February 23-27, 2015

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Mr. Twitter
Josh Brown is nearing 100,000 followers, and (not surprisingly) he has a lot to say about how advisers can leverage social media to build their business.
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Spotlight

ANNUITY STRATEGIES: Securities America, Raymond James and LPL Financial find new ways to educate advisers. **Pages 12-14**

NEW INCOME STREAM

Deferred-income annuities grab spotlight from traditional VAs

By Darla Mercado

THE LOWLY deferred-income annuity is finally getting its moment in the sun, as well as in clients' retirement income plans.

Deferred-income annuities started as a variation of the single-premium immediate annuity (SPIA), using a similar concept: A client puts down a lump sum and receives a stream of income in return. With the deferred-income annuity, however, clients' income stream begins later in retirement — as late as their 80s.

There's no denying DIAs' run-up over recent years. In 2011, they posted $211 million in sales, according to data from LIMRA and the Insured Retirement Institute. That number had risen to $2.2 billion by 2013, and Joe Montminy, assistant vice president of the LIMRA Secure Retirement Institute, estimated it would hit $2.7 billion to $2.8 billion for last year.

MORE LEGITIMACY

These annuities also won more legitimacy in 2014 as academics and lawmakers embraced them. The Treasury Department produced guidelines for the use of qualified plan dollars within deferred-income annuities, thus creating the qualified longevity annuity contract. QLACs are exempt from required minimum distributions, so clients can wait beyond 70.5 to begin taking income from them. And last fall, in another piece of guidance, the Treasury outlined how DIAs can work within target date funds.

$2.2B
Total deferred-income annuity sales in 2013

Nevertheless, DIA sales are a drop in the bucket compared with the size of the variable annuity market, which totaled $105.9 billion during the first nine months of 2014, according to LIMRA. To catch up, DIAs must capture broader interest and acceptance among advisers, particularly those at wirehouses and broker-dealers.

The industry's rapid growth can be attributed to more products from more participants, including QLAC manufactur-
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DAVE CUTLER

Stifel mulls Sterne Agee purchase

By Bruce Kelly

A potential acquisition of Sterne Agee Group Inc. by Stifel Financial Corp. would greatly bolster Stifel's presence in the independent broker-dealer industry.

Stifel has 1,943 employee representatives and advisers in the traditional employee model of retail brokerage, but only 188 in the independent channel, through its Century Securities Associates Inc. subsidiary.

Sterne Agee's broker-dealer, Sterne Agee Financial Services Inc., has about 630 reps in the independent channel. Picking them up would arm Stifel for further expansion as the business combination of brokers and registered investment advisers, known as hybrids, continues to dominate the retail financial advice business.

A deal between Stifel and Sterne Agee, a privately held investment bank and retail brokerage in Birmingham, Ala., with almost $26 billion in client assets, could be announced within days, according to a report last Friday by
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Suit against ARCP nixed

Former exec withdraws defamation claims

By Mason Braswell

Almost two months after filing a defamation suit accusing American Realty Capital Properties Inc. of firing her in retaliation for blowing the whistle on fraudulent accounting practices, Lisa McAlister, the company's former chief accounting officer, has withdrawn her suit.

In a stipulation filed last Thursday in New York State court, Ms. McAlister said she was discontinuing the suit "without prejudice," which means that she could refile it at a later date.

No further information was provided in the one-page document. The attorney who represented her, Stephen Meister, did not return a call requesting comment.

A source who asked not to be identified but
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Despite a hard sell by product sponsors, RIAs are not rushing into alternative investments.
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LPL haircut
Bonuses at the independent B-D will be smaller because of past regulatory problems.
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EDITOR'S NOTE

Social media secrets from a Twitter pro

Oh, to be Josh Brown, better known on social media as Downtown Josh Brown with the Twitter handle @ReformedBroker.

What I would give to have nearly 100,000 Twitter followers, instead of a mere 3,000. Or to publish tweets that are retweeted not once or twice, but hundreds — and even thousands — of times. What I'd give to shed my smart, savvy media image and don something more carefree … maybe a little more dangerous.

Frederick P. Gabriel Jr.

Of course, I'd probably have to change my Twitter handle. Instead of boring old @FredPGabriel, I would have to go by something hip, with more social media cred.

What about @BigFreddyP? Or how about @PhatEditah?

Of course, I am kidding — more or less.

But we can all learn a lot from Mr. Brown when it comes to developing an interesting social media persona. As he approaches 100,000 followers — more than any other financial adviser in the business — Mr. Brown has proved beyond a shadow of a doubt that people care about what financial advisers have to say on social media.

EATING IT UP

Not only do they care, but they eat it up.

That is why we asked *InvestmentNews* reporter Liz Skinner to talk with Mr. Brown and try to uncover some of the secrets of his success (see story on Page 8).

What are those secrets? Embedded in Liz's Q&A you will find quite a few. Like, don't take yourself (or your tweets) too seriously. Don't be a know-it-all, and don't get into dust-ups with know-it-alls.

But I think his best piece of advice is this: Be authentic. Those who gather on social media — and a growing number of them will be your clients — can easily sniff out posers.

So let your freak flag fly and be yourself. Share your views and respond respectfully when others share theirs.

I am sure this column will generate one or two emails from advisers knocking the value of social media. After all, they will write, if it doesn't bring clients in the door, what's the point?

On this, I will defer to Mr. Brown, who makes the point succinctly:

"If you're measuring social media on [return on investment], you already don't get it. It's not one plus one equals two; the benefits are predominately indirect.

"Twitter has given me a platform and an audience. All the assets that have come to the firm are because people are reading us."

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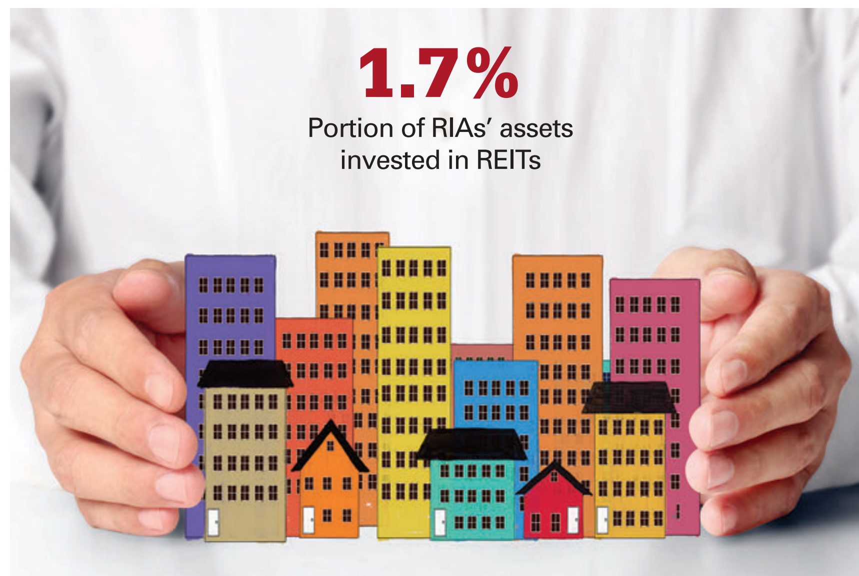
RIAs talk, but cautious on alts

Lower liquidity, higher fees make many hang back on using the products

By Mason Braswell



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Clients, product manufacturers and even major custodians are pushing the advice industry toward alternative investments, but some registered investment advisers are holding back.

Alternatives — which generally include nontraded real estate investment trusts, hedge funds, private equity and other products with a low correlation to stocks and bonds — are the latest talk among RIAs, even though many haven't fully accepted them for their own clients.

About 1.7% of RIA assets are in REITs, for example, compared with 2.8% of assets for the independent broker-dealer channel — where brokers can receive a fat commission for selling the product — according to data provided by Scott Smith, a director with Cerulli Associates.

"It's been amazing to see how quickly all these new products have come out and everyone wants to talk about alternatives," said Adam Larson, investment manager at Savant Capital Management, a fee-only RIA with about $4 billion in assets under management. "Everyone is looking for a way to increase yield on their portfolio, and we're just very cautious."

There are at least three reasons that sponsors of alternative products are targeting RIAs.

First is the need to diversify after the 2008 financial crisis. Second is the search for high-yield products in a low interest rate environment. And third, many brokers are moving into the RIA space and want to be able to offer their clients the same products they did before, including alts.

Industry conferences hosted by major custodians have included a number of panels on how to incorporate alternatives into client portfolios.

At its IMPACT conference in November, for example, Charles Schwab & Co. included two panels with executives of

Continued on Page 28

Betterment raises $60M in new capital

Latest infusion brings total invested in the robo-adviser to almost $105M

By Alessandra Malito

Betterment has raised $60 million from private equity firm Francisco Partners, increasing the total amount invested in the robo-adviser to nearly $105 million.

The latest round of funding for Betterment, which offers diversification and automated rebalancing, illustrates robo-technology's promise for the industry, according to its chief executive.

"Our whole platform is technology-driven," said Jon Stein, CEO and founder of Betterment. "What we do is akin to the services if you had millions of dollars and paid for an investment adviser, but it's accessible to anyone.

"We didn't need to raise the money today," he said, adding that the company has $20 million in the bank still available to use. "We're getting a lot of interest from investors."

The company will allocate the fresh money to making transactions and rollovers faster, as well as to branding for adviser apps and services, according to Mr. Stein.

Betterment plans to optimize its system to reduce the amount advisers pay in fees and taxes, and to use data analytics. That will help give customers "a better picture," Mr. Stein said.

Francisco Partners, which specializes in technology investments, has raised $10 billion in capital for technology companies since it started over 15 years ago. Financial technology is a particular focus for the firm.

Jon Stein: "Our whole platform is technology-driven."
GERARDO TABONES

"We're passionate that software and technology is changing the way people do things," said Peter Christodoulo, a partner at Francisco. "This is another technology disrupting the wealth management sector."

What distinguishes Betterment is its use of vertical integration and its quick solutions, which provide personalized advice and same-day investments, Mr. Christodoula said.

The fact that Betterment has 65,000 customers who invest proves its usefulness, he added.

"We've been waiting for a software solution to make it more efficient, and that's what Betterment does," Mr. Christodoulo said.

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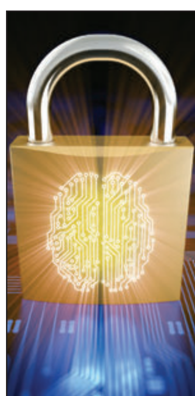
Morgan Stanley data breach focus shifts to hackers from adviser

By Bloomberg News

A federal probe into how Morgan Stanley client information ended up for sale on the Internet is examining whether a financial adviser was targeted by hackers after he took data from the bank, according to two people briefed on the inquiry.

Galen Marsh was dismissed for obtaining information on as many as 350,000 wealth-management clients, but his lawyer said last month that the 30-year-old financial adviser didn't seek to sell or use it for personal gain.


ISTOCK

Federal investigators are trying to determine whether his computer was breached after he removed data from the firm, the people said. There's no evidence Morgan Stanley's computers were hacked, said one of the people, who is familiar with the company's review.

"Right from the beginning, we have stated very clearly that Mr. Marsh had nothing to do with any information being posted on the Internet," Mr. Marsh's lawyer, Robert C. Gottlieb of Gottlieb & Gordon, said last Wednesday.

Morgan Stanley, owner of the world's largest brokerage, has tried to contain the fallout since learning in December that someone had posted information about 900 customers on the website Pastebin and asked potential buyers to pay for more with a virtual currency.

The company said last month that it had the data promptly removed from public view and notified law enforcement.

NO FRAUD REPORTED

Some client information has appeared online again since Mr. Marsh was dismissed, prompting Morgan Stanley to have it taken down, said the people, who asked not to be identified because the probe isn't public.

No customers have reported fraud resulting from the theft of the data, which included names and account numbers but not Social Security numbers, passwords or bank information, one of the people said. Morgan Stanley has begun changing account numbers as a precaution, the person said.

Jim Margolin, a spokesman for Manhattan U.S. Attorney Preet Bharara, declined to comment. The Wall Street Journal reported last Wednesday that the U.S. is examining whether Mr. Marsh's computer was hacked.

Which direction are oil prices heading?

Advisers debate whether sector has hit rock bottom

By Jeff Benjamin

Falling oil prices claimed another victim last week: Billionaire investor Warren Buffett sold his entire stake in Exxon Mobil Corp.

The Oracle of Omaha's dramatic move, which occurred in the fourth quarter but was reported last Tuesday in a regulatory filing, reignited the debate among investors and financial advisers over whether the price of oil has bottomed and is primed to rebound or is set to drop further; and from that, whether to follow Mr. Buffett's lead and sell oil and oil-related investments.

Although the debate over the direction of oil prices remains heated, most advisers are taking a relatively sanguine view of investing in the sector.

But not adviser Theodore Feight.

"I'm watching Exxon because it's the biggest cash cow in the energy sector, but I would not be investing in the sector right now," said Mr. Feight, owner of Creative Financial Design. While he believes that in five years, oil prices could be double where they are today, he's not exposing his clients to

Continued on Page 30

Automating rollovers is next move for 401(k)s

Plan leakage occurs when workers change jobs

Over the past decade, adoption of automatic 401(k) plan features has boosted enrollment, increased savings rates and improved investment options through target-date funds and managed accounts.

Mary Beth Franklin
On Retirement

But a major challenge remains — plugging the leakage in plan assets when workers switch jobs.

It is at these critical moments that the defined-contribution system fails to fulfill two important functions: discouraging participants from cashing out their account balances and providing an efficient way to manage retirement savings.

