIGHT INTO THE STORM'

Just loading up indiscriminately on broad market indexes, he said, is tantamount to "walking right into the storm that we have right now where there's a portion of the market you probably wouldn't even want to touch. But the siren song is there pulling people in, and I think that makes it incredibly treacherous right now."

Ankur Crawford, portfolio manager at Alger, agreed that risk has been quietly seeping into the broad markets as outperformance becomes concentrated among a small portion of companies.

"When we look at this active-versus-passive debate, we are actually quite excited because what we see is the composition of the Russell 1000 Growth Index, which is probably most under attack," she said. "I don't know if all investors appreciate the risk they might be taking, because approximately 27% of the Russell 1000's growth is in five stocks."

The concentration of market gains inside broad indexes like the Russell 1000 is comparable to what was happening in the stock market in 2000 during the tech bubble, Ms. Crawford said.

"In some cases, you might want to take that concentrated risk as a passive investor, but you should at least be aware of what you're buying; it's not just the market, you're getting an outsized exposure to certain stocks," she said. "We are pretty excited about this because we actually see large swaths of the market that you don't want to be invested in right now."

Toby Thompson, vice president and portfolio manager at T. Rowe Price Group, also sees "lots of risk" in the markets but has learned to navigate that risk at least partially by following the lead of the Trump administration.

"I think Trump looks at the equity market as his barometer, and I think he's even said that," Mr. Thompson said. "If the equity market does go down quite a bit, he will react somehow and try to get a trade deal. It may not be a good one, but we think he's going to do something as we get closer to the election."

To avoid having his portfolios whipsawed by geopolitical events, Mr. Thompson said he is holding more cash and "getting dry powder ready to take advantage of things we think the market could give us.

"We're kind of favoring income over growth, so we are actually buying high yield," he said. "It's not super cheap, but we'd rather clip the coupon."

Mr. Slimmon of Morgan Stanley cited the "Trump collar," which he said was comparable to a "Fed put" strategy of investing based on the market's predictable reactions to changes in monetary policy.

"I believe in the Trump collar," Mr. Slimmon said. "If things are good, Trump will be aggressive on tariffs; if things are bad, he pulls back on tariffs."

Mr. Slimmon said he is forecasting the effects of the president's push on tariffs against China based on the level of the S&P 500 going into July.

"If we start the second half of the year back close to 3,000, then we've got an issue, because tariffs are going to impact the market," he said. "But at 2,750, I don't think that is a big risk to the market anymore."

Mr. Theodore of TrimTabs argued that the markets shouldn't feel that much of an impact from tariffs.

"Trade is not a big deal for the U.S., it just isn't, and it's even a smaller deal per company," he said.

But Anupam Damani, portfolio manager for Nuveen's global fixed-income team and head of its international and emerging markets debt sector team, sees two potential rounds of effects from tariffs.

"The first-round effects of tariffs are how it impacts inflation, prices, the hit to the companies and whatnot," she said. "The second-round effect is a hit to confidence and a hit to business investment."

PANDORA'S BOX

Ms. Damani said the way the administration is using tariffs for both "economic and uneconomic reasons" could be opening a Pandora's box.

"I think that is very significant; why would any company want to make any serious investment before the next presidential cycle?" she said. "I think that has to be taken into account in an economy where fiscal stimulus was already waning and at least the fixed-income market is telling you maybe the Fed went too far in its hiking cycle, so you will have a slowdown that the Fed will have to take into consideration."

WE ACTUALLY SEE LARGE SWATHS OF THE MARKET THAT YOU DON'T WANT TO BE INVESTED IN RIGHT NOW.

— ANKUR CRAWFORD, PORTFOLIO MANAGER, ALGER

Considering the four basic engines of growth in the U.S. — consumption, investment, government spending and exports — Gautam Khanna, senior portfolio manager at Insight Investment, expects expanding tariffs will slow investment growth.

"The investment part is very confidence-driven," Mr. Khanna said. "Certainly everything happening with trade and tariffs and the fact the president has opened up multiple fronts — it's not just China, it's Mexico, it's Europe, it's India, et cetera — that adds to the uncertainty, which perhaps causes the investment engine to slow down a bit."

If uncertainty leads to volatility, Mr. Khanna said the economy could be hit by a slowdown in consumption and consumer spending, "which then plays into what happens in the second half from an earnings perspective.

"The U.S. economy is largely immune from trade, but the multinational companies are not," he said. "Unlike Germany, which exports 40% of its GDP, it's only 10% or 15% for the U.S., so it's less relevant and we're perhaps not as badly impacted. But that's not the case for multinational corporations."

FED MOVES

In the category of bold predictions, Mr. Khanna said he wouldn't be surprised if the Fed holds off on making any moves in the second half of the year. (The Federal Reserve left its key rate unchanged in its latest vote last Wednesday.)

"Even though we're priced for two cuts, the Fed is saying they're data-dependent, and short of the data rolling over, I don't see why they should be cutting right here as the bond market is predicting," he said.

Mr. Thompson of T. Rowe expects that Mr. Trump will "push us to the limit" toward a trade war with China.

"I predict China plays the long game with him, the markets really crater, and the Fed has to come in, do two cuts at least and maybe even start with a 50-basis-point cut," he said. "And I think the market will react to that as positive. That's why I think the market will actually end up positive, because either Trump's going to back off late in the game and come up with a magical win, or the Fed's going to come save things."

Ms. Crawford of Alger also is expecting big things from Mr. Trump.

"I would say that Trump actually does pull off a landmark deal on tariffs, and I think in part because he has to as he enters the 2020 election cycle," she said. "And that basically sets us up for an extension of this economic growth cycle for another year or two."

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FUTURE IS ADVICE, NOT INVESTING

YOUNG LEADERS IN THE FINANCIAL ADVICE INDUSTRY EXPLAIN WHERE THEY SEE THEIR PROFESSION HEADING

BY RYAN W. NEAL

Many investors still think of advisers as the financial services equivalent of used-car salesmen.

Even if it's an unfair stereotype — both for advisers and the auto sales industry — changing the perception is critical if the advice industry is to keep up with rapidly changing technology and investor demographics.

The future of advice isn't selling investments, many of the *InvestmentNews*' 40 Under 40 awards alumni said at a May 7 think tank in New York City. The future is life coaching, relationships and comprehensive wealth management, and embracing this new reality is what will drive the future of the business.

It is already influencing hiring.

Several attendees said their firms are looking for people better at the "soft skills" of advising rather than someone who excels at investment management or product sales. Some also said they are trying to hire more women and people of color to build better relationships with a more diverse populace.

Some are even looking outside of financial services to tap into new pools of talent.

For example, Kathryn Brown, co-founder and principal of Morton Brown Family Wealth and a 2019 *InvestmentNews* 40 Under 40 recipient, recently hired a "self-described data geek" to "create the backbone of data to drive everything that we are doing."

Shifting away from investment management in favor of advice and planning also will open the industry to larger segments of the population and to many people with less wealth. Data and technology will help advisers serve these clients profitably, Ms. Brown said.

"How else can we take things we're doing and make them more efficient and move them off our plate without having to beef up the advisory staff?" she asked attendees at the Future of Our Business think tank.