The consequences of these failures are huge. Given that the average American worker changes jobs more than seven times during the course of a 40-year career, the Employee Benefit Research Institute estimates that over a 10-year period, 401(k) cash-outs will remove $1.3 trillion from the system's future retirement income streams.

Upon leaving a job, a worker can cash out and take a lump-sum distribution or preserve the balance by leaving it in the old plan (if the employer permits), rolling over the balance into an individual retirement account or transferring it to the new employer's 401(k) plan (if it accepts rollovers).

Continued on Page 25

ISTOCK

Phony TurboTax state filings demonstrate need for caution

By Darla Mercado

There's plenty of concern over the deluge of phony tax returns filed through TurboTax, but advisers are keeping cool heads.

The popular tax software, a product of Intuit Inc., made the headlines when 19 states reported possible fraudulent activity earlier this month. State tax departments had received phony returns, and some jurisdictions temporarily stopped issuing refunds to ensure fraudsters weren't receiving taxpayers' cash.

In some cases, phony filings used information pulled from TurboTax clients' 2013 returns, according to a report from MarketWatch.

The Government Accountability Office said the IRS estimates that it paid $5.2 billion in refunds as a result of identity theft during the 2013 filing season. That number could rise to $5.8 billion once the IRS updates its analysis.

Though most advisers' clients use tax preparers and accountants to handle their annual filings, a number of advisers tell horror stories about identity theft and refunds that ended up in the wrong hands.

Lauren Prince, a financial planner at Prince Financial Advisory, had a client whose Social Security number was compromised. When the client filed, the IRS told her it already had received her return. Worse yet, the client was owed a refund.

"It took her a couple of years to get her money and have it straightened out," Ms. Prince said.

Gilbert Armour, a rep with Sage-Point Financial Inc., also had a client whose return was rejected by the IRS on the grounds that it already had been received. That one had been filed by a fraudster.

$5.2B
Amount the IRS estimates it paid in refunds as a result of identity theft in the 2013 tax season

A LEAK

"I suspect it wasn't a tax-filing software problem but some kind of leak, or they had obtained the data some other way," Mr. Armour said.

The leak led to a lot of hassle for the client, who was required to file on paper via snail mail the following year and include a special code on the return for the following two years, according to Mr. Armour.

"It was two to three years before everything was back to normal," he said.

Recent data breaches at major financial services firms mean advisers were less surprised by the news about phony tax returns. Breaches also have made them more wary about how they share documents.

"This year I started using a portal with Citrix technology, and that's how I share tax returns," said Dan Olson, principal of Olson Tax & Financial Planning. "I don't trust Google Docs, Google Drive and Dropbox."

Sam McPherson, president of McPherson Financial Advisors Inc., has clients who use TurboTax and is a customer himself. He is reserving judgment until there's more information on the source of the breach.

"My ultimate concern is that this seems to be more and more part of the landscape, as we progress with putting more of our information online," Mr. McPherson said. "I'm not sure that any one company can guard against it. It seems to be an evolving crisis."

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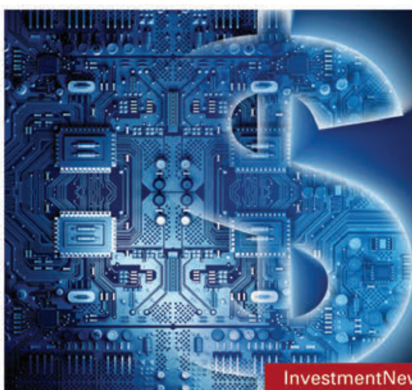

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C-suite bearing the brunt of bonus cuts at LPL

By Bruce Kelly

After a year of discouraging financial results due to a sharp rise in regulatory expenses, LPL Financial Holdings, parent of the nation's largest independent broker-dealer, LPL Financial, will cut bonuses to employees, including top executives.

"Bonuses will be lower year over year because of the overall performance," LPL chief financial officer Dan Arnold said in an interview last Thursday. "Qualitatively and quantitatively, the firm came up short, mainly because of the regulatory environment."

LPL's compensation committee is holding top management accountable, Mr. Arnold said, adding that the bonus cuts were "more heavily weighted to leadership."

He declined to specify by how much bonus compensation had been reduced.

While bonuses at independent broker-dealers such as LPL, which are awarded in February, are not at the heady levels of investment banks, they are a significant part of compensation.

Mark Casady, LPL's chief executive and chairman, received a bonus of $2.5 million in 2013, according to LPL's 2014 proxy statement. That represents 41% of his $6.14 million in total compensation for that year.

LPL released its fourth quarter and annual results last Thursday, and there were positives.

EARNINGS UP

The company reported earnings per share for the quarter of 66 cents, beating the Wall Street consensus of 61 cents.

LPL added a net total of 363 advisers last year, just shy of its stated annual goal of 400. Advisory and brokerage assets grew 8.4% year over year, to $475.1 billion. The company crossed the threshold of 14,000 registered representatives and financial advisers in 2014, to 14,036, up 2.7% from 2013.

Dan Arnold

At the end of October, however, Mr. Casady apologized to shareholders for taking so long to straighten out compliance problems, with LPL taking a $23 million charge to resolve yet-undisclosed regulatory issues.

Last year was extremely costly for LPL on the regulatory front. It had $36.3 million in charges, including fines and restitutions.

But Mr. Arnold was upbeat about the results.

"It was a good, solid quarter, with top-line growth that draws gross margin expansion," he said. That, combined with expense management — particularly compensation and travel expenses — contributed to the positive results, he said.

LPL's net income for fourth-quarter 2014 was $48.5 million, versus $44.4 million for the year-earlier period.

But full-year net income fell 2.1%, to $178 million from $181.9 million in 2013. Its net revenue for 2014 was $4.37 billion, up 5.6% from 2013, when the company posted $4.14 billion.

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[1] LIMRA International U.S. Individual Annuities Sales Survey Fourth Quarter 2013 YTD. Jackson ranked first in total annuity sales out of 60 participating companies that provided LIMRA with quarterly data during 2013.

[2] Ratings current as of 3/31/14. Financial strength ratings do not apply to the principal amount or investment performance of the separate account or underlying investments of variable products.

[3] Service Quality Measurement (SQM), 2013.

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United Cap's poach of RIA signals shift

By Mason Braswell

United Capital has recruited a $2 billion registered investment adviser from Compass Bank — its biggest addition since the company was founded in 2005. The move marks a shift in how United Capital plans to compete.

With the hire of the 23-member team, which operated as Capital Investment Counsel Inc., United Capital has changed its focus to recruiting from buying as an expansion strategy, according to Matt Brinker, the company's senior vice president of acquisitions.

> "THE PLATFORM has evolved to the point that people will join us … to avail themselves of it."
>
> **Matt Brinker**
> Senior vice president of acquisitions
> United Capital

United Capital has purchased other RIAs in the past — usually established offices with about $500 million in assets under management. But now it is setting its sights on hiring advisers away from bigger firms, including wirehouses, Mr. Brinker said.

"It's a bit of a pivot," he said. "The platform has evolved to the point that people will join us … to avail themselves of it, and that means folks doing $500,000 in revenue all the way to the size of CIC."

United Capital will continue to make some buys, but they will no longer be the key driver of growth, according to Mr. Brinker.

"It's not sustainable for the shareholders with the cost of capi-

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VIEWPOINT

EDITORIALS

The art and science of longevity

FOR BETTER OR WORSE, Americans are living longer. Gone are the days when most people retired at 65 and were dead at 72. Today, men and women retiring at 65 can expect to live another 25, 30, 35 or even 40 years — all the while drawing down their hard-earned retirement nest egg.

It is the responsibility of financial advisers to make sure their clients are prepared for the challenges — and opportunities — that come with these extended life spans.

To do that, advisers must take a number of factors into consideration, not the least of which is coming up with a reasonable expectation of how long clients might live.

Properly estimating their life span, then building a conservative financial plan around that assessment, can spell the difference between success and failure in helping clients attain a sound, safe and secure retirement.

Assessing longevity is two parts art and one part science.

For the science, actuarial tables are a good place to start.

The lifespan of a 65-year-old American man increased two years between 2000 and 2014, from 84.6 to 86.6, according to new mortality projections from the Society of Actuaries. Overall longevity for a 65-year-old woman rose 2.4 years in the same period, to 88.8 from 86.4.

In 2010, median life expectancy was 81 for a 60-year-old man and 84 for a 60-year-old woman, according to the Social Security Administration.

That said, there is substantial variation around these medians in the projected age of death.

For example, in 2010, 30% of 60-year-old men could expect to live to 86 and 10% to 92.

Among 60-year-old women, 30% could expect to live to 89 and 10% to 95.

In other words, the chance of outliving the median is high.

NOT ENOUGH

But actuarial tables are not enough. Financial advisers should devise a personal life expectancy for each of their clients. That's where the art comes in.

To calculate a realistic personal life expectancy for clients, advisers should question them about their medical histories and personal habits (things such as diet, exercise, smoking, alcohol consumption and regular seatbelt use), as well as sources of daily stress.

Familial longevity is another important component in determining how long a client is likely to live.

Life expectancy calculators may be useful in doing this work, but be careful to avoid those that rely solely on actuarial tables. Look for ones that also take clients medical history and personal habits into account.

IT'S UP TO THE FINANCIAL adviser to find the right investment allocation.

There are other important factors involved in making sure clients don't outlive their savings.

Picking the right investment allocation is critical: Invest too heavily in stocks, and your clients' portfolios may become embedded with too much risk and volatility. Load up on securities that are perceived as safe, such as Treasuries or high-quality bonds, and their portfolios may get eaten alive by inflation.

It's up to the financial adviser to find the right investment allocation for each client.

Of course, that allocation should be based on a client's risk tolerance and the amount of money he or she has saved.

Still, considering that most Americans have not saved enough for retirement and are living longer, advisers should be careful about being overly cautious in building their clients' investment portfolios.

Financial advisers must also increase their knowledge of Social Security claiming strategies. For most clients — even wealthy ones — Social Security will play an important role in generating a predictable income stream during their retirement.

With realistic and prudent financial planning, longevity does not have to be a curse.

Hit the books on Kahneman

Investment advisers and financial planners might not like Daniel Kahneman's views on active management (he does not believe in it), but they should listen to his insights about their clients.

And if they aren't already thoroughly familiar with Mr. Kahneman's work, they should become so.

Mr. Kahneman told attendees at the Investment Management Consultants Association conference in New York earlier this month that the role of a financial adviser is less about portfolio positioning than understanding the often irrational biases of their clients.

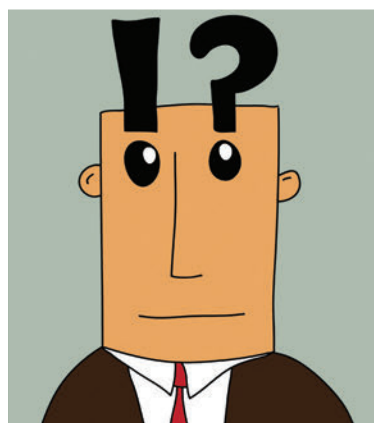
Mr. Kahneman and the late Amos Tversky pioneered the study of what has become known as behavioral economics — initially to great skepticism from economic and finance experts, who believed most people behave rationally when making economic decisions. In 2002, Mr. Kahneman won the Nobel Prize for economics for his work.

His research, and that of others, has shown that economic and financial decisions are often neither rational nor efficient.

PAIN OUTDOES PLEASURE

One of Mr. Kahneman's early findings was that investors' reactions to gains or losses are not symmetrical: The pain of a loss is far greater than the pleasure they feel from a gain of equal value. Most studies suggest that losses are twice as powerful, psychologically, as gains.

As a result, investors have an exaggerated bias against losses. This is known as loss aversion and leads to risk aversion.



Another result of the work of Mr. Kahneman and others is recognition of "optimism bias," which causes some investors to believe they are less at risk of having negative outcomes than others, that they are less likely to have losses in the market than others.

Being aware of clients' level of risk aversion can help advisers guide them to mutually satisfying results. Likewise, awareness of their level of optimism bias can help avoid poor investment choices — for example, increasing allocations to the stock market after it has climbed dramatically.

Understanding Mr. Kahneman's and Mr. Tversky's work on "framing" could assist advisers in guiding clients to make the best choice from several options.

In short, advisers should study the works of Mr. Kahneman, Mr. Tversky and others, including University of Chicago behavioral economist Richard Thaler, so they can understand and offset client — and their own — biases.

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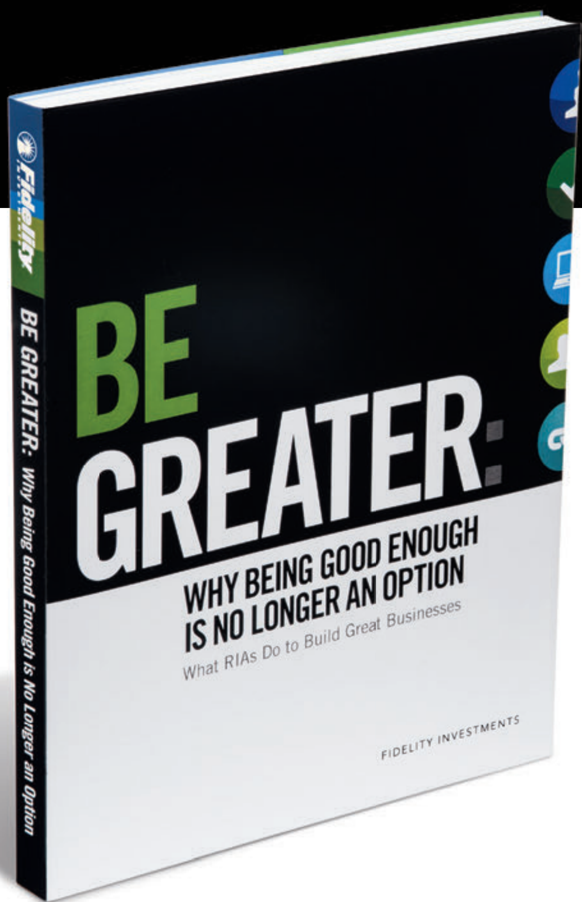

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With 100K Twitter followers in sight, Josh Brown knows business of social

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Josh Brown: "If you're measuring social media on ROI, you already don't get it."