One efficiency suggestion is for advisers to decide on a niche of clients to serve and then build out infrastructure dedicated to meeting their particular needs. Advisers will have to serve more clients, meaning segmentation also will be critical. Advisers of the future also will need to open up to the idea of letting go of clients who aren't a fit, or at least serve them with digital advice.

RETHINK FEES

And if advisers are going to be providing more financial advice than investment management, they also are going to have to rethink fees. Millennials, in particular, may be much more willing to work with an adviser charging a subscription fee for services than a percentage of assets under management, said Nina O'Neal, partner with Archer Investment Management and a 2016 40 Under 40 winner.

Supporting a subscription fee also could help advisers reach next-generation clients who may be in line for an inheritance or are working hard to build their own wealth.

"It's how millennials pay for things," Ms. O'Neal said. "They want to know what they are paying for and what they get."

Tyrone Ross, financial consultant with NobleBridge Wealth and a 2019 40 Under 40 winner, pointed out that fintech startups as well as traditional financial institutions like Charles Schwab are embracing fee-for-service pricing instead of the AUM model.

"Our industry severely underestimates the Schwab move," Mr. Ross said. "AUM is going to die a horrible death."

Of course, no discussion of the future is complete without mentioning technology. Mr. Ross said consumer tech giants will continue moving into financial advice and investing, but that it is not necessarily a threat to advisers. Technology companies want to serve as large a segment of the population as possible, but advisers could use their innovations to continue delivering a higher level of service for wealthier people.

"If Google came up with a CRM, that might be kind of nice," Mr. Ross said.

The think tank attendees also imagined the algorithms that power companies like Amazon and Netflix bringing advancements to financial planning software.

If technology can identify an opportunity for a client to refinance their home or save money on taxes, it could help advisers have deeper conversations that help people live more meaningful lives — instead of just helping them put money away for retirement.

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INSIDE


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"We were constrained in our ability to provide the type of financial advice our clients deserved—so we solved that problem by going independent."
– DARREN HENDERSON
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Fidelity INVESTMENTS

I PREDICT...

40 UNDER 40 ALUMNI attending *InvestmentNews'* Future of Our Business event last month in New York shared their thoughts on what's to come in financial advice over the next three to five years.

"The solo adviser business model will continue to shrink as a percentage of total financial advisers. And teams and ensembles will continue to grow."

Anonymous

"Therapy will be a part of most financial planning processes."

Anonymous

"The average age of financial advisers will finally fall below 50."

Grant Webster, lead adviser, Dowling and Yahnke Class of 2019

"The next recession will cause more consolidation in the industry and more advisers will retire."

Anonymous

"Amazon, Google or Apple will enter the financial services market."

Anonymous

"Within five years, the industry will become a profession. High-value/high-touch planners in this new professional environment will not experience fee compression. And the 1% AUM fee isn't around anymore."

Taylor Schulte, founder, Define Financial Class of 2016

"I will have a subscription model to serve entrepreneurs and freelancers nationwide."

Julia M. Carlson, founder and CEO, Financial Freedom Wealth Management Group Class of 2014

"The next generation of the financial advice profession will embrace pro bono work as an integral aspect of their business."

Kate Hammer, director of development and communications, Foundation for Financial Planning Class of 2018

A lot to learn about the new 'gig economy'

Q&A with Fidelity Labs' Kim Langway on the changing landscape of employment

BY LIZ SKINNER

Advisers increasingly need to understand the gig economy and be prepared to help those working in it. Kim Langway, vice president of product management, Fidelity Labs, explains how advisers and these untraditional workers will increasingly run into each other.

Liz Skinner: *What is the gig economy?*
Kim Langway: The gig economy is a catch-all for people who have an arrangement with a client that is a nontraditional work arrangement. They are not salaried. They may be doing consulting, they may be independent contractors. People working this way call themselves many names. Some people use self-employed, some people say 'I'm a consultant,' some people say 'I'm an independent worker,' some people say 'I'm a freelancer.'

LS: *Is it new and is it growing?*
KL: What is changing is the fact that there are more ways to earn money outside of traditional salaried employment than ever before in the modern era. Second, there are more companies that really rely on nonemployees to fulfill their core business. So, think Airbnb or Uber or Lyft. Those companies are becoming a part of the U.S. economy, and really, a part of all of our investment portfolios.

In addition, there has been a lot of important research over the past few years about how self-employment may be growing in the U.S. economy and some experts claim self-employment may comprise as much as half of the work force by the middle of the century.

LS: *Why should advisers care about this?*
KL: All signs point to the fact that self-employment is only going to grow as a phenomenon in our economy. So even if these folks aren't in adviser books of business today, they will be in the future. Some research says 80% of them wouldn't go back to full-time traditional jobs. There's research out there that says self-employed people are more advice-seeking than those in the traditional salary work force.

LS: *What's different about planning for people with these types of jobs?*
KL: Well I'd say two things. One, self-employed people have a different mindset related to work, and two, they have more complex financial situations. In terms of mindset, they tend to put a value on flexibility, and to some extent they are even willing to earn less to have more control over their time. One consultant that we met calibrated her billing rates towards an optimal number of days of the year that she wanted to work, so for her that worked out to 105 days. She did that really because the first year she was self-employed, she worked too much and didn't get to enjoy the side benefits, being the flexibility and control of her time.

I would also say that soloists have complex financial situations. Their income is volatile, and their timing of client payments can be highly uncertain. And that uncertainty comes with emotional highs and lows and they need to be incredibly disciplined. Because of that, it's all on them in terms of doing their own withholdings, making quarterly tax payments, finding and choosing benefits for themselves. If you think about the population of self-employed, they have the least amount of time to figure all of these things out because, literally, time is money for them.

LS: *Do these jobs offer health insurance and retirement plans and other such benefits?*
KL: I'd say it depends on the work arrangement but, generally speaking, a soloist is a 1099 worker; they're really on their own to figure out or configure a safety net for themselves.

LS: *That's got to be a planning challenge for their advisers.*
KL: I think so because they don't have default protections coming from work; they've actually got to think about risks and protecting themselves right out of the gate, and that includes things like having a bigger than usual emergency fund to account for income volatility. It also includes things like making sure they buy business insurance, making sure they're thinking about things like business formation, so they limit some of their risks.

LS: *Are there other ways advisers can or should be helping clients who are participating in the gig economy?*
KL: I think planners or advisers have to become business coaches as well as financial planners. If they are having discussions with soloists about diversification in their portfolios, they may also want to be talking to them about diversification in their client base or diversification in the way that they're earning income; it may not be enough just to consult. Our research has shown that with the soloist, business and personal finances can be somewhat intertwined, so it's important for an adviser to have a holistic view that includes both business and personal accounts.

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3 basic attributes of successful leaders

Leadership is not easy, but adhering to these fundamentals will set you on a path to greatness

BY MATT COSGRIFF

It's debatable whether a perfect definition of leadership exists. But one thing is not debatable. Leadership is hard.

What's more, the challenges of being a leader can be amplified for young people who have limited experience to draw on when facing tough decisions (although I'd argue that can also be an advantage at times).

Matt Cosgriff

The important thing for young people, however, is to craft their own style and framework for how they will lead over time.

Each leader's style will be — and should be — customized to their individual personality, strengths and even weaknesses. There are, however, some basic attributes all leaders must exhibit to be successful. Here is a simple framework for young leaders to build on.

HAVE CONVICTION IN SOMETHING GREATER THAN YOURSELF

If you don't stand for something, it's tough to get others to follow.

Our favorite blue-shirted and flip-flopped duo (Michael Kitces and Alan Moore) stand for the fundamental belief that young people deserve financial planning, too.

Joe Duran and the United Capital crew stand for the idea that an adviser can help people live richly. We, at BerganKDV, stand for the belief that we can positively impact people's lives through the work we're so passionate about.

The industry is filled with great people who stand for something. As a young leader, find your something and stand for it. You'll be amazed at who follows and the impact it can have on clients, colleagues and your community.

BE INTENSELY HUMBLE

The second attribute of successful leaders, and one that is even more critical for young leaders, is to be intensely humble. As previously noted, conviction is critical to leading successfully; however, left unchecked, it can become a leader's biggest weakness; blind conviction can be disastrous.

As young leaders, we must recognize that even the best leaders make bad decisions. In fact, Schwab's CEO estimated in a recent Harvard Business Review article, that the best leaders only make the right decision 55-60% of the time.

The takeaway?

Get used to being wrong frequently. The words "I don't know" and "I was wrong" can be powerful in building trust. What's critical is not that young leaders are necessarily right all the time, but that we're willing to change as new information becomes available that challenges our decisions — and our convictions.

We must remember above all else, that leadership is about service, not taking credit. Humility helps keep this in check.

LEAD WITH EMPATHY

The days of leading through fear, intimidation and an iron fist are thankfully coming to end in the workplace (hopefully for good). Leaders are not dictators and shouldn't lead like ones. Instead, young leaders must seek to understand challenges that clients and colleagues face to craft solutions.

Seek to understand what you don't know. Seek to understand clients. Seek to understand your colleagues and your direct reports. Most work conflict arises due to a lack of understanding or communication.

Young leaders must be investigators to understand the root causes of disruption in our business or the reasons for underperformance of a direct report. It boils down to empathy. It is a powerful skill to be able to put oneself into another's shoes.

Ultimately, there's no magic equation to successful leadership, although there are some basic tenants that successful leaders can build on and focus their development efforts around to become more effective at leading clients and colleagues into the coming decades.

Take the time to listen rather than to talk and to lead in the way you like to be led, and you will find that you are on the path to becoming a great leader.

Matt Cosgriff is wealth management solutions leader at BerganKDV and a 2019 40 Under 40 award winner.

Where advisers can begin to battle financial illiteracy

Three nonprofits focused on financial literacy were highlighted at the Future of Our Business Event in May. These organizations were chosen by an 11-member *InvestmentNews* 40 Under 40 financial literacy task force, which grew out of the previous year's Future of Our Business event, and was chaired by Prosperity Capital Advisors CEO Jason Smith.

The task force's aim was to offer advisers a concrete way of joining the fight against financial illiteracy. It narrowed down an impressive array of groups through which advisers might volunteer to three: the Foundation for Financial Planning, Invest in Girls and Junior Achievement.

FOUNDATION FOR FINANCIAL PLANNING

THE FOUNDATION FOR Financial Planning's main objective is to provide financial guidance pro bono to people who are most vulnerable and unable to afford it.

Through both grants and fundraising, the nonprofit has assisted 440,000 people since it was created in 1995. It has provided more than $6.6 million in grants to community-based nonprofits to support local programs and has worked through partners to engage more than 15,000 volunteer financial planners.

The foundation provides free financial advice to individuals and families who have experienced hard times, such as domestic violence or homelessness, and has clearly had a powerful impact on those it has assisted.

"Millions of lower-income Americans lack basic knowledge about finances, struggling to make the right decisions and to plan for their futures, while at the same time not being able to afford or access quality, ethical financial planning and advice," said Jon Dauphiné, the foundation's CEO.

The foundation, in working with various partners, provides opportunities for financial advisers to donate their time and skills to help at-risk people improve their finances and their lives.

"It's inspiring to see so many financial advisers step up to give back to members of the community who desperately need their help," Mr. Dauphiné said.

Find out more about the organization at foundationforfinancialplanning.org.

INVEST IN GIRLS

THE MAIN MISSION of Invest in Girls is to help young women learn about investing, both in their private and professional lives.

The nonprofit aims to show girls what they can do for themselves and others when they learn how to make the right financial choices. It also shows them the career opportunities in different areas of the financial industry.

"We do financial literacy work with high school girls and we're working to increase the pipeline of women in careers in finance and financial services," said Betsy Kelder, executive director of Invest in Girls.

She encourages financial advisers to volunteer with the group, founded in 2010, which works with about 750 girls in Boston, New York and the Washington, D.C., area.

"We have opportunities to go into the classroom and talk about your experiences in what we call role model exchange day, so you can talk about your career and how you got there and what you do and what you love about it," Ms. Kelder said.

Advisers also can be part of the group's teaching programs, and advice firms can host industry field trips.

"Girls will come to your firm for two or three hours, get a tour, meet a bunch of folks, have a panel conversation, and really start to understand what goes on in your office and what this field of finance and financial service is about," Ms. Kelder said.

Find out more about the organization at investinothers.org.

JUNIOR ACHIEVEMENT

JUNIOR ACHIEVEMENT OF New York is a nonprofit organization that prepares students in grades K-12 for work readiness in the finance industry by teaching financial literacy and providing the necessary skills for real-world financial experiences.

The purpose of the organization is to inspire young people, using various programs at schools throughout the year.

"Junior Achievement's programs are designed to empower young people to take charge of their future in the global economy through hands-on activities centered around financial literacy, entrepreneurship and work-readiness knowledge and skills," said Joseph Peri, CEO and president of Junior Achievement of New York.

One way financial advisers can get involved with this organization is by volunteering to work directly with kids in the classroom.

Through these programs, students can learn about budgeting, saving and business, as well as gaining greater knowledge about what it takes to become successful in the financial field.

Junior Achievement of New York reached about 90,000 students in 2017-2018.

"Our whole methodology is focused on volunteers connecting with young people to bring not only the content, but the real-world skills and experience to them," Mr. Peri said.

Find out more about the organization at juniorachievement.org/web/ja-ny/home.

— Brittney Grimes, editorial special projects coordinator

Asset managers and plan providers embrace digital design evolution

BY JAY COOPER

Retirement plan advisers and plan sponsors can drastically improve participant outcomes by embracing a new role: the digital fiduciary.

Plan design needs to innovate, and many of those changes will occur on the digital front, retirement industry experts say. Fiduciaries can add value by broadening their focus beyond investment vehicles and portfolio performance and leading some of those changes.

The plan design's digital evolution was part of a wide-ranging discussion among asset managers and retirement plan service providers participating in a recent *InvestmentNews* roundtable discussion about the challenges and opportunities facing the retirement plan industry. The panelists had no shortage of plan design recommendations.