By Liz Skinner

The financial adviser known on Twitter as Downtown Josh Brown with the handle @ReformedBroker is poised to hit 100,000 followers.

While that doesn't land Mr. Brown in the bracket of, say, @RichardBranson, who has 5 million followers, he is probably the first adviser within arm's reach of such a noteworthy level.

Mr. Brown, chief executive at Ritholtz Wealth Management, talked to *InvestmentNews* about matters including how writing helps him clarify his thoughts, how social media increased his business and why he doesn't participate in online scuffles.

***InvestmentNews:* What's the best thing to come out of your prolific tweeting over the past six years?**

Mr. Brown: Everyone who works here came as a result of my social media use or my partner Barry's [Ritholtz]. We have blogs and Twitter, and that's all we're doing.

Both of my certified financial planners who run the practice were followers on Twitter and blog readers. I met Barry through the blog five years ago this summer, and my director of research came the same way. The culture is literally self-selecting.

***IN:* Does your tweeting help with business development?**

Mr. Brown: I get a lot of questions about [return on investment]. If you're measuring social media on ROI, you already don't get it. It's not one plus one equals two; the benefits are predominately indirect.

Twitter has given me a platform and an audience. All the assets that have come to the firm are because people are reading us.

***IN:* The firm just started tweeting under @RitholtzWealth and @Liftofftoday. Why do this, too?**

Mr. Brown: The general idea with those accounts is to be a little bit more corporate and a little bit less id. When there are developments at the firm or events, that's what will happen there. Those will not be conversational; they'll be a bit more anti-social, a little more broadcast channels.

***IN:* You tweet about five times an hour during most of the workday. Do you set a daily goal?**

Mr. Brown: I don't have a goal, and most of what I do doesn't take a lot of effort. The biggest challenge is to limit the number of responses on my screen, because you don't want someone to follow you and see you engaging in 100 conversations they're not a part of.

But you also don't want people to ask you questions and then you ignore them. Presumably everyone on social media has a real job, and you don't want your engagement to take over large chunks of your time.

***IN:* How you can manage money when you're tweeting all day?**

Mr. Brown: I'm not trading stocks; we're in ETFs, funds and separately managed accounts with outside managers. Most of my job is talking to clients and vendors.

Daniel Boorstin, the [former] Librarian of Congress, said, 'I write to find out what I think,' and that's really applicable. I don't have any investment heroes who aren't also prolific writers. It's not that their writing made them better investors, it's that it helped them figure out what they believe and what they don't.

***IN:* Does anyone tweet for you, or do you use a service to send tweets when you can't be online?**

Mr. Brown: No, and I find those services offensive. If you have something to say, great. If you don't, and you're paying somebody to be your voice, it's regressive.

***IN:* Sometimes you give people a hard time in your tweets. Do they ever call you out on it?**

Mr. Brown: I've never had a fight on Twitter. I've had people insult me or yell things, but I've never responded.

I wrote a 10-point explanation for why I don't get into fights on the Internet. The first reason is that you're always taken down to that level. You never look good, even if you win. The other thing is that I'm busy and have more important things to being doing, like managing money. And the third is I don't go looking for trouble.

I'm pretty open about the fact that I'm wrong as often as I'm right. Most of what I'm tweeting is links to other people's opinions. I'm out here to learn. I'm 37 — I haven't figured everything out.

***IN:* Did you ever regret a tweet?**

Mr. Brown: Yes. I once referred to a group of passive investors as 'the index Taliban,' and I erased it. I immediately felt terrible about it. One of them emailed me and said, 'I have grandchildren, and if any of them ever searched my name and they saw Taliban next to it, that would be really upsetting.'

It's one of those things where your foot is so deep into your mouth you feel sick to your stomach.

***IN:* Have any tweets lost you a noticeable number of Twitter followers?**

Mr. Brown: Probably around the time of the Republican primaries, when they were having debates every two days. I am apolitical; I despise all parties equally. I made some jokes and said some things that probably turned people off.

I'm not for everyone. But trying to be everything to everyone probably doesn't result in success. Spontaneity, creativity — these are the things that work in social media. But that means not everything you say will be appealing to every potential follower.

IN: Why Downtown Josh Brown and @ReformedBroker? Is an adviser's name too boring to use as a handle?

Mr. Brown: No, it's just that I've been Downtown Josh Brown since I was in summer camp at 8 or 9 years old, and it stuck. It followed me my whole life; I own it. And Reformed Broker is the name of the blog.

***IN:* Why not use LinkedIn or Facebook?**

Mr. Brown: LinkedIn is a great way to generate new-business leads, and I know people who have had a lot of success using Facebook.

But we pay Smarsh to store and archive all these tweets, and we have a compliance firm that has to go over the stuff. There's a limit to how much you can do. I've chosen to do what I've had results with.

IN: Some advisers don't think social media is useful for business. What do you think they are missing?

Mr. Brown: It's a ridiculous statement to say generally, but it might not be useful for them. We raised $170 million using only Twitter and our blog, so we've done something with it. It lends itself to a certain personality type and a willingness to be authentic and drop the veneer of 'Look at me in my suit.'

The average adviser is 59, so it's not necessarily something that's second nature to them. There are 240 million people on Twitter; probably more than one or two are interested in hearing insights from a finance guy. People should find what they are good at and enjoy doing, and that's what they should focus on.

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Tax complexities delay the distribution of 1099s

As the pressure on brokerages ramps up, forms coming later

By Mark Schoeff Jr.

Many investors who are eager to file their taxes are frozen in place, along with their advisers, as they wait for paperwork from financial institutions currently wrestling with increasingly complicated reporting requirements.

"The trend has been to issue the 1099s on investments later and later," said Leonard Wright, a CPA. "This is a multifaceted issue that has been triggered by the complexities of the tax laws."

For instance, brokerages must determine how to report preferential tax treatment for qualified dividends and must report the tax basis for stocks sold by customers, said David Taylor, a CPA and partner at Anton Collins Mitchell.

Investors champing at the bit to get their tax returns filed may not realize brokerages are trying to ensure that 1099s are accurate and won't need to be corrected later.

> "THE WHOLE regulatory burden has been shifted to brokerage firms."
>
> **David Taylor**
> CPA and partner
> Anton Collins Mitchell

"They don't understand the pressure that brokerages are under to get these things right because there is no de minimis exception," Mr. Taylor said. "The whole regulatory burden has been shifted to brokerage firms."

1099s are based on information from investment companies, which may reclassify fund distributions and dividends. The uncertainty is causing some firms to delay sending 1099s.

Most TD Ameritrade Institutional clients had not received their 1099s as of last week, according to spokesman Joe Giannone. The firm expected to post them online last weekend and mail them early this week.

"We feel it's better for the clients if we hold off distributing the 1099s," Mr. Giannone said. "We want to minimize corrections."

Wells Fargo Advisors began sending out 1099s on Feb. 15, according to spokeswoman Rachelle Rowe.

"We're on track," Ms. Rowe said.

Fidelity Investments has a page on its website outlining the 1099 schedule for its investors. It planned to distribute 1099s beginning Feb. 14 until March 14, depending on the information it gets from investment companies.

The Charles Schwab Corp. mailed all of its 1099s last Tuesday, according to spokesman Mike Peterson. They were available online as of Feb. 11.

The deadline for a 1099 on investments, or a 1099-B, was last Tuesday.

"The IRS won't get excited about it until the end of February," said Jimmy Williamson, a CPA and partner at MDA Professional Group. "Some brokerage houses do it better than other brokerage houses."

There is a difference of opinion among CPAs about whether investors should file their tax returns when they have received initial 1099s or wait to see whether corrected 1099s are issued.

Investors should not use 1099s that indicate they are not final calculations, Mr. Williamson said. The IRS will get the final 1099 and compare it with what the investor filed.

RED FLAG

"That's a big red flag," Mr. Williamson said. "Do not file your return with these numbers. If it doesn't match, you could get corrections that initiate an audit."

But if investors wait for corrected 1099s before sending tax information to their accountants, it can put CPAs under the gun as April 15 nears, according to Mr. Taylor.

"I wouldn't hold up the process" waiting on the final 1099, Mr. Taylor said. "If a correction occurs, the accountant can change a draft return."

The last thing investors should do is try to figure out on their own the taxes they owe from their investments, said Janet Krochman, a CPA.

"If you have more exotic investments, you're better off waiting for the 1099b, even if it's delayed," she said.

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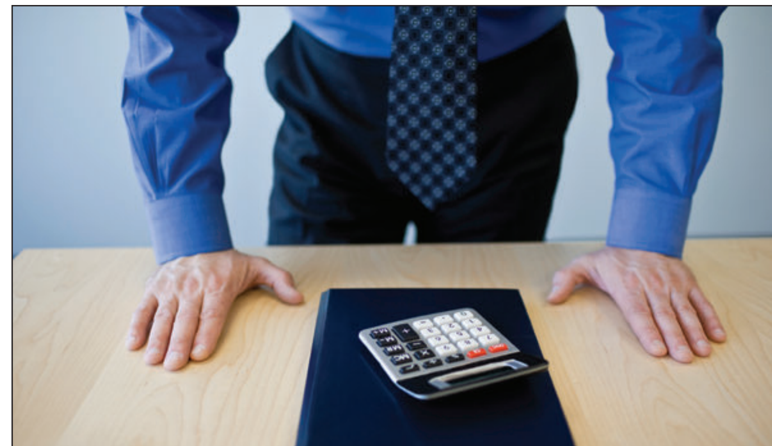

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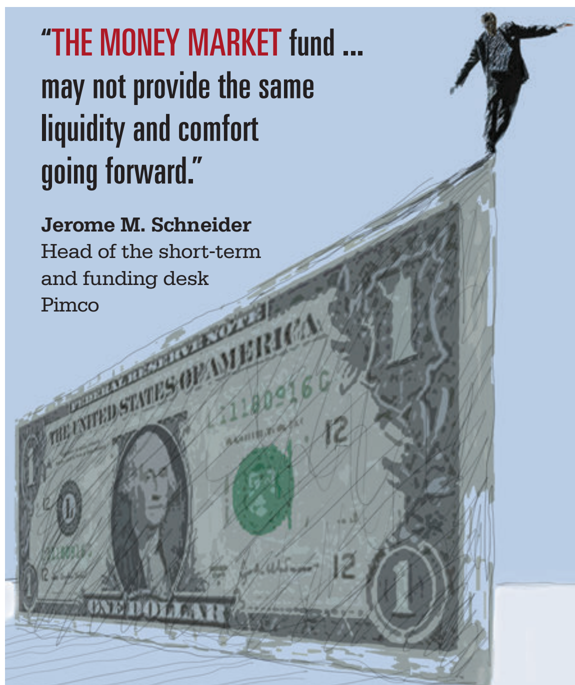
Money market reforms mean rethinking risk

By Trevor Hunnicutt

Financial advisers face choices — and a new trade-off between risk and reward — as money market funds begin to implement changes following rules passed by the Securities and Exchange Commission last year.

Fidelity Investments will ask shareholders in March to approve plans to convert three prime funds, including Fidelity Cash Reserves, into government funds.

The largest money market fund manager said the change will make the $112 billion Fidelity Cash Reserves (FDRXX) more stable in a crisis, as government securities are considered virtually risk-free. But such a move also is likely to depress the already-thin yields money funds pay investors.



GETTY IMAGES

BlackRock Inc. is considering doing the same for about $3.6 billion in retail prime funds later this year, according to spokeswoman Tara McDonnell. Other managers are expected to follow suit.

PROTECT THE VALUE

The money market fund managers are attempting to protect the stable $1 a share quoted to investors and to tamp down fears about managers' preventing withdrawals in times of market stress.

Government-focused funds are exempt from requirements scheduled to go into effect next year that would force them to let their share prices fluctuate and allow them to impose liquidity restrictions.

Nancy D. Prior, president of Fidelity's fixed-income division, said a number of clients insisted on the value of money market funds with stable prices and no liquidity restrictions, but she added that the company will retain a broad lineup.

But the revisions mean advisers will need to rethink their options. Those include government-focused funds that may deliver rock-bottom yields but continue to operate like the money market funds of old, corporate and municipal-debt funds that could restrict redemptions and see their share prices float, and ultrashort-term bond funds that can take on more market risk but also deliver richer yields.

For funds that don't convert to government-focused securities — including those invested in municipal securities and corporate debt — a number of questions remain.

By designating the funds "retail," they can sidestep the requirement to let a fund's net asset value float from $1 per share, but at the cost of demonstrating that all the fund's investors are individuals. Managers can also promise not to impose fees or gates that would discourage or prevent withdrawals.

Fund investors should account for the cost of possible fees and gates when weighing their investment choices. It could mean less liquidity than a traditional money market fund, an advantage those funds long held over bank-issued certificates of deposit, analysts said.