For starters, plan sponsors should rethink the standard 3% default rate ingrained in most defined contribution plans. There's no science suggesting that a higher default rate would discourage participation in the plan, panelists said. Behavioral finance research from one firm found that plans can triple that rate without impacting participation.

Digital features that emphasize the participant's retirement income also would encourage greater savings, because they force the participant to visualize what their future lifestyle will look like, according to the panel. Current features that emphasize the account balance don't force savers to ever stop and think about what they'll need in retirement, or how much they must save to get there.

Small digital changes also can affect diversification. For example, research shows that including more investment options on a single screen — as opposed to asking a participant to click an icon to see additional choices — encourages participants to increase the number of investments within their portfolios.

Other plan design suggestions that may be harder to implement included innovations that allow younger savers to migrate their automated student loan payments into a managed account payment once the loans are paid off. Such features would capture savings that participants are already used to setting aside from their budgets.

Aging software that shows a participant what they might look like when they are older was another suggestion from the group. Evidence has shown that such mental images encourage more savings.

Other suggestions that could be incorporated into digitized plan designs included tools that aggregate an employee's entire wealth picture and additional features that help participants with their decumulation phase.

CROSS-SELL OPPORTUNITIES

Panelists also discussed a burgeoning growth opportunity for RPAs as they cross-sell wealth management services within more defined contribution plans. Plan sponsors have increasingly shown a willingness to pay for those extra services to get their employees more financial education and advice.

Some firms have done a better job than others of capitalizing on that opportunity, panelists said. Among the aggregators, panelists cited CAPTRUST as a company that has positioned itself well to own the client relationship and provide a pipeline between retirement and wealth.

Other businesses are just starting to understand that they will need to be in the wealth business in the next five years, panelists said. On the opposite end of the spectrum, some smaller firms are building their business models with a combined wealth and retirement offering in mind, creating a family office model and on-site counseling to cater to wealthy plan participants.

The group suggested RPAs could bring themselves closer to the participant by introducing managed accounts. Some asset managers on the panel noted an uptick in conversations with RPAs around managed accounts, and fewer discussions about target-date funds. However, other panelists noted many RPAs remain receptive to off-the-shelf target-date products, and that they remain a core component of product offerings for RPAs.

Jay Cooper is a freelance writer.

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  Senior vice president, global client management, retirement & workplace solutions, Morningstar
- **CHARLES WENZEL**
  Senior vice president and head of wealth management defined contribution, Cohen & Steers
- **EBEN WHEELER**
  DC sales director, Blackrock

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"The conversations we've been having with plan sponsors and advisers have centered around risk exposures. … It's gone far beyond the stock-and-bond glidepath a target-fund provider follows. As you move toward retirement, is the mix reducing small-cap and emerging-markets exposure and providing additional liquidity within fixed income? Target-date funds that are doing additional shifts beyond just the stock-and-bond level may be better positioned if volatility returns."

Jake Gilliam, head multi-asset strategist, Charles Schwab

"Based on the studies we've done, the average 401(k) plan has about 20 investment options. … When we think of the complexity of the normal person making 401(k) investment selections from that many funds, we're not quite sure we're doing a good job of helping make that easy for them. … We're working closely with plan sponsors, advisers and consultants to get it from 20 choices to 10."

Brendan Mahoney, senior vice president and head of insurance and intermediary sold retirement plan sales, Capital Group | American Funds

"The Pension Protection Act essentially endorsed target-date funds. … It's left the old menus still running the wishbone offense. Advisers need to think more critically about how you can affect participant outcomes by recreating the core menu. The real constituents of the core menu are the aging participants and highly compensated employees. … These are participants trying to de-risk, yet we're providing them with two or three fixed-income options versus 12 to 14 equity options."

Stephen Dopp, national director, defined contribution, Lord Abbett & Co.

"REITs are a highly under-owned asset class in retirement plans. Less than 1% of all DC assets are in real estate. A perfect allocation, something more like in the institutional world, would be a 5%-15% allocation. … Of the top 20 target-date funds, only 65% have a dedicated allocation to real estate. … It should be a pretty easy conversation to get investment committees to add [this asset class] to the lineup and understand their exposure."

Charles Wenzel, senior vice president and head of wealth management defined contribution, Cohen & Steers

"We're seeing advisers look at a number of ways to use technology, whether that's through our managed account offering or our fiduciary services offering. They want to leverage technology alongside their experiences and core competencies to add value, put it all together, and deliver more services to the participant or the plan sponsor itself."

Jim Smith, vice president of retirement solutions, Morningstar

"Over 90% of target-date funds in plans are either active or passive. Quietly, we're seeing blend have the highest growth rate over the last couple years. It might be a chance for an adviser to talk to their plan sponsor about the blend opportunity. They can be that diligent coach if the plan is going overly passive or active for the wrong reasons."

Derek Wallen, senior vice president and head of practice specialist sales, Fidelity Investments

"There's been a lot more collective investment trusts appearing in retirement plans and particularly in 401(k)s in the last few years because they can be brought to market a lot quicker and brought to market at a lower cost. There's a lot of flexibility in pricing in collective trusts that you don't have in mutual funds."

Steven McKay, head of defined contribution investment only, Putnam Investments

"We think there's an opportunity for more plan sponsors to think of themselves as a digital fiduciary. We spend a lot of time worrying about being a fiduciary for the plan itself, plan design, investment portfolios and investment performance. How about the digital experience that your participants have? It makes a big difference for the plan."

Doug Murray, senior vice president of retirement strategic growth and partnerships, Voya Financial

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PLANNING

"THE KEY THING IS, YOU ONLY GET TO DO IT ONCE. IF YOU'RE WRONG, THEN IT'S AWFUL."
— RON SURZ, PRESIDENT OF TARGET DATE SOLUTIONS, REFERRING TO RETIREMENT STRATEGIES, IN A STORY QUESTIONING TYPICAL TARGET-DATE FUND GLIDE PATHS

INVESTMENTNEWS.COM/GLIDE

RETIREMENT / SOCIAL SECURITY / INSURANCE / TAX / MEDICARE / COLLEGE / TRUST & ESTATE / PHILANTHROPY

IRA trusts to become planning disaster?

The new SECURE Act that was passed overwhelmingly by the House in a 417-3 vote last month contains a provision to eliminate the stretch IRA and replace it with a 10-year payout for most nonspouse beneficiaries, including trusts.

KEY POINTS
- SECURE Act would eliminate the stretch IRA.
- Having a trust as a beneficiary would no longer work as an estate planning option.

Stretch IRAs allow designated beneficiaries to extend distributions from inherited individual retirement accounts over their lifetimes. For example, a 25-year-old beneficiary could stretch required minimum distributions for over 58 years.

Congress has long believed retirement accounts are for retirement and should not be employed as an estate planning vehicle. The Senate is currently mulling over its own bill which might reduce the payout for beneficiaries to only five years, with its own exceptions.

IRAALERT
ED SLOTT

What does this mean for those who have named a trust as their IRA or plan beneficiary? Disaster. Their plan will no longer work as far as accomplishing the estate planning objectives of controlling the funds for beneficiaries and qualifying for the stretch IRA.

LARGEST IRAs

Those with the largest IRAs will be the most affected since they are more likely to name a trust as their IRA beneficiary in order to control distributions to their beneficiaries and preserve the IRA for decades after death.

There are two types of IRA trusts. If any version of the proposals to eliminate stretch IRAs becomes law, IRA trust planning will have to be revisited and maybe even scrapped for an alternative plan.

The two IRA trusts are commonly known as conduit trusts and accumulation (or discretionary) trusts. Under current rules, if the IRA trust qualifies as a see-through trust, the trust beneficiaries can be treated as if they were named directly and the stretch payout will be permitted.

With a conduit trust, RMDs are paid from the inherited IRA to the trust and then paid from the trust to the trust beneficiaries each year. No RMDs remain in the trust. The beneficiaries pay tax on the RMDs at their own personal tax rates.

With an accumulation trust, the trustee has discretion on whether to pay out the RMDs to the trust beneficiaries or retain those funds in the trust to protect and preserve the funds. If the funds are retained in the trust, they will be taxable to the trust at the high trust tax rates (except for a Roth IRA, where there is no tax on distributions from the inherited Roth IRA to the trust).

It's going to be a problem if the payout is limited to, say, 10 years after death. With the conduit trust, there would be no RMDs, except that at the end of the 10 years the entire balance in the inherited IRA would be paid out to the beneficiaries, leaving no funds protected in the trust and beneficiaries with a mega tax bill.

If an accumulation trust is the beneficiary, then again all of the inherited IRA funds would have to be paid to the trust by the end of the 10 years. Since this is an accumulation trust, the trustee does not have to pay out all of the funds to the trust beneficiaries, so the funds could still remain in the trust and be protected, but at what cost? All funds remaining in the trust would be taxed at trust tax rates.

Every person who has named a trust as their IRA beneficiary will need to review those plans and likely look for alternative planning solutions. Life insurance will emerge as a better, more tax-efficient planning vehicle, in which the life insurance proceeds can be left to a trust to gain the trust protection and simulate a stretch IRA.

IRAs would be better off being withdrawn now at today's low tax rates; the balance after tax can be invested in life insurance.

Large IRAs will no longer be a valuable estate planning vehicle — which is exactly what Congress wants.

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

4 strategies for Roth conversions

BY GREG IACURCI

THE TIME IS ripe to convert traditional, pretax retirement accounts to Roth-style accounts.

Low individual tax rates by historical standards and a pending reversion in 2026 to higher rates that preceded the new tax law make this an opportune time, according to financial advisers.

There may be an additional incentive if the stretch IRA, a popular estate-planning vehicle, were to disappear courtesy of retirement legislation being weighed in Congress. Beneficiaries would have to take distributions from inherited individual retirement accounts in a compressed time frame, increasing the likelihood that withdrawals from traditional IRAs bump heirs into higher tax brackets — thereby making tax-free Roth distributions a valuable prospect.

Financial advisers have a few strategies at their disposal.

BACKDOOR ROTH IRA

Roth IRAs have income limits — in 2019, single people can't contribute to a Roth IRA if their modified adjusted gross income exceeds $137,000. But high-income clients can still get money into a Roth IRA via a so-called backdoor Roth IRA.

This strategy entails a two-step process: contributing money to a nondeductible IRA and then converting the account to a Roth IRA.

There are a few caveats. An individual with multiple IRAs is subject to an IRA aggregation rule, which takes all IRA assets — including pretax IRAs — into account when determining a conversion's associated tax. Advisers can sidestep the problem by rolling pretax IRA money into a 401(k) plan, which isn't subject to the aggregation rule.

Further, under something called the "step transaction doctrine," if the two steps of a conversion are completed within too short a time frame, the IRS may determine that they were really part of one transaction, said Michael Kitces, partner and director of wealth management at Pinnacle Advisory Group.

In that case, the IRS would treat the transaction like a Roth IRA contribution made by a high-income individual — a breach of tax rules. Mr. Kitces typically waits a full year between the contribution and conversion to avoid this.

MEGA BACKDOOR ROTH

This strategy is similar to the backdoor Roth, but done within a 401(k) plan. The strategy entails making an after-tax 401(k) contribution and then doing an in-plan conversion to a Roth using the after-tax money.

The higher 401(k) contribution limits allow clients to deal with larger sums of money.

A few caveats: Business-owner clients need to ensure the strategy wouldn't cause their 401(k) plan to fail nondiscrimination testing. The 401(k) plan must also allow for after-tax contributions. Clients must max out their pretax and Roth contributions before making after-tax contributions.

CONVERSION-COST AVERAGING

Since the 2017 tax law ended allowances to recharacterize or undo a Roth conversion, more advisers might choose conversion-cost averaging — a timing strategy similar to dollar-cost averaging. If a client wants to convert $120,000 to a Roth account during the year, advisers can consider doing $30,000 a quarter or $10,000 a month, for example, rather than converting the whole thing at once, Mr. Kitces said.

CONVERSION BARBELLING

This is another timing technique. Advisers will often try to "fill up" marginal tax brackets via Roth conversions. For example, if a client is $10,000 shy of being subject to a higher tax bracket, an adviser may choose to do a Roth conversion for precisely $10,000, thereby avoiding that higher rate.

This precision is difficult early in the year when advisers don't have a clear sense of clients' income and expenses. As a workaround, advisers can choose to "barbell" conversions, Mr. Kitces said, by converting a chunk of money at the beginning of the year and the rest toward year-end when more is known.

Advisers can even combine the conversion-cost averaging and barbell strategies by using the former in the first half of the year and the latter in the second half of the year, Mr. Kitces said.

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SIDE HUSTLE

Almost half of Americans earn money on the side (apart from their main full-time or part-time job). The extra income amounts to an average $1,122 per month for 12 hours of work per week.

Source: Bankrate.com

Most future retirees overestimate their benefits

MARY BETH FRANKLIN

ONRETIREMENT

Chalk it up to wishful thinking, or misinformation, but many future retirees overestimate how much they are likely to receive from Social Security, according to an annual survey released last month by the Nationwide Retirement Institute.

Clients who work with financial advisers are less likely to claim benefits early and tend to receive larger benefits as a result, the sixth annual survey found.

"Social Security is a complex source of retirement income, often causing a disconnect between what consumers think their benefit will be compared to reality," said Tina Ambrozy, president of sales and distribution at Nationwide. "Preparing for retirement holistically by working with advisers and taking advantage of online tools can help older adults maximize benefits and achieve personal goals."

The online survey of more than 1,300 older adults who are retired or plan to retire in the next 10 years, found that nearly half — 44% — say Social Security will be their main source of retirement income. Yet fewer than one in 10 older adults could identify all four of the factors that determine how much a person can receive, including work history, birth year, age at time of claim and marital status.

MANY MISCONCEPTIONS

In fact, 70% of those surveyed believe they are eligible for full benefits earlier than they actually are. On average, future retirees incorrectly believe they will be eligible for full benefits at age 63, rather than their full retirement age of 66 or later, and 26% incorrectly believe that if they claim Social Security early, their benefit will automatically go up once they reach full retirement age.