A number of broker-dealers are avoiding the problem altogether by moving "sweep" assets into bank-deposit programs, which pay returns similar to those on money market funds but are run through broker-dealers' bank affiliates, according to Matthew Yee of Gartland & Mellina Group, a consultant to broker-dealers.

Pacific Investment Management Co. is one of the fund companies courting money market investors and arguing that investors need to better understand the risks and opportunity cost of money market funds in the altered regulatory environment.

The company has a much smaller presence in money market funds than its competitors but manages $35 billion in U.S. short and ultrashort funds.

WIDER RANGE OF PRODUCTS

Some of those products are less-stringently regulated and have the ability to seek value and buy a wider range of products, according to Jerome M. Schneider, head of the short-term and funding desk at Pimco and a listed portfolio manager on funds with $38 billion in assets, including the Pimco Short-Term Fund (PSHAX).

"The money market fund ... may not provide the same liquidity and comfort going forward," Mr. Schneider said.

Some advisers agree.

"If you don't need the money today or tomorrow for a specific need, or if you can make up any potential shortfall, you're probably better off using a short-term bond fund to get that extra bit of yield," said Jeffrey DeMaso, director of research at Adviser Investments.

Mr. Schneider said money market funds invested in corporate debt may not be compensating investors for risk or for the liquidity trade-off that will be required in funds that raise gates. And he echoed concerns of Wall Street analysts about the ability of the market for short-term Treasury and federal agency debt to support increased demand from government money market funds.

Ms. Prior disagreed, saying the effects of the conversion of Fidelity's Cash Reserve fund would most likely be muted because of the liquidity in government securities.

A number of other funds have been positioning to capture business from money market funds. Twelve short bond funds have been introduced since last year, when the SEC finalized its reforms.

Principal is at risk in this category. The average ultrashort bond fund lost 7.89% of its value in 2008, according to Morningstar Inc., and some funds dropped by far more.

That also was a tough year for money market funds: Investors fled after the $62.5 billion Reserve Primary Fund, which was invested in Lehman Brothers debt, "broke the buck" — falling below $1 a share — when that investment bank collapsed.

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Hearsay aims to improve adviser sites

By Alessandra Malito

Hearsay Social Inc., a networking platform for financial advisers, has announced a program aimed at helping advisers improve their websites and better connect with existing clients and prospects.

As part of its Predictive Social Suite, the company is offering services to boost an adviser's presence and interactions with prospects online. One service is Hearsay Sites, which lets advisers publish social media posts to their websites and find people online who may need financial guidance.

The platform's dashboard also allows users to see what other people post online about major life events that can spark conversations about financial planning, such as having a baby or buying a house.

"Advisers are historically good at building relationships and having face-to-face interactions and more holistic planning that robo-advice and automation can't do," said Gary Liu, vice president of marketing for Hearsay Social. "Now they're able to connect all those dots and have that information before picking up the phone or reaching out to that person via email."

The tool addresses compliance with options for preapproved comments and a content library, Mr. Liu said, as well as the ability to flag posts that could break the rules. The program will pick up words that may be inappropriate for advisers to post, such as "guaranteed."

The service can also help advisers add interactivity to their websites.

"A lot of firms have antiquated sites that might have been built back in the 1990s," Mr. Liu said, adding that static pages (those with no interactive elements) are not mobile-optimized. "It's not just to have a social presence but a web presence on other digital channels."

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MetLife gets back into VAs with living benefits

Risk management guides new product

By Darla Mercado

Longtime variable annuity player MetLife Inc. has re-entered the game with its launch of a new living benefit rider.

The New York-based insurer released the guaranteed lifetime withdrawal benefit (GLWB) rider, FlexChoice, for sale on Feb. 14. MetLife had filed the contract with the Securities and Exchange Commission in November.

MetLife began its rise up the variable annuity charts in 2011, when it posted $28.4 billion in VA sales thanks to an attractive living benefit — the GMIB Max — it introduced that year. That product was revised to reduce sales to levels management deemed more reasonable.

MetLife's toned-down approach to VAs since then resulted in sales of just $6.3 billion in 2014.

"We've been actively selling the GMIB, but it has been a little uncompetitive," said Elizabeth Forget, executive vice president of MetLife Retail Retirement & Wealth Solutions.

> **"IT PROVIDES income when clients want it and flexibility when they need it."**
>
> **Elizabeth Forget**
> Executive vice president
> MetLife Retail Retirement & Wealth

"We spent time de-risking the variable annuity business, analyzing the space and designing a product that allows us to be in line with the competition on key features that are important to clients and advisers, and that allow us to meet profitability standards," she added.

For this latest release, MetLife went with a GLWB as it's "more accepted in the market," Ms. Forget said. The feature has a 5% rollup.

The new FlexChoice costs 120 basis points, five basis points less than when it was filed with the SEC. There are two versions of the rider: the Level and the Expedite.

With FlexChoice Level, clients can receive a steady rate throughout their lifetime. Clients who take the first withdrawal between 65 and 74 can receive it at 5% for life. That comes down to 4% with the joint version.

'SOMETHING ELEGANT'

With FlexChoice Expedite, clients 65 to 74 can take 6% withdrawals but receive less income, depending on their age when the account hits zero. From there, clients 79 or under will receive 4.5% income payments from MetLife for the single version of the rider. That number is adjusted to 3.5% for joint.

"One is geared more for people with less concern about the lifetime income component, and the other is for those who are worried about that and who want the security piece," said Tamiko Toland, managing director of retirement income consulting at Strategic Insight.

"There is something elegant about presenting it this way, because it doesn't force people to learn actuarial science: You see it in a way that's tangible," Ms. Toland said.

Ms. Forget pointed out that clients don't have to decide at issue whether they want the single- or joint-life version.

"People get married, they divorce — things change over 10, 15, 25 years," she said. "This gives them the option to say, 'We can get 5% income at the 120 [bps] rider fee, which is competitive, until we run out of money.' "

MetLife has taken risk management measures in light of the product features, but Ms. Forget said the options have opened up compared with the GMIB Max. Clients choose from a restricted list of funds, and 80% of the allocation has to be in MetLife's Protected Growth Strategies — portfolios that buffer accounts from sharp market swings. Twenty percent of the allocation can go into fixed-income or balanced funds.

"We'll be able to see some nice business and regain market share in this piece of the VA market," Ms. Forget said. "It provides income when clients want it and flexibility when they need it."

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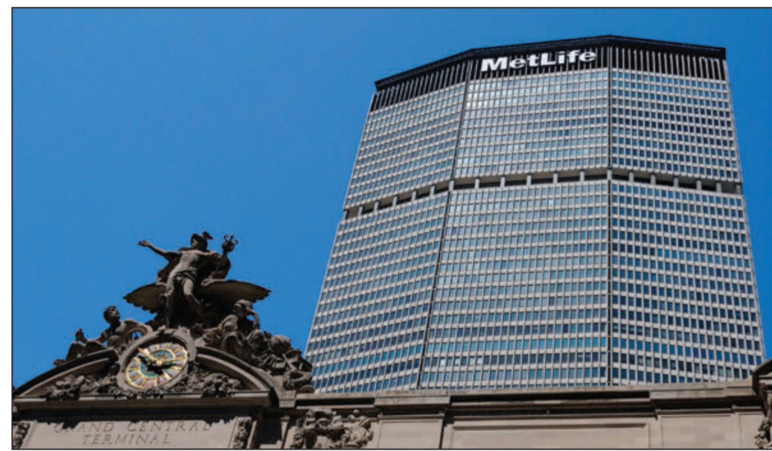

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Spotlight
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ONLINE BONUS

For video on what's ahead for annuities this year, plus the most common misconceptions financial advisers have about these products, visit InvestmentNews.com/annuities.

ISTOCK

DAVE CUTLER

CHARTING A COURSE

A raft of new products has broker-dealers scrambling to train reps

By Darla Mercado

A RAFT OF NEW OFFERINGS and changing needs for retirement income are spurring broker-dealers to tweak their product training seminars for advisers.

It wasn't that long ago that variable annuities were a favorite among representatives. Clients could capture surging stock markets and use guaranteed living benefit features to lock in high income-benefit bases.

Unfortunately for reps and clients, the 2008 recession made life insurers rethink their offerings and move toward products that pose less long-term risk to their balance sheets.

Enter the investment-only variable annuity, the indexed annuity and the deferred-income annuity.

As other types of annuities gravitate to the fore, product gatekeepers at broker-dealers are getting reps up to speed on using them as part of a comprehensive retirement income solution.

"We were focused on life insurance planning concepts and the retirement planning process last year," said Zachary Parker, first vice president of income and distribution products at Securities America Inc. "This year, it's annuities."

At Securities America, Mr. Parker is expanding NextPhase, a retirement strategy program that pairs guaranteed income and bucketing approaches. The company has a team of consultants who educate advisers on case design and provide support, and Mr. Parker hosts an annual presentation at its NextPhase conference.

"Go with the VA if you're more bullish."

Zachary Parker
First vice president
Securities America

Annuities will be a focal point this year, as advisers will be assessing deferred-income and single-premium immediate annuities, indexed annuities and variable annuities to craft those strategies. For example, a 60-year-old client seeking income in 10 years might be weighing any number of products. The recommendation will ultimately depend on the attributes of the annuity and the client's goals.

HIGHER GUARANTEE

"More people are comparing indexed annuities to variable annuities and … it might provide higher income when you're waiting to take it," Mr. Parker said. "Go with the VA if you're more bullish on the market. If you're bearish, go with the indexed annuity because you get a higher guarantee level."

Raymond James Financial Inc. has been hosting annuity training workshops for reps over the last seven years, with different themes. This time the emphasis is on the fixed-income portion of a client's 60/40 portfolio: Where does that 40% go? How do you generate sufficient income in an environment of low interest rates?

"The annuity serves the purpose of providing the most cash flow per dollar invested," said Scott Stolz, sen-

ior vice president of Private Client Group investment products at Raymond James Insurance Group. "Part of what you get back is a return of principal, and that helps the equation. We encourage advisers to solve the income need with as few assets as possible so you have more flexibility on how to invest the rest."

One idea circulating at Raymond James is that of using two annuities at once to meet income needs at two different points in retirement. A client might have an indexed annuity with a living benefit and income slated to begin at 65, and a deferred-income annuity to act as a second bucket when the client is older.

"It's a version of the bucketing theory — you have different buckets with their own purpose," Mr. Stolz said.

Judson Forner, director of investment marketing at ValMark Securities Inc., has been running sales-related calls with advisers to familiarize them with complementary products they're less familiar with: managed volatility, tax deferral and investment-only options in variable annuities, as well as deferred-income annuities — which are generating some interest.

> *"Focus on the process and not the specific product."*
>
> **Robert Pettman**
> Senior vice president
> LPL Financial

"We still have a lot of people kicking the tires on DIAs and qualified longevity annuity contracts because of the momentum they're getting in the news, but we haven't seen it translate" to a lot of business, Mr. Forner said.

Some of ValMark's training has expanded into death benefits for annuities and legacy planning, particularly in cases where clients cannot get life insurance.

"There are cases where life insurance won't work for one reason or another — maybe the client is uninsurable," Mr. Forner said. "The idea is to at least offer them some alternative benefit for legacy needs."

Meanwhile, annuity workshops at LPL Financial examine product trends, policy changes and regulatory updates.

The firm partnered with Lincoln National Corp. in May 2013 to release Annuity Visualizer, a tool branded for LPL's reps. It lets advisers model a VA with a living benefit and show how an income stream would look based on a roll-up rate and distribution amount, according to Robert Pettman, LPL's senior vice president of investment product and business management.

"It illustrates the income stream, but we're not saying to choose this [particular] rider," Mr. Pettman said. "That's the thing — focus on the process and not the specific product."

Other topics covered with advisers include discussing scenarios where it makes sense to use an array of annuity products, and whether one product might work better than another in a given case.

"If anything, this is about managing change," Mr. Pettman said. "The main thing is keeping people up to speed with the velocity of product development in this space."

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DIAs a new income stream

Continued from Page 1

ers Principal Financial Group and American International Group Inc., according to Mr. Montminy.

Three insurers — New York Life, MassMutual and Northwestern Mutual — were responsible for the lion's share of sales in 2011, he said.

Today, the market consists of 16 products and 13 manufacturers, according to Frank O'Connor, vice president of research and outreach at the Insured Retirement Institute.

Another driver of DIAs' growing popularity: Early versions were unappealing because clients turned over their cash and got nothing in return if they died before receiving income. Today's newest products come with optional death benefits and payment increases to protect against inflation.

"It's incorporating flexibility," Mr. O'Connor said. "There are limited provisions to change the income start date, death benefits incorporated into the products, and it makes it more palatable."

The DIA's income stream is attractive because clients can take advantage of mortality credits: Not all purchasers in a given pool will live long enough to receive income, and those who make it to an advanced age are subsidized by those who don't. The longer you defer the income, the larger the payout.

INCOME YOUNGER

Though many in the industry envision DIAs as income sources for much older clients, the reality is that many tend to be in their mid-50s when they buy the contract; they begin receiving income when they reach 65.

That's the core market for MassMutual's DIA offerings, said Philip Michalowski, the firm's vice president of annuity product marketing.

"There's a lot of flexibility and use beyond that, but that's where the market is naturally gravitating," Mr. Michalowski said.

Carrie Turcotte, president and senior financial consultant at Crest Financial Strategies, uses DIAs as additional income that clients can tap later in retirement. It acts as a dual-purpose backstop, in a sense.

"We like having layers," said Ms. Turcotte, referring to clients of hers who are married and considering a DIA as part of a retirement income plan. "At first there's some deferred compensation from work, then Social Security, and a few years later, the DIA would kick in to either offset regular income needs or for long-term care," she added.

Income from a DIA won't necessarily fund all long-term care needs, Ms. Turcotte said, but it can provide $1,600 to $1,800 a month toward the cost of care. The clients buying the product are in their mid-50s, and the adviser suggested they wait until 75 or 80 to begin receiving income. The product is a win-win: Someone is likely to use it for income or to supplement LTC needs.

The DIA makes sense because the wife has a family history of longevity, Ms. Turcotte said. The stream of income from a DIA could be put to a multitude of uses in the event long-term care isn't an issue when income begins.

Another way to work in DIAs is by using them alongside an investment-only variable annuity without living benefit features, as an alternative to a VA with a guaranteed living benefit feature, Mr. Montminy said.

But be aware of the trade-offs: Variable annuities with guaranteed withdrawal benefits let clients retain control of the asset — they can take withdrawals without annuitizing and turn off income — and that flexibility costs money. With a DIA, clients are giving up that flexibility and getting a better payout.

"Different consumers will have different needs," Mr. Montminy said. "Some will want to retain their money, while others will want to retain control."

DIAs have received some love from the research side.

Wade Pfau, professor of retirement income at The American College, has written that a strategy using TIPS and DIAs can help support a 4.17% withdrawal rate in retirement for clients with concerns about the market.

Meanwhile, David Blanchett, head of retirement research at Morningstar Investment Management, wrote a paper in October on using DIAs within the framework of a defined-contribution plan and as a component of target date funds.

In his research, Mr. Blanchett concluded that the average optimal allocation to deferred-income annuities was 30.52% of the investor's total portfolio at retirement.

The Treasury and Labor departments have paved the way for wider use of DIAs with target date funds in 401(k) plans, but it will take some more time for plan sponsors and manufacturers to get comfortable with them in that context. Similarly, advisers are waiting for the available market of DIAs and QLACs to open up. Plus, they have to convince clients they need these products.

"It's a harder sale to get people to understand that when they're 80, they'll get the money," said Bernie Gacona, senior vice president and director of annuities at Wells Fargo. "Many people are saying they need that money at 65."

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Annuity Strategies

VA living benefits

Total sales of variable annuities held steady at $35.2 billion in the third quarter of 2014, up just 0.4% from the year-earlier period, according to the most recent sales data from Morningstar Inc. Variable annuity living benefits appeal to clients who are seeking income security in retirement. See below for a sample of popular living benefit contracts from a number of the largest variable annuity sellers, provided by Morningstar. These contracts are based on an initial investment of $100,000.

		65-year-old with a 10-year waiting period (first withdrawal at 75)			Rollup info		
Carrier	**Benefit**	**Applicable withdrawal percentage**	**Annual withdrawal amount**	**Current fee amount**	**Fixed % increase**	**Simple/ compound**	**Frequency of step-up for highest anniversary value**
Allianz Life Insurance Co.	Income Protector (Single)	4.50%	$7,200	1.20%	6.00%	Simple	Quarterly*
Allianz Life Insurance Co.	Income Focus (Single)	3.75%	$3,750	1.30%	Custom	Not offered	Annually
Axa Equitable Life Insurance Co.	Guaranteed Minimum Income Benefit	4.00%	$5,920	1.15%	4.00%	Compound	Annually
Axa Equitable Life Insurance Co.	Guaranteed Withdrawal Benefit for Life (Single)	Varies	Varies	1.00%	Not offered	Not offered	Annually
Guardian Insurance & Annuity Co. Inc.	Target Future (Single)	4.50%	$8,852	1.05%	7.00%	Compound	Quarterly
Guardian Insurance & Annuity Co. Inc.	Target Now (Single)	4.50%	$4,500	0.95%	Not offered	Not offered	Quarterly
Jackson National Life Insurance Co.	LifeGuard Freedom 6 Net Level 5 (Single)	5.50%	$8,800	1.50%	6.00%	Simple	Annually
Jackson National Life Insurance Co.	LifeGuard Freedom Flex Level 4 (Single)	5.25%	$8,925	1.00%	7.00%	Simple	Annually
Jackson National Life Insurance Co.	LifeGuard Freedom 6 Net Level 4 (Single)	5.25%	$8,400	1.25%	6.00%	Simple	Annually
Lincoln National Life Insurance Co.	Lifetime Income Adv 2.0 (Managed Risk)(Single)	5.00%	$8,144	1.05%	5.00%	Compound	Annually
Lincoln National Life Insurance Co.	Lifetime Income Advantage 2.0 (Single — eff. 4/12)	5.00%	$8,144	1.05%	5.00%	Compound	Annually
Lincoln National Life Insurance Co.	i4LIFE Advantage w/GIB (Managed Risk)(Single)	5.00%	$5,000	1.05%	Not offered	Not offered	Not offered
Massachusetts Mutual Life Insurance Co.	MassMutual Lifetime Income Protector (Single)	5.50%	$5,500	0.95%	Not offered	Not offered	Not offered
MetLife Investors	Lifetime Withdrawal Guarantee (Single)	4.00%	$5,920	1.40%	4.00%	Compound	Annually
Nationwide Life Insurance Co.	7% Nationwide Lifetime Income Rider (Single)	5.00%	$8,500	1.20%	7.00%	Simple	Annually
Nationwide Life Insurance Co.	Nationwide Lifetime Income Capture (Single)	5.50%	$7,700	1.20%	4.00%	Simple	Monthly
Ohio National Life Insurance Co.	GLWB Plus (Single)	5.50%	$8,800	1.05%	6.00%	Simple	Annually
Ohio National Life Insurance Co.	GLWB Preferred IS (Single)	Varies	Varies	1.00%	7.00%	Simple	Annually
Pacific Life Insurance Co.	CoreIncome Advantage Select (Single)	5.00%	$5,000	0.85%	Not offered	Not offered	Annually
Pacific Life Insurance Co.	Guaranteed Lifetime Withdrawal Benefit (Single)	5.00%	$5,000	0.80%	Not offered	Not offered	Annually
Protective Life Insurance Co.	SecurePay FX (Single Life)	5.00%	$8,144	1.20%	5.00%	Compound	Annually
Prudential Annuities Life Assurance Corp.	HD Lifetime Income v3.0 w/ Highest Daily DB	5.00%	$8,144	1.50%	5.00%	Compound	Daily
Prudential Annuities Life Assurance Corp.	Defined Income Benefit (Single)	Varies	Varies	0.80%	5.50%	Simple	Not offered
SunAmerica/American General/Valic	Polaris Income Builder (Single)	5.20%	$8,320	1.10%	6.00%	Simple	Annually
SunAmerica/American General/Valic	SA Income Plus-Dynamic Opt 1 (Single)	Varies	Varies	1.10%	6.00%	Simple	Annually
Transamerica Life Insurance Co.	Living Benefit (Single)	5.50%	$8,958	1.25%	5.00%	Compound	Monthly
Transamerica Life Insurance Co.	Retirement Income Max (Single)	5.30%	$9,052	1.25%	5.50%	Compound	Monthly
Thrivent Financial for Lutherans	Guaranteed Lifetime Withdrawal Benefit	5.00%	$5,000	0.75%	Not offered	Not offered	Annually
Variable Annuity Life Insurance Co.	IncomeLOCK Plus 6-Dynamic Opt 3 (Single)	5.00%	$8,000	1.10%	6.00%	Simple	Annually

Open contracts as of February 2015. *Annually after withdrawals

Source: Morningstar Inc.

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JNL201412-A169

Gundlach hates automakers as car sharing gets popular

By Bloomberg News

The co-founder of DoubleLine Capital says consumers will increasingly use car-sharing programs or services offered by companies such as Uber Technologies Inc. and rely less on their own vehicles.

Jeffrey Gundlach reached that conclusion after changing his own driving habits.

The average car is parked 23 hours a day, which is "wildly inefficient" and leaves sales vulnerable, Mr. Gundlach said in an interview at his firm's Los Angeles headquarters.

BLOOMBERG
Jeffrey Gundlach

"I hate the automakers — hate," he said. But shares of Ford Motor Co. and General Motors Co. — the two biggest U.S. vehicle companies — aren't likely to drop near term because of their attractive dividend yields.

"So I hate the car companies longer term," Mr. Gundlach said.

MIXED RESULTS

A top-rated bond fund manager whose stock picks have produced mixed results, he helped start DoubleLine in 2009 after a compensation dispute with his former employer, TCW Group Inc.

DoubleLine has grown to $64 billion and is among the fixed-income managers benefiting after Pacific Investment Management Co.'s clients pulled record amounts of money in the wake of co-founder Bill Gross' departure in September.

Mr. Gundlach, 55, is fond of issuing bold pronouncements. In 2012, he told investors to bet against Apple Inc. shares before they started falling. The next year, he recommended shorting Chipotle Mexican Grill Inc. The shares have since doubled. This past May, he said his neighbor Elon Musk should get out of the auto-making business and focus Tesla Motors Inc. on supplying car batteries.

Mr. Gundlach's success in the bond world is more pronounced. Best known for investing in mortgage-backed securities, he was early to spot trouble in the real estate market and predicted the subprime mortgage crisis.

Last year he defied conventional thinking by betting that interest rates would fall as the Federal Reserve began reducing its bond buying. His $44 billion DoubleLine Total Return Bond Fund returned 6.7% in 2014, beating 91% of comparable funds, according to data compiled by Bloomberg. The fund has returned 0.7% this year through Feb. 18, outperforming 78% of its peers.

Those returns and Mr. Gross' exit from Pimco helped DoubleLine pick up $7.4 billion of net new money from September through December. The firm had its biggest monthly subscriptions in January, with $3 billion.

AGAINST THE GRAIN

Mr. Gundlach's bearish view of the U.S. car industry follows the best January in nine years for the top six automakers. Deliveries rose by more than 11% compared with a year earlier, pushing the adjusted annualized selling rate to 16.7 million.

Analysts surveyed by Bloomberg projected that sales of light vehicles will rise to 16.9 million in 2015, establishing the industry's first six-year growth streak since at least World War II.

The market is "full of buyers and sellers, and that's why it works," said Jim Cain, a spokesman for General Motors.

"We are driving innovation in every part of our business to create value as part of our profitable growth plan," Susan Krusel, a spokeswoman for Ford, wrote in an email.

That effort includes conducting experiments that "look beyond traditional vehicle ownership, including ones involving car and ride sharing, parking solutions and on-demand services," she wrote.

UBER UPSET

Founded in 2009, Uber is now the most highly valued U.S. technology startup. It has roiled transportation markets worldwide by letting people hail rides from their smartphones, eating into the business of established taxi and limousine companies. Uber and Lyft Inc., another startup offering a ride-hailing app, have argued that they can reduce the number of cars on the road.

Mr. Gundlach said his eyes were opened to the changes in auto use recently, when a DoubleLine employee told him he took an Uber car to work because he "didn't feel like driving."

Mr. Gundlach said he has had his own driver since December, after one was arranged for him at an investment industry conference at which he was speaking.

"I can't believe I didn't think of this sooner, because it's so great," the money manager said. He's saving "days a week," he added, by sifting through hundreds of emails before he even arrives at the office.

ISTOCK

Money managers more optimistic about Europe

By Meaghan Kilroy

Money managers' outlook on Europe improved in February after the European Central Bank's announcement that it would launch a program of quantitative easing, Bank of America Merrill Lynch's monthly fund manager survey found.

A net 81% of investors expect Europe's economy to strengthen in the next 12 months — the highest reading since 2009 and up 32 percentage points from January. A net 51% reported Europe as the region they would most like to overweight in the next year, the highest reading since the survey was started in April 2001 and up 33 percentage points from January.

Inflation expectations are also improving against this backdrop. A net 29% of managers believe global corporate profits will improve over the next year, up 15 percentage points from last month.

CHINA TO WEAKEN

Despite improved confidence in Europe, investors' outlook on global growth remains relatively unchanged as a result of declining expectations for China, the survey report said. A net 58% of respondents expect China's economy to weaken over the next year, the lowest reading since July 2013.

In terms of overall asset exposure, equity, commodities and cash holdings increased in February, while bonds decreased, the survey found.

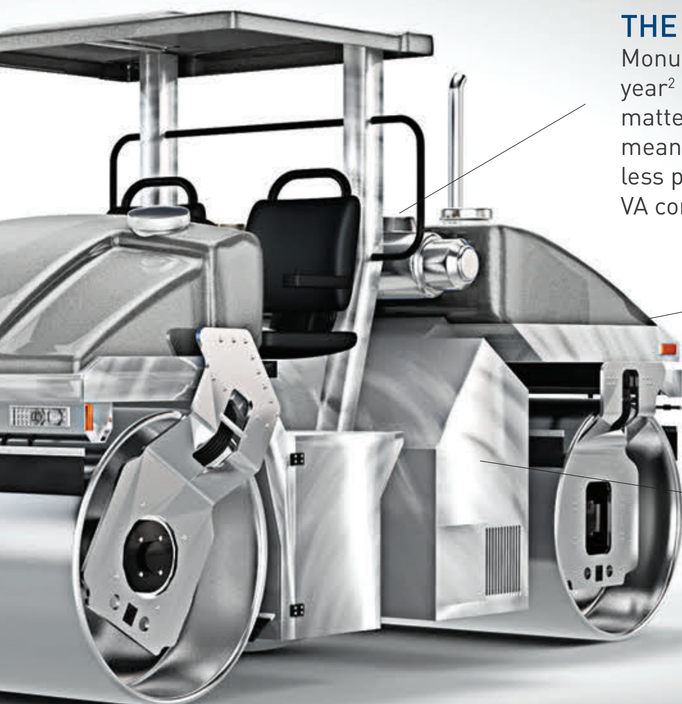
A net 57% and 22% of respondents reported being overweight global equity and cash, respectively, while commodities allocations improved to a net 20% underweight versus a net 24% last month. On the other hand, a net 55% of respondents reported being underweight fixed income, compared with a net 53% last month.