Future retirees expect to receive $1,805 a month in benefits, but retirees currently collecting Social Security receive $1,408 per month on average — a 28% difference.

About one in three survey respondents work with a financial adviser. Current retirees who work with a financial professional report receiving almost 15% more in benefits than those who do not. They were also less likely to draw benefits before full retirement age, and 90% of them say they are able to do the things they want to do in retirement, compared with 56% of those who didn't work with an adviser.

RECEIVING ADVICE

Among the one-third of future retirees who worked with a financial adviser, about half said they received advice on Social Security. And 76% of future retirees who work with an adviser or who plan to work with an adviser said they would likely switch advisers if an adviser did not provide information about when and how to claim Social Security.

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

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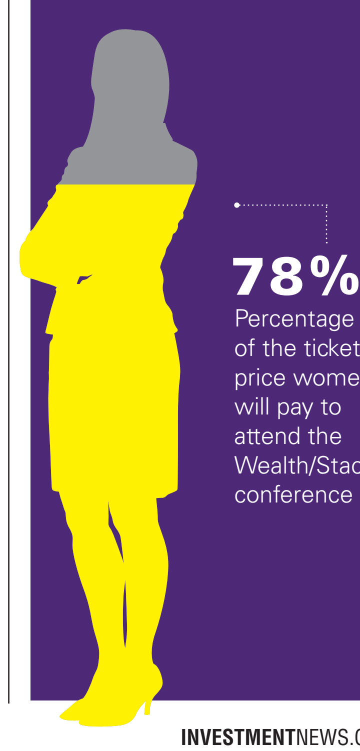
INCOME DISPARITY = DISCOUNT

Creators of the Wealth/Stack conference, including Ritholtz Wealth Management, are using the gender pay gap of women earning 78 cents for every dollar men make as a hook to draw more women to their September conference. They are charging female attendees 78% of the admission price.



401(k) savings rates have stagnated

BY GREG IACURCI

401(K) PLAN design has by most accounts improved dramatically over the past decade. The number of retirement plans that automatically enroll employees has swelled more than 50%, and roughly a third of those plans automatically increase employees' savings rates.

But there's a snag: Evidence suggests that, overall, employees aren't saving more money.

Participants' 401(k) savings rate has been remarkably level over the past 15 years, according to new data from Vanguard Group, one of the largest 401(k) record keepers.

In 2018, the average savings rate was 10.6%, marginally higher than the 10.4% rate in 2004, according to Vanguard's "How America Saves" study, which uses data from plans for which it provides record-keeping services.

"It surprises me a little, looking through the lens of auto features being implemented in 401(k) plans," Paul Sommerstad, partner at Cerity Partners, said of the savings rate remaining level.

The 10.6% overall savings rate is low compared with general guidance from financial planners and the retirement industry at large to save around 15% of one's salary. But, on the whole, a savings rate of around 10% is "not too shabby," said Wade Pfau, professor of retirement income at the American College of Financial Services.

WHY RATE ISN'T HIGHER

But why isn't the rate higher, given improvements in 401(k) plan design?

Automating aspects of 401(k) plans has taken root as a best practice following passage of the Pension Protection Act of 2006. But roughly 40% of plans still don't use automatic enrollment. And those that do "do it very, very poorly," said Ellen Lander, principal of Renaissance Benefit Advisors Group.

Most plan sponsors, for example, enroll participants at an initial savings rate that's too low, Ms. Lander said. More than half of 401(k) plans enroll employees at a starting rate of 4% or less, the most common being 3%, according to the Plan Sponsor Council of America. An employer match of 3% may therefore only yield a 6% total savings rate, depending on the structure of the match formula.

High turnover at companies also plays a role, said Jean Young, senior research analyst at Vanguard's Center for Investor Research.

Half of employees auto-enrolled into a plan with an annual savings-rate increase had left the company after three years, according to a separate Vanguard report published in 2018. The churn among employees consistently resets those employees' savings rates back to the default, and the auto-escalation cycle begins anew.

The good news, Ms. Young said, is as plan designs get stronger and default savings rates rise, employees' overall savings rate should trend upward over time.

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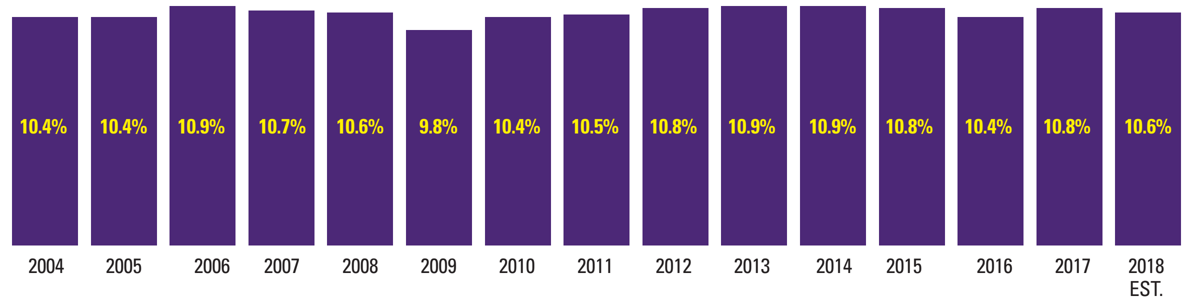
AVERAGE 401(K) SAVINGS RATES



Note: Data include participant and employer contributions; Source: Vanguard Group

PA requires multiple record keepers

BY GREG IACURCI

A NEW LAW in Pennsylvania will require school districts sponsoring certain retirement plans to use at least four service providers, which advisers say runs counter to best practices and will perpetuate an environment of higher record-keeping and investment-management fees.

Beginning July 1, school districts will need to have a minimum of four "financial institutions or pension management organizations" (i.e., record keepers) for 403(b) and 457 plans, which are defined-contribution plans for nonprofit and public-sector entities.

Joshua Schwartz, president of Retirement Plan Advisors, said the requirement effectively precludes school districts from consolidating retirement assets with a single provider to gain more favorable pricing as a result of economies of scale.

"Somebody convinced lawmakers to pass a law that makes retirement plans more expensive for teachers," Mr. Schwartz said. "You wouldn't mandate a school district to have to buy their school buses from four different companies."

Jennifer Kocher, spokeswoman for Jake Corman, a Republican state senator who sponsored the bill, said the provision around multiple retirement-plan vendors was aimed at diversification and is a fairly routine practice for the state.

"We don't just pick one company for one thing," Ms. Kocher said. "We require different bids and different options."

> **KEY POINTS**
> - Pennsylvania law requires 403(b) and 457 plans to use at least four service providers.
> - Intention was diversification, but it could prove expensive.

SUBSET OF MARKET

403(b) and 457 plans are a much smaller subset of the DC-plan marketplace than 401(k)s. They each hold $900 billion in assets, while 401(k)s hold $5.2 trillion, according to the Investment Company Institute.

401(k) plans have evolved into a centralized vehicle in which one firm acts as record keeper for the retirement plan, often providing access to multiple investment options offered by different fund families. Plan sponsors have a fiduciary responsibility under the Employee Retirement Income Security Act of 1974 to prudently manage the plan on behalf of plan participants.