From a regional perspective, U.S. equity exposure decreased while emerging markets equity and U.K. equities increased.

A net 6% reported being overweight U.S. equities, down 18 percentage points from last month. By comparison, a net 1% and 17% reported being underweight emerging markets and U.K. equities, respectively, up from a net 13% and 24% underweight last month.

The survey of 196 fund managers managing a total of $559 billion was conducted Feb. 6-12.

Meaghan Kilroy is a reporter with sister publication Pensions & Investments.



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Here's how markets will react to rising interest rates

BLOOMBERG

Higher-yielding stocks like utilities take a hit while financials climb

Bloomberg News

For investors worried about how stocks will react to rising interest rates, recent trading may provide some guidance.

Following the biggest one-week jump in 10-year Treasury yields in more than a year, investors are selling the highest-yielding companies in the S&P 500. The top quarter of dividend-yielding stocks in the S&P 500 have lost an average 0.4% since the employment report Feb. 6 showed the U.S. is adding jobs more quickly than estimated. That compares with a gain of 2.6% for stocks with the smallest dividends and a 1.7% climb in the benchmark gauge.

Stocks including utility companies and real estate investment trusts have weighed on the S&P 500 since Treasury yields climbed 32 basis points the week of the report, signaling caution to investors who piled into dividend stocks through the bull market, according to Sam Stovall, chief equity strategist at S&P Capital IQ.

"Investors are getting a preview of coming attractions," Mr. Stovall said.

> "PEOPLE NEED TO BE careful about an over-reliance on higher-yielding equities."
>
> **Sam Stovall**
> Chief equity strategist
> S&P Capital IQ

"The implication when stronger-than-expected news like the payrolls report comes out is that investors may need to accelerate their rate-tightening timetable, and the higher-yielding investments take it on the chin."

Yields on 10-year U.S. Treasuries jumped 14 basis points Feb. 6, the biggest increase since November 2013, as Labor Department data showed the U.S. added more jobs than forecast in January, capping the biggest three-month gain in 17 years.

HOW SOON WILL RATES RISE?

Data showing labor strength are spurring speculation the Fed will raise borrowing costs in the first half of the year. As of Feb. 13, traders saw a 55% chance the Fed will raise rates by September, up from 39% at the end of last month, fed fund futures show. The likelihood of an increase by December was 76%, compared with 61% Jan. 30.

Among the top quartile of S&P 500 stocks with the highest dividend yield, utility stocks are the most represented, with 25 companies yielding an average 3.8% dividend. Thirteen are REITs, with an average dividend of 3.5%.

An S&P index of utility shares fell 9% from a record high in January through the second week of February, including a 4.1% drop on the day of the jobs report, while the S&P 500 was up 3.7% during the same period.

That's the worst performance by utility stocks relative to the benchmark gauge for any 12-day period since October 2002, according to data compiled by Bloomberg.

"The sector's fortunes have turned on a dime," said a Feb. 12 note from Bespoke Investment Group to clients. "The fact that the peak of the sector's relative strength coincided with the trough in Treasury yields just illustrates how sensitive to interest rates the sector is."

Investors last year added money to an exchange-traded fund tracking utility stocks at the fastest rate since 2011, as the group climbed 24%, more than any sector in the S&P 500. An S&P index of REITs that offers a 3% dividend yield, which advanced 26% last year, has lost 2.9% since the jobs report.

"People need to be careful about an over-reliance on higher-yielding equities to serve as replacement for bonds," Mr. Stovall said. "Those stocks that had been considered an attractive bond alternative are becoming less attractive as income producers."

BANK STOCKS RALLY

While utilities have fallen, bank stocks have rallied 4% since the jobs report. Higher interest rates boost bank profits as lending income rises with higher net interest margin, the difference between what a firm pays in deposits and charges for loans.

Among all stocks in the S&P 500, 193 offer dividend yields higher than the 10-year Treasury, compared with 264 at the end of January, according to data compiled by Bloomberg. That's a sign to Interactive Brokers' Andrew Wilkinson that investors will have to reassess what they're buying as the Fed gets closer to raising rates.

"That measure is going to dramatically decline," said Mr. Wilkinson, chief market analyst at Interactive. "Without a shadow of doubt, if the market views the Fed going in June, it's going to put this issue firmly on the agenda."

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BDCs' juicy yields attracting lots of insider buying

This lesser-known asset class is averaging returns of over 9%

The investment landscape is generally not friendly to investors looking for quality-yielding investments. With the return on the 10-year Treasury under 2% and investment-grade debt offering not much more, it is really difficult to find quality yield.

Dividend stocks are great but have appreciated over time, as well. Even high-yield debt — otherwise known as junk — fell from grace last year, ending 2014 with a total return of just over 2%.

Some of the better returns for 2014 were in traditionally "defensive" sectors like utilities and consumer staples. Each is selling close to its all-time high in valuation.

One asset class, however, is sporting an average yield of over 9%: business development companies.

This lesser-known asset class got swept up in the underperformance of high yield last year. BDCs are funds created under the Investment Company Act of 1940 to provide capital funding to smaller companies.

GETTY IMAGES

SMALL BUSINESSES

These are not credit-challenged companies, just smaller ones.

Since the 2008-09 financial crisis, funding for small businesses has been throttled back by banks responding to greater oversight. BDCs have grown dramatically over that time frame as demand has exploded, and they now service $5 million to $100 million companies.

In fact, BDCs have so disrupted the landscape in business lending that they most likely have supplanted much of the historical coverage of this segment by regional and large banks.

Some of the many BDCs in existence are nontraded. But the ones we are referring to are listed and trade on exchanges.

After many years of superior performance, the group lagged the general market last year. We feel that it was affected by the general softness in the high-yield market.

We note that high-yield debt generally consists of credit-challenged borrowers. BDCs lend to financially healthy — albeit small — borrowers. The correlation to high yield does not make sense in our opinion.

BDCs have yields approaching 9%, with some exceeding that level. The Wells Fargo BDC Index has returned 7.06% annually over the past 10 years. That compares with 8.01% annually for the S&P 500. The index currently has a dividend yield of 9.07%.

UNDERVALUED?

Many investors tend to be wary of high yielders, believing the companies might cut their dividends.

We don't agree. In fact, we think BDCs are undervalued and have potential upside to both their dividends and share prices.

Insiders have been buying up shares of some larger BDCs in the market. Companies that have seen substantial buying include Prospect Capital Corp., Ares Capital Corp., Main Street Capital Corp. and Apollo Investment Corp.

We doubt that insiders would be buying the shares if they expected a decline in performance. We think they are telegraphing to investors an opportunity that these shares may be undervalued and could outperform this year.

Investors should use caution in buying any investment. BDCs have been a bit more volatile than other types of holdings, but the rewards could very well be worth the ride.

There is potential for a double-digit return in the group for 2015. They are one of our best ideas for this year.

Scott Colyer is chief executive and chief investment officer of Advisors Asset Management.

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Legg Mason hires two top Vanguard execs for ETF push

Fund manager makes major move to become player in the product

By Trevor Hunnicutt

In an aggressive effort to build an ETF business, Legg Mason Inc. announced last Wednesday that it has hired two top executives in the space from The Vanguard Group Inc.

Both of the executives, Rick Genoni and Brandon Clark, have extensive experience building funds, managing relationships and shaping the corporate strategy of Vanguard's exchange-traded fund business.

The move is the latest attempt by a large, adviser-sold fund company to market investment strategies using ETFs.

Mr. Genoni, 46, a 24-year veteran of Vanguard, most recently was in charge of index-fund and ETF product development and strategy.

In addition to explaining the idiosyncrasies of ETFs to Vanguard customers, Mr. Clark, 40, managed relationships with a network of Wall Street firms — from high-frequency arbitrage traders to securities exchanges — which are essential to the smooth trading of ETFs. That intricate ecosystem is unfamiliar to most mutual fund managers and to many advisers trading the products.

Both Mr. Genoni and Mr. Clark will be based in the Philadelphia area when they start at Legg Mason next month, according to Thomas Hoops, executive vice president of business development for Legg Mason.

Baltimore-based Legg Mason, which has $706 billion in assets, has not publicly disclosed a strategy for ETFs, but fund managers looking to launch the funds have several options, including teaming up with or buying companies.

"It's early days," Mr. Hoops said. "When people think of the ETF opportunity, they think it begins and ends with traditional market-cap-weighted indexing, and that business is a rivalrous oligopoly. We don't feel a need to create a set of market-cap index ETFs."

$706B
Legg Mason's assets under management

Legg Mason sells funds produced by its affiliate brands (including Western Asset, ClearBridge Investments and QS Investors) through every top U.S. broker-dealer. But its wholesalers lack a set of ETFs to offer advisers who prefer that product.

Top fund managers have been slow to embrace ETFs — despite their growth to $2 trillion in the U.S., — in part because the funds' structure requires near-immediate disclosure of portfolio holdings for active managers.

Several top mutual fund managers still lack an articulated ETF strategy but increasingly are moving to rectify that.

Last year, JPMorgan Chase & Co. began offering exotic, index-based strategies. Fidelity Investments started a strategic partnership with sometime-rival BlackRock Inc. and launched some of its own funds. American Funds, the largest fund firm without ETFs, said it was leaving its "options open" after securities regulators approved one of its proposals to offer the funds.

Vanguard wasn't early to ETFs but has built a dominant franchise. It launched its ETFs in 2001 — eight years after the primarily index-tracking products began trading in the U.S. — over the objections of founder John C. Bogle, who said they were "like handing an arsonist a match."

In 2002, Vanguard established its first unit dedicated to selling funds, including ETFs, to advisers.

The company profited from both moves. Many of its index-based strategies translated easily into ETFs. And advisers, less likely to be paid on commissions attached to mutual funds, favored the low cost, ease of trading and tax efficiency that are touted as benefits of ETFs.

Vanguard, with $3 trillion under management, is the world's top mutual fund company by assets and the second-largest in ETFs, after BlackRock unit iShares. Advisers account for half of Vanguard's sales.

"We have a very broad and deep bench here at Vanguard," said David Hoffman, a company spokesman.

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More women trading means smaller bubbles

By Liz Skinner

New social science research has exposed what may be causing the high volatility in U.S. equity and other markets so far this year — and it isn't low oil prices, Greece's fiscal woes or the weak economies in Europe and Japan.

Men are the culprit.

More specifically, male-dominated markets, according to research published in the February issue of the American Economic Review.

Researchers found that all-female markets generated smaller "bubbles" — in which asset prices rose substantially above fundamental values and then crashed — than market sessions conducted exclusively with male participants.

The sessions were held in a lab setting where nine "traders" bought and sold 18 assets, according to the article, "Thar SHE Blows? Gender, Competition and Bubbles in Experimental Asset Markets," by Catherine Eckel and Sascha Fullbrunn.

The study also looked at the impact of having a mixed group of male and female traders. It concluded that an increase in the number of women in the markets led to smaller bubbles, the article said.

"The results imply that financial markets might indeed operate differently if women operated them," Ms. Eckel and Ms. Fullbrunn wrote.

Some have blamed men's "competitive nature and overconfidence" for the collapse of the housing market in 2008, wrote the authors, noting that only about 10% of Wall Street traders are women.

ISTOCK

"Our data suggest that increasing the proportion of women traders might have a dampening effect on the likelihood and magnitude of bubbles," the article concluded.

The research also showed price forecasts from the female traders were significantly lower than those from the men.

The study suggests that smaller bubbles occurred in market sessions that included more traders who were risk-averse and that larger bubbles occurred when sessions contained traders who were more competitive.

But neither of those traits could be statistically pegged to female versus male traders, the article said.

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Doing it all in industry of specialists

Outsourcing money management is a trend, but L.A.-based firm finds it pays to stick to roots

Jeannine G. Vanian

By Trevor Hunnicutt

Kayne Anderson Rudnick Investment Management has evolved, but — unlike a number of other wealth managers — it has kept the discipline of portfolio management the center of its business.

In an industry in which many firms are outsourcing their money management duties while concentrating on other facets of financial planning, Kayne Anderson Rudnick has decided to do it all.

The Los Angeles-based firm retains a business unit dedicated to advising wealthy clients and an investment management business that serves outside clients. It also manages mutual funds for its owner, Virtus Investment Partners Inc.

The business mix appears to be a winning recipe.

InvestmentNews recognized Kayne Anderson Rudnick last year with a Best Practices Award, identifying it as a standout among participants in the publication's Financial Performance Study of Advisory Firms.

Kayne Anderson Rudnick's revenue per employee ranked third among all the firms participating in that study.

Kayne Anderson Rudnick has an unusual history. Its founders are rooted in financial markets, having also founded Kayne Anderson Capital Advisors, a separate alternatives firm known for energy investments, including master limited partnerships.

OPEN ARCHITECTURE

When the firm started in 1984, its high-net-worth clients were put in investments managed entirely by the firm.

But in 2006, Kayne Anderson Rudnick moved to "open architecture" in some parts of its client portfolios, using investment products developed by third-party money managers, according to Jeannine G. Vanian, chief operating officer and a 25-year veteran of the company. The shift was necessary to retain more of clients' total wealth, or the firm's "wallet share," she said.