However, 457 plans and the majority of 403(b) plans aren't covered by ERISA, meaning plan sponsors aren't beholden to the same fiduciary standards. These plans, especially those of school districts for kindergarten through 12th grade, are largely decentralized structures in which there's minimal oversight and multiple record keepers that offer their proprietary annuities and mutual funds, advisers said.

As a result, there could be dozens of record keepers for any given district. California has a law on the books that allows 403(b) plan participants to buy annuities from any provider of their choice and prevents school districts from soliciting competitive bids from 403(b) vendors, said Dan Otter, founder of 403bWise, a website that provides information for 403(b) plan participants. In Redlands, Calif., where Mr. Otter lives, the school district has 45 vendors, he said.

The decentralized structure makes data on the plans difficult to come by, but a 2010 report published by the TIAA-CREF Institute shows the sort of pricing disparity that occurs among school districts that don't try to limit the number of providers. In California and Texas, two "open-access" states, the average asset-based fee was 211 basis points and 171 basis points, respectively. By contrast, the average in Iowa and Arizona, two "controlled-access" states that use a competitive bidding process to whittle down providers, was 87 bps and 80 bps, respectively.

Many of the 403(b) lawsuits filed since August 2016, which have targeted universities for allegedly excessive retirement-plan fees, claim the use of multiple record keepers contributes to the problem.

Seeing the cost benefits, some plan sponsors have tried to consolidate their providers, advisers said. However, some state laws — like the one going into effect in Pennsylvania — prevent that from happening fully.

Mr. Otter said he's heard that Pennsylvania school districts that previously consolidated their vendors are now "scrambling" to add vendors to comply with the new law.

"We think these vendors see the writing on the wall," said Mr. Otter, speaking of the trend toward vendor consolidation and lower-cost investing. "I think this is market protection."

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'AVATAR' LESSONS

CONTINUED FROM PAGE 6

anything else, and consumers responded en masse. Advisers need to adapt to the changing tide toward experience-based financial planning and create similarly exceptional client experiences.

TECH THREAT

Tech disruption is a threat to the financial planning landscape, too. But much like the movie-viewing experience, technology will bring opportunities for advisers to build a greater experience. Michael Kitces, partner and director of planning research at Pinnacle Advisory Group, has spoken and written on the topic, using disruption in the travel industry as an example.

Travel agents have better businesses today than before the internet disrupted the industry — they have twice the output they did in 2000. The internet didn't end the need for travel agents, it weeded out those stuck in the transactional nature of their business who couldn't adapt to a more experience-based service.

Today, many advisers also are too transactional. A client comes in with a question and the adviser answers it. Or a client is looking for a product and the adviser simply provides the product. For others, their services might be product-based. These types of practices lack an experiential quality.

As technology continues to get better at identifying clients' product and service needs, the value of a transactional type of practice will diminish. High-level niche planning focused on understanding the client's more comprehensive needs, emotional makeup and behavioral tendencies will be key moving forward.

WORLD-CLASS EXPERIENCE

Developing a world-class experience in a financial planning firm also ties into attracting talent. As firms grow and businesses consolidate, finding the best talent to help you grow is crucial. Providing a great workplace experience — and not just compensation — will help firms bring on and retain the next-generation adviser.

The next time you're watching the latest HBO or Netflix show or "Avatar" movie (Yes, they have announced four sequels.), think about how each is developing a unique experience. They aren't just delivering entertainment anymore, but a long-term and involved experience.

Jamie Hopkins is director of retirement research and vice president of private client services at Carson Group.

LEAD BY EXAMPLE

CONTINUED FROM PAGE 6

verse perspectives often lead to strategies that take a broader range of factors into account. When we assess a situation from a variety of angles, we become better positioned to achieve strong results.

It's no secret that advisers are the lifeblood of the retail wealth management industry, and executives like me are continuously thinking about where the next generation of new professionals will come from.

TAKE THE EXTRA STEP OF ALSO IMPROVING THE CULTURE OF INCLUSIVENESS.

As demand for advisers continues to rise, firms should increasingly draw talent from communities that have not traditionally flocked to the industry. This doesn't mean accepting unqualified candidates; it means searching more broadly for potential advisers whose stories might not fit the traditional mold and giving these individuals an opportunity to prove themselves.

Advisory firms that are serious about hiring more diverse candidates should foster an environment that welcomes differing opinions and emphasizes building a diverse leadership team. The six-member executive team at my firm includes Americans of African, Indian, Hispanic and European descent, including two women. We find diverse talent the same way other firms do, with one exception — rather than pause because of a candidate's differences, we recognize the value of those differences.

BEYOND DIVERSITY

I encourage my peers to do more than increase diversity at their firms, and to take the extra step of also improving the culture of inclusiveness at firms. You can accomplish this with employees and advisers by organizing diverse emotional, cultural and physical community service activities that nurture a sense of togetherness.

Our team recently participated in Bike to End MS and two hunger-relief activities, as well as an eyeglass collection and donation campaign. These initiatives capture our philanthropic values, which is something our team members share, regardless of race, gender or background.

Patrick Farrell is CEO of Investacorp, an independent advisory and brokerage subsidiary firm of Ladenburg Thalmann Financial Services.

SEC says advisers can call themselves fiduciaries

BY MARK SCHOEFF JR.

INVESTMENT ADVISERS are free to describe themselves as fiduciaries and to market that standard of care to clients, despite a prohibition on the term in one part of a new Securities and Exchange Commission disclosure form.

In its recently approved advice reform package, the SEC released a final rule for the client relationship summary, known as Form CRS. The two-page document, which must be presented to clients, is meant to explain the differences between broker-dealers, investment advisers and dual registrants.

On page 27 of the 524-page rule, there's a reference to the SEC's attempt to clarify the standard of conduct investors should expect from financial professionals.

"For example, we are substantially revising our approach to disclosing standard of conduct and conflicts of interest to make this information clearer to retail investors, including (among other changes) eliminating the word 'fiduciary' and requiring firms — whether broker-dealers, investment advisers or dual registrants — to use the term 'best interest' to describe their applicable standard of conduct," the Form CRS rule states.

CAUSED A STIR

When this language was pointed out last week in a tweet by Skip Schweiss, head of advisory advocacy and industry affairs at TD Ameritrade Institutional, it caused a stir in the adviser community. But advisers are still allowed to use the term, according to the agency.

"Investment advisers are fiduciaries, recognized and regulated as such by the commission," an SEC spokeswoman said in a statement. "Recent commission action does not prohibit investment advisers from calling themselves fiduciaries."

In fact, the SEC prohibition on "fiduciary" only applies to the standard-of-conduct description in Form CRS, not to the rest of that document, according to Karen Barr, president and CEO of the Investment Adviser Association.

"We have confirmed with SEC staff that advisers can use the term 'fiduciary' elsewhere on Form CRS," Ms. Barr said. "Investment advisers are still fiduciaries, full stop. They should emphasize their fiduciary duty and put their clients first, the way they always have."

Advisers will still be able to tout their fiduciary status, according to G.J. King, president of RIA in a Box, a compliance firm.