Ms. Vanian said that, rather than distracting from broader wealth management, the focus on investment management helps Kayne Anderson Rudnick perform better. Its wealth advisers may have a better sense of the due diligence required of managers, and advisers can tap the investing expertise of its full-time portfolio managers.

Kayne Anderson Rudnick Investment Management
Los Angeles

AUM:	$9 billion
Revenue:	$48 million
Clients:	600
Personnel:	82 (11 advisers)

But specializing in investments isn't for every advisory business.

In fact, the dominant trend is outsourcing, according to George Tamer, director of strategic relationships at TD Ameritrade Institutional.

Outsourcing affords firms more time to develop clients. And if an adviser has an investment approach that's out of favor, that can make revenue more volatile.

"Household alpha is plentiful for the advisory community and investment alpha is much less so," said Michael S. Falk, partner at Focus Consulting Group and at Mauka Capital.

At the same time, the add-on of proprietary investment products can create a plumper — or at least more diversified — revenue stream for businesses that do it well.

Kayne Anderson Rudnick has been able to keep assets sticky longer because its investment styles favor alternatives and downside protection, Ms. Vanian said. Investment management revenue is helping the firm invest in technology, which in turn can help clients reach their investing goals.

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PLANNING FOR COLLEGE

Troy Onink

Robos not a fit for critical thinking

A complex decision that benefits from human reasoning spells opportunity for advisers

As the old saying goes, prospects don't care how much you know until they know how much you care.

Notwithstanding Hal 9000 in the film "2001: A Space Odyssey," we all realize that computers can't care. We therefore are able to deduce that prospects won't care how much the computer knows because it is incapable of caring about them.

Yet a disruptive wave of algorithm-driven, low-cost investment platforms known as robo-advisers is increasingly being paired with commoditized knowledge and packaged as an auto-pilot investment solution and sold directly to investors and fee-based advisers.

Has the robo-adviser force turned that old saying on its head?

Worse. Investors are saying, "I don't care what you know or if you care. I don't need you anymore."

Joshua Pangborn, a talented software developer and my partner, puts it this way: "Computers excel at quickly executing multiple repetitive tasks simultaneously to arrive at a solution. Humans are good at recognizing fuzzy patterns in and across those tasks to fit the pieces of the solution together and form a strategy."

COST OF BEING WRONG

Joe Duran, *InvestmentNews* guest blogger and chief executive and founding partner of United Capital, states that most digital solutions are best-suited for situations that are not very complex and where the cost of being wrong is low.

"Robo-solutions work great for buying branded products and commodity items at the best price. They work well for finding an alternative to a cab or finding a nice restaurant," Mr. Duran wrote in a Dec. 4 post titled "Clash of the titans: Bionic advisers vs. robo-advisers."

For archived columns, go to InvestmentNews.com/planningforcollege

However, he continued, "when either of these two conditions changes, either because decisions are more complex or there is a lot to lose if you make a mistake, human interaction becomes more important."

I agree with Mr. Duran on another vital point.

As competition from robo-platforms, mutual fund complexes, banks and big brokerages intensifies, independent advisers cannot aim to merely remain relevant. They must become trusted, indispensable counselors engaged in planning niches that are too complicated and have too high a cost of failure — emotionally and financially — to assign to a robo-platform.

The one area of financial guidance where investors want a knowledgeable, caring adviser is in helping them determine at which college their children can be accepted, receive aid and afford tuition.

How to fund a college education is by far the most complex financial decision investors make involving the ones they care about most.

Parents want to know their best strategy to pay for college so they can preserve assets and income for retirement. With a four-year degree at an elite private college costing over $250,000 per child these days, parents want to know that they are maximizing financial aid and tax savings to reduce costs and pay for it as wisely as possible.

INDEPENDENT advisers cannot aim to merely remain relevant. They must become trusted, indispensable counselors.

A client's best strategy is a unique blend of college selection, financial aid, taxes, investing and financial planning. That complexity presents a chance for advisers to differentiate themselves and win the whole client relationship.

COMPUTERS JUST DO IT

Computers don't build relationships. Computers don't care, and computers don't love what they do. They just do it. There is no human element. There is no passion.

Providing late-stage college planning — that is, paying for college, not saving for it — is a wide-open opportunity for advisers to offer a differentiated and unique client experience that is all-encompassing, engaging and personalized.

What are you waiting for?

Troy Onink is the chief executive of Stratagee.com, where he leads the new College InSource Partner Program.

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FIDUCIARY CORNER

Blaine F. Aikin

Due diligence in age of flash crashes

The dominance of algorithms in trading means advisers need to re-evaluate their processes

May 6 will be the fifth anniversary of an event most advisers would like to forget: the 2010 Flash Crash, which resulted in stock market losses of nearly $1 trillion, with the market largely recovering within minutes.

Because the event didn't result in any palpable difference to account balances, it may seem like a blip to the average investor. But between 2:40 p.m. and 3:00 p.m. that day, more than 2 billion shares were traded as market liquidity evaporated, aggravated by high-frequency selling orders that found no matching buyers.

Near the end of this episode, many retail orders were left at the mercy of price swings of as much as 60% from their 2:40 p.m. levels. After the market close, the stock exchanges and the Financial Industry Regulatory Authority Inc. met and jointly agreed to cancel all those transactions under "clearly erroneous" trade rules.

A joint inquiry by the Securities and Exchange Commission and Commodity Futures Trading Commission pinpointed the problem as originating with an automated trade by a large fund complex.

But not everyone agrees with that explanation or whether we can expect another "fat tail" event.

Several minicrashes have been reported here and in other countries since 2010. The most recent, in November, involved just over 100 U.S. stocks moving 1% within a single second before stabilizing.

FASTER AND FASTER

Trading speeds have increased exponentially over the decades. According to the Bank of England, the average speed of order execution on the New York Stock Exchange was 20 seconds a decade ago versus one second today. Electronic trading platforms measure execution times in microseconds.

High-frequency trading, in turn, has grown from a tiny share of the market in 2005 to an estimated 35% of trading volume today. The higher speed and volume of trades, shorter holding periods, and the interconnectedness of trading across markets pose growing risks to market stability and integrity.

Regulators have taken note. With computers' having assumed much of the day-to-day decision-making in market trading, regulators struggle to address the risks of algorithmic trading.

But it takes time to design, implement and refine circuit breakers to contain flash events, create audit trails, streamline the process for canceling "clearly erroneous" trades and explore other controls, such as new transaction fees.

At the same time, investment advisers and managers must adapt to meet their fiduciary obligations to clients.

In some cases, as new technology brings different investment risks, technological and business innovations emerge to counter them.

For example, high-frequency trading has been driven by the possibility of traders' gaining an exploitable time advantage by seeing and acting on order information a split second before other participants.

This development has opened the door to alternative trading systems, such as IEX, offering a venue that levels the playing field for investment managers.

For advisers, the fiduciary obligation of due care requires following a prudent process to serve clients' best interest. That includes managing risks and opportunities that arise from marketplace developments.

Translated into practice, advisers must stay current and adjust their due-diligence procedures to deal effectively with the ramifications of new technologies.

For archived columns, go to InvestmentNews.com/fiduciarycorner

Whereas due diligence once focused almost entirely on selecting asset classes and securities, technology has forced a much broader perspective that includes taking a closer look at relationships with service providers.

Given the almost-daily reports of cyberattacks on financial institutions, proper due diligence should include consideration of cybersecurity protections that key service providers have in place.

Similarly, the SEC and Finra have announced their intention to assess business continuity and data-protection programs in the industry.

Advisers have a critical role in this new phase of what one academic paper describes as the need to "better manage the velocity of cyborg finance."

On the retail level, advisers should re-evaluate service provider selection and monitoring criteria. They should also overtly consider large loss scenarios in portfolio construction and procedures to manage client expectations in an era of increasing market volatility.

Blaine F. Aikin is president and chief executive of fi360 Inc.

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IBG-11599

Apps that take some of the bite out of tax time

Record-keeping tools are grabbing advisers' attention this season

By Darla Mercado

Everyone can use a shortcut when doing taxes, and a few apps are grabbing advisers' attention as they find ways to save time and a few bucks on — or before — April 15.

One of the first was the Internal Revenue Service's **IRS2Go**, available on iPhone and Android since 2011. It lets people track the status of their tax refund.

But a variety of other tax-related apps have come out since then. The latest is **HSA Coach**, which launched Feb. 14. Developed by Aaron Benway and Denise Halter, the former finance chief and controller, respectively, at HelloWallet, this free app gives users a way to track their health care receipts throughout the year.

With this app, clients can avoid hauling around a shoebox of receipts when it's time to reimburse themselves through their health savings account or submit the receipts to get a qualified medical deduction. HSA Coach also tracks the amount of annual distributions from the HSA.

The app makes sense when employers are reevaluating their health care arrangements and nudging workers toward an HSA with a high-deductible plan.

"Something will happen to [most] people in the next five years," Mr. Benway said. "Say you change jobs or your employer changes carriers. As a user, you lose all your data, and there's no business model to capture that information if they change from Carrier A to Carrier B."

HEALTH RECORDS

Users also can store health-related documents by using the camera function on their phones.

Another app that's garnered fans among advisers is **MileIQ**, which tracks mileage for those who travel and hope to use that data for necessary business deductions.

Leonard C. Wright, a CPA and personal financial specialist, says he got hooked on MileIQ after having to keep log books of his travel. Though he has tried other apps, they didn't fare as well. For instance, sometimes they would hit a dead zone and stop logging travel.

> "I DON'T want to spend $500 to $600 to have a tracking device installed in the car."
>
> **Leonard C. Wright**
> CPA

MileIQ remotely stores client data and can divide travel into either business or personal mileage. And if you accidentally delete the app from your phone, you can still access your travel records online.

Though the app is free, the service Mr. Wright uses costs $60 a year.

"There are units you can put in your car, but those are really expensive," he said. "And I don't want to spend $500 to $600 to have a tracking device installed in the car."

Expensify is another expense-tracking app worth considering. It's a favorite of Kelley C. Long, a CPA, personal financial specialist and resident financial planner at Financial Finesse Inc.

Expensify tracks mileage and enables people to submit expense reports, so it's useful for business owners as well as employees. If you're using the app for mileage, you can put in the distance, or use the odometer or GPS.

Ms. Long appreciates that it also records time for invoicing, especially helpful if you're a professional who

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charges by the hour.

"You're at a meeting and you want to track the time without having to write it on a piece of paper," she said.

Separately, she likes the **Mint** app, which she uses personally to divide tax-deductible expenses into their own category.

"I have one special category called 'tax items,'" she said. "I know I'm not missing out on expenses like property taxes and charitable contributions, and I want to make sure I put them on my return."

Finally, for those who like having a tax cheat sheet readily available, Mr. Wright recommends the **Bloomberg BNA Quick Tax** app. It has rates and schedules dating back to 2011 and has just been updated for 2015.

GETTY IMAGES

"It's neat because it will allow you to get a quick estimate in terms of potential tax liability," Mr. Wright said. "It's especially helpful mid-year, when clients want to get an idea of what their tax situation looks like and need to plan. When people go to their CPA in January or February, the [tax year] has already happened, so there is little you can do."

YEAR-ROUND HELP

For advisers looking to manage clients' tax-savings throughout the year, Bill Winterberg, certified financial planner and technology writer, pointed to three apps: **Total Rebalance Expert**, Tamarac's **Advisor Rebalancing** and **iRebal** from TD Ameritrade.

TD Ameritrade offers two versions. One is free for advisers who use the firm for custody, while the other is a stand-alone product available for purchase. Both TRX and Tamarac are stand-alone offerings.

With data security in the headlines, independent contractors — both clients and advisers — can turn to **WageFiling.com** as a way to safely file Form 1099 with the IRS, Mr. Winterberg said.

"It automatically blocks out and redacts Social Security numbers," he said. The service leaves in the last four digits of the taxpayer ID number, which "isn't ideal," he said.

"But the IRS allows it, and allows you to send forms with the last four digits to a vendor or contractor," Mr. Winterberg added.

He also uses an online vault to share documents with his CPA, helping to ensure the safe transfer and viewing of tax details.

"Never, ever, ever email tax information to anyone," Mr. Winterberg said, recalling a time he received a 1099 via email. "You don't know where that email will go or if it gets intercepted."

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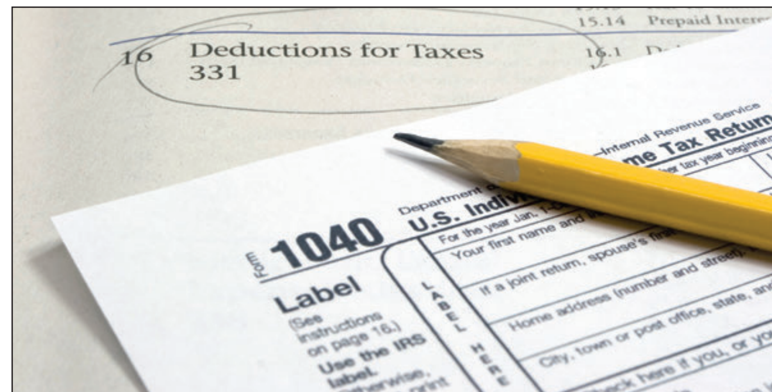
6 of the weirdest loopholes tucked away in U.S. tax code

By Bloomberg News



ISTOCK

Tucked away in the U.S. tax code's 4 million words are countless contradictions and write-offs. We asked accountants, tax lawyers and professors to identify some of the strangest sections.

Courtside deduction

Many alumni can't get tickets to their alma mater's home games unless they make a "donation" to the university. Under current law, 80% of such contributions are deductible.