Form CRS "is unlikely to have an impact on how RIAs more broadly market and position themselves," Mr. King said.

In a follow-up tweet, Mr. Schweiss clarified that the mandated "best interest" language for advisers narrowly applied to describing their standard of care in Form CRS.

Under the new SEC advice regulations, brokers and advisers will continue to be regulated separately. Brokers will be governed by Regulation Best Interest, which replaces the current suitability standard.

Form CRS is designed to guide investors in obtaining information about fees, scope of services and other characteristics of advice business models.

Financial professionals will have to file their first Form CRS with the SEC in June 2020. For advisers, that will mean coming up with a shorter version of some of the same material in their Form ADV.

"It will be a challenge to explain what you're doing in two pages in plain English," Ms. Barr said.

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Edward Jones hit for underreporting

BY BRUCE KELLY

OVER A TWO-YEAR period, Edward D. Jones & Co. understated alleged damages in nearly 80 customer complaints, according to a settlement announced last Wednesday with the Financial Industry Regulatory Authority Inc.

From April 2016 to March 2018, Edward Jones filed 79 standard securities industry registrations for brokers, known as Form U4s, that reported incorrect amounts for customers' complaints and potential damages.

In those instances, where Edward Jones reported alleged damages of $5,000, the customers' complaints specified amounts that in some cases were far greater, according to the settlement.

For example, one complaint sought damages of $93,139 for alleged excessive sales of securities; another complaint sought damages of $630,000 for alleged excessive fees and sales charges.

Finra censured and fined Edward Jones $40,000. The firm said it will review its systems and policies regarding the reporting issue.

Edward Jones neither admitted nor denied the findings in the settlement.

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NJ FIDUCIARY

CONTINUED FROM PAGE 4

"We urge the [New Jersey Securities] bureau to hold off, see if there's a need for additional action and, if there is, then to reopen the rulemaking process at that time," Mr. Berkowtiz said.

INVESTOR ADVOCATES

For the most part, investor advocate groups are cheering on New Jersey. They have asserted that the SEC's new regulations failed to raise the broker advice requirement above the current standard that requires them to recommend investments suitable for their customers.

"Reg BI does little more than codify Finra suitability, so it's entirely appropriate that New Jersey and other states move forward with meaningful fiduciary standards for brokers and advisers alike," said Micah Hauptman, financial services counsel at the Consumer Federation of America.

Mr. Hauptman, whose group is likely to testify at the July 17 hearing, said it's reasonable for New Jersey to extend the comment deadline given the SEC rule was just approved.

Nonetheless, many industry and consumer advocates filed comment letters on the June 14 deadline, which they might now amend. They were arrayed along familiar fault lines, with groups supporting the SEC rules criticizing the New Jersey proposal and those against the SEC rules supporting the New Jersey effort.

'UNIFORM PROTECTIONS'

"New Jersey investors will receive uniform protections regardless of whether they rely on a broker-dealer or an investment adviser for investment advice," wrote 17 investor and consumer groups in a June 14 comment letter. "In the absence of a strong, uniform federal standard, the need for state action is stronger than ever."

The Financial Services Institute, which represents independent broker-dealers and other independent financial professionals, called on New Jersey to step aside in light of the SEC rules.

"Regulation Best Interest generally imposes more specific obligations on broker-dealers than the principles-based requirements of investment advisers' common law fiduciary duty," Robin Traxler, FSI senior vice president of policy and deputy general counsel, wrote in a June 14 comment letter. "For these reasons, FSI members believe that the [New Jersey] proposal would unnecessarily duplicate and potentially conflict with the requirements of Regulation Best Interest."

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GPB VALUES DROP

CONTINUED FROM PAGE 4

vestors, who are limited partners in the funds, to be "patient" as GPB works toward finishing an audit of its funds.

"While our estimated fair market values as of December 31, 2018 for Holdings II and Automotive Portfolio are below where we would wish them to be, we are making efforts to improve performance of our portfolio companies and believe this effort will, in the future, translate into improved operating results," Kelly Whitten wrote in an email.

> **"WE ARE MAKING EFFORTS TO IMPROVE PERFORMANCE OF OUR PORTFOLIO COMPANIES."**
>
> KELLY WHITTEN, SPOKESWOMAN, GPB

60 IBDs INVOLVED

As many as 60 IBDs have sold GPB funds. While many were smaller firms, among the most prominent listed in Securities and Exchange Commission filings were four Advisor Group broker-dealers: Royal Alliance Associates Inc., Sagepoint Financial Inc., FSC Securities Corp. and Woodbury Financial Services Inc.

A spokesman for Advisor Group did not have an immediate comment.

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PAPERLESS ACATS

CONTINUED FROM PAGE 5

system can take two weeks.

"That's just kind of the way it is in the industry," Mr. Choi said. "That's essentially why we are doing this, because [ACATS] is so manual and so clunky."

Betterment is making a number of moves to broaden the appeal of its product for advisers. It started offering mutual funds from Dimensional Fund Advisors to Betterment for Advisors in April, after adding commodities in December.

MOVE OVER MORE ASSETS

With paperless ACATS, the robo is making it easier for advisers to move assets from traditional custodians over to Betterment for Advisors. While the company hopes this results in more assets moving to its platform, Mr. Choi said Betterment for Advisors' primary goal is just making the platform more useful to advisers.

"We see things out there that are done in a completely old-school way," Mr. Choi said, adding that the the current ACATS process is "totally insane."

"The real benefit for us here is that it benefits the adviser: less work on their end, less paper on their end and less hassle on their end," he said.

Nina O'Neal, partner and investment adviser with Archer Investment Management, does not use a digital advice platform at her firm, but said she would appreciate anything that helps get client money to the firm faster.

"You had me at paperless," Ms. O'Neal said. "Anything paperless is welcome [given] the stacks of forms that we have to give to clients. I'm interested to see how that works for the delivering custodian to verify assets and registration."

Betterment spokeswoman Arielle Sobel said that "nothing changes on the delivering custodian's end" with the paperless ACATS process.

OTHER CUSTODIANS' OFFERINGS

While Betterment claims it is the first custodian to offer completely paperless ACATS to advisers, TD Ameritrade Institutional spokesman Joseph Giannone said advisers can use TD's platform to enter pertinent data and submit an automated request to transfer.

"Instead of printing a PDF form, end-clients can 'sign' to approve the transfer electronically via DocuSign," Mr. Giannone wrote in an email. "TD Ameritrade Institutional can complete the process without having to re-key data and with just a few clicks."

Fidelity Institutional also claims that it already offers paperless ACATS transfers. Advisers can enter data and initiate a full or partial transfer online, with no printing required, a Fidelity spokesperson said. No paper is required, and clients can sign and approve the transfer with an electronic form and esignature.

BNY Mellon Pershing chief information officer Ram Nagappan said in an emailed statement that the firm is developing a fully digital and paperless ACATS process as part of an "ongoing effort to streamline the service experience for advisers and their clients." Mr. Nagappan expects it to be available on the NetX360 platform in early 2020.

Schwab Advisor Services doesn't currently have a fully paperless process, a spokeswoman said.

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