The Obama administration has proposed closing the loophole to raise an estimated $2.5 billion over the next decade.

Fiscal favoritism

The blind are eligible for a higher standard deduction; the deaf or otherwise disabled don't get special treatment.

Songwriters who sell their music catalog pay capital gains tax on the earnings. But painters, photographers, writers and other artists selling a body of work are subject to income taxes, which can be much higher.

Mixed (car) signals

Buyers of energy-efficient hybrid and electric cars are eligible for a federal tax credit as high as $7,500.

Yet the code also encourages businesses to buy gas-guzzling SUVs, vans and pickups by making it easier to depreciate the cost of a vehicle that weighs more than 6,000 pounds.

Artful write-off

Buyers of old-master paintings or vintage Ferraris can enjoy their collections while getting a sweet tax break: They set up a nonprofit museum they control, then they donate their collection to it.

The museum might need to open to the public only a few days a month.

A GRAT dodge

The grantor retained annuity trust allows individuals to place assets into a trust in exchange for an annuity payment. Any growth in the assets above the payment goes to their heirs tax-free.

Casino owner Sheldon Adelson used GRATs to transfer at least $7.9 billion to his heirs from 2010 to 2013, avoiding a $2.8 billion bill.

Value of an education

If you withdraw money from a 529 savings plan without using it for education, you'll pay a 10% penalty.

But that one-time levy is small compared with the cumulative drain of years of taxes on capital gains and dividends an ordinary investment sees, making the plans an attractive vehicle for anyone.

Extra tax nightmare for one group

Some married same-sex couples must file five returns this year

By Bloomberg News

Tonya Keith typically spends four to eight hours doing her taxes each year. This year, she says, "I've got about 30 hours in, and I'm not done." The reason: She and her partner married last year in Seattle, but they live in Georgia, which doesn't recognize their marriage.

This tax season is particularly bitter for gays and lesbians who live in states that still don't recognize same-sex marriage. After decades together, many are filing their first joint tax returns. In a growing number of states, this is easy. An additional 20 states have legalized same-sex marriage since the beginning of 2014.

But in Georgia, Michigan, Ohio and nine other states, gay couples are still treated as legal strangers. They face more paperwork and heftier tax-preparation fees, and tax questions that puzzle even the experts.

Relief could come from the U.S. Supreme Court, which is expected to rule by June whether gays and lesbians have a right to marry. Taxes, however, are due by April 15.

SUPREME COURT

Of course, much more than taxes is at stake in the Supreme Court's decision — adoption rights, inheritance law, survivor benefits and more — but tax season brings the confusing and complicated contradictions between state policy and federal law into stark relief.

Ms. Keith and other gay married couples must prepare five returns: First, they complete a joint, official federal return that they'll file with the IRS. Then, each partner must complete but not file a federal return as if they were single people — shadow returns they'll use to prepare their state tax returns.

Filing a joint federal return is easy. The difficulty is in properly dividing a married couple's entwined finances into two state and federal returns.

ISTOCK

It's like "unscrambling an egg," said Ohio resident Sandra Anderson, who married her partner in August after 22 years together. A charitable deduction, for example, is split evenly between spouses if it's made from a joint bank account, but only one spouse can claim it if it's made via credit card.

Things get even more complicated if a couple has kids. Deductions for dependent children and adoption and child-care credits must be allocated correctly between parents.

Each state can have slightly different rules, but, when asked about them, state employees don't always give consistent answers. Ms. Keith spent a week trying to figure out whether she and her spouse should file on their state return as "single" or "head of household," and they kept getting different answers. It turns out each claims "head of household" status, because each claims dependent children.

NOT SINGLE

Then there's the insult of filing a legal document that says you're single when you're not. At HLM Financial Group, an Atlanta firm that specializes in LGBT clients, customers insisted on writing in large red letters on the top of their state returns: "Filed under protest. Taxpayer is not single."

If the Supreme Court rules that gay and lesbian couples have a right to marry in all 50 states, these problems go away. Married couples could file for an extension until Oct. 15, at which point their situations could be clearer. Any tax due must be paid by April 15, but otherwise there's no penalty for a delay.

"If it were me, I'd file the extension," said Lynn Pasqualetti, managing partner at HLM.

Ms. Keith won't be doing so. She and her spouse are expecting an $8,800 federal refund. "There's been a lot of wine devoted to this tax return," she said, and at this point she would just like to get it over with.

Automating 401(k) rollovers up next

Continued from Page 3

Plan sponsors can close accounts that contain less than $5,000, but they must deposit distributions between $1,000 and $5,000 in an IRA or another employer plan — unless the participant elects otherwise.

Distributions from 401(k) plans are subject to income taxes plus a 10% tax penalty if the worker is under 55 at the time of separation.

HIGH CASH-OUT RATES

A staggering 45% of DC participants cash out their plan balances, despite having to pay steep penalties and taxes, according to a recent report from the Boston Research Group. For job changers with balances of less than $5,000, the cash-out percentage soars to 55%.

Such cash-outs reduce aggregate 401(k)/IRA retirement wealth by about 25%, according to a study by the Center for Retirement Research at Boston College.

"Leakages from 401(k)s/IRAs are a serious concern given that these assets are the only significant retirement savings outside of Social Security for most workers," the report said.

Workers who keep their savings in their old 401(k) plan or roll over their balance to a new IRA have brighter retirement prospects than their drop-out counterparts. Still, they may confront unnecessary costs and complexity.

"Over 10 years, job changers will pay almost $44 billion to support the DC accounts that they have stranded along the way," the BRG report said.

Those costs were calculated by applying the average record-keeping, custody and administration fee of $92 per year to the estimated 38 million stranded accounts in the DC system.

Now that 401(k) plans are undisputedly the primary source of retirement savings for most Americans, the system needs to evolve to reduce costly leakage and improve retirement outcomes.

"What we are promoting first and foremost is consolidation," said Neal Ringquist, executive vice president of the Retirement Clearinghouse, a company that helps plan sponsors improve account portability for their participants. "It is easier to manage and draw down assets when they are all together," he added.

Serving as a case study for the recent BRG report, the Retirement Clearinghouse applied its best practices of automatic roll-ins for new employees and rollover services for departing employees to a large health care provider. The client had more than 190,000 employees and a traditionally high turnover rate.

IF NO assistance is offered ... participants are highly likely to opt out.

All new employees were offered the opportunity to roll their IRA and previous DC balances into the new employer plan, enabling low-balance job changers to automatically consolidate their retirement savings. About one-third of eligible participants took advantage of the roll-in services, compared with typical plan roll-in rates of 10% or less.

"This innovation, if adopted by enough plan sponsors and record keepers, could revolutionize the DC system for frequent job changers," the BRG report concluded.

As part of the case study, all departing employees with 401(k) balances of less than $5,000 were subject to an automatic rollover to a low-cost IRA. The key was the human touch at this critical juncture, which resulted in cutting the prestudy cash-out rate in half.

"If no assistance is offered to complete the process successfully, then participants are highly likely to opt out of the automatic rollover process and simply cash out," the report said.

Separated employees with balances of more than $5,000 were contacted by mail and phone to inform them of their options and to assist them in the process of creating a new IRA, consolidating balances into an existing IRA, rolling over their account balances to a new employer plan or leaving it in the old plan. Licensed counselors offered account consolidation services without the potential competing objective of asset gathering.

The bottom line: By creating an industry-wide framework that plugs 401(k) leakage and keeps trillions of dollars in the retirement system, all parties — from plan sponsors and record-keepers to advisers and participants — will benefit from increased balances and improved retirement outcomes.

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

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United Capital shifts its focus

Continued from Page 4

tal," he said.

The company has another channel that concentrates on organic growth and in which it places new or lower-producing advisers as independent contractors.

Members of the CIC team are receiving cash, and in some cases equity, as an incentive to join United Capital. The team, based in Denver, Scottsdale, Ariz., and Tucson, Ariz., will bring United Capital's overall assets under management to about $13 billion.

CIC was founded in 1990 by Chris Johnson and Clark Johnson (not related) and was purchased by Compass Bank in 2007. Through another acquisition by Compass Bank's parent company, it ended up under the umbrella of a Spanish banking organization, Banco Bilbao Vizcaya Argentaria S.A.

Jason Rosener, a principal at CIC, said he felt growth had stalled under that model.

"There was a point of diminishing returns," Mr. Rosener said. "We were only going to go so far."

He said he bought into the philosophy of United Capital's founder, Joe Duran, who thinks the registered investment advice industry eventually will be dominated by a few large national firms, in much the same way the accounting industry consolidated under a handful of well-known names.

"IT WILL BE increasingly tough as a $100 or $250 [million firm]. At every point ... there are different challenges."
Jason Rosener
Principal
Capital Investment Counsel

"In time, I could see there being just a few national advisory footprints out there," Mr. Rosener said. "It will be increasingly tough as a $100 or $250 [million firm]. At every point along the way there are different challenges, and here it's the scalability of a larger entity."

CIC also had looked at other models for independence, including joining Focus Financial Partners, an RIA acquirer that takes an ownership stake but allows RIAs to file under their own ADV, according to Mr. Rosener.

But, he said, the team ultimately decided that it wanted to become part of a firm instead, and it liked the client acquisition strategies and referral programs at United Capital.

'VERY ENTREPRENEURIAL'

"True independence is fine," Mr. Rosener said. "But we're very entrepreneurial-minded and want to continue to invest in our values and our people."

The four principals of CIC, including Mr. Rosener, will now serve as managing directors at United Capital.

CIC's primary custodian was Charles Schwab & Co. United Capital will pay Compass Bank custodian fees for any former CIC clients that are keeping their money at Compass.

The transition was finalized at the end of last month.

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White sidesteps action on fiduciary duty—again

By Mark Schoeff Jr.

Securities and Exchange Commission Chairwoman Mary Jo White said last Friday that she will push the agency to make a decision on whether to raise investment advice standards for brokers, but she again declined to provide a timeline for action.

Democratic SEC Commissioner Luis Aguilar, who supports a fiduciary duty rule, is not confident the agency will make progress this year.

"I have been frustrated that seven years into my tenure we remain where we are, at square one," Mr. Aguilar told reporters on the sidelines of the Practising Law Institute conference in Washington, where Ms. White spoke last Friday. "I'm hoping that Chair White will move us ... but, quite frankly, I need to see more action from the staff before I buy into the fact that we're actually going to move."

The SEC has been wrestling for years with whether to promulgate a rule requiring anyone providing retail investment advice to act in clients' best interest — a bar that investment advisers, but not brokers, currently must meet. The Dodd-Frank financial reform law gave the regulator the authority to propose such a rule.

"IT'S BEEN a priority of mine to get the commission in a position to make the decision."

Mary Jo White
Chairwoman
SEC

GETTY IMAGES

Consideration of a fiduciary duty rule is among "important priorities that will occupy us in 2015," Ms. White said at the PLI conference.

OTHER PRIORITIES

Ms. White's mention of fiduciary duty consumed 12 words of a 2,959-word speech. She spent the rest of the time elaborating on priorities such as reforming market structure, assessing systemic risk posed by asset managers and finalizing rules to help small businesses raise capital.

In a meeting with reporters after the speech, she didn't elaborate on a plan for the SEC's taking up consideration of fiduciary duty.

"It's been a priority of mine to get the commission in a position to make the decision," said Ms. White, who became SEC chairwoman in April 2013. "It remains a priority to do that."

The issue has caused a split among the five SEC commissioners, with Republican members Daniel Gallagher Jr. and Michael Piwowar warning that they wouldn't support rulemaking.

DOL RULE

While the SEC is mulling a rule, the Department of Labor is poised to re-propose its rule to require more financial advisers to retirement plans — including brokers who sell individual retirement accounts — to act in the best interest of their clients.

In a speech at the PLI event, Mr. Gallagher blasted the pending DOL rule, calling it a "runaway train," as well as a recently leaked White House memo supporting it. He argued that a ban on conflicts of interest would hurt smaller investors, who are better served by the current regulatory regime, which seeks to mitigate conflicts through disclosure.

"Investors benefit from choice — choice of products and choice in advice providers," Mr. Gallagher said. "This is something the nanny state has a hard time comprehending. The White House memo is thinly veiled propaganda designed to generate support for a widely unpopular rulemaking."

Fiduciary proponents say the rules will strengthen investor protection against conflicted investment advice that could raise the fees they pay to financial advisers.

Ms. White declined to say whether she favors a fiduciary duty rule.

"It is a very important area that is complex and needs to be considered very carefully," Ms. White said. "In the short term, I will be speaking about my position."

Her comments were similar to those she made in November at the Securities Industry and Financial Markets Association annual meeting in New York. Almost a year ago at a Consumer Federation of America meeting, she said she instructed SEC staff to draft a document that would give commissioners a list of options on how to address raising investment advice standards.

Ms. White has "devoted some considerable time to getting up to speed" on the topic, said Barbara Roper, CFA director of investor protection.

"She appears at this point to be well-versed on the issue and understands where the challenges are in developing a strong and effective rule," said Ms. Roper, who recently met with Ms. White. "We remain hopeful that this will be the year. This should have happened four years ago."

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SEC sued for using administrative judges

Charges question constitutionality of proceedings

By Jeff Benjamin

Atlanta-based investment firm Gray Financial Group Inc. has sued the Securities and Exchange Commission in Georgia federal court, challenging the agency's use of its own administrative law judges rather than federal judges to try enforcement cases.

The lawsuit is the latest challenge to an SEC practice that has been increasing since the passage of the Dodd-Frank financial reform law in 2010.

In the most recent fiscal year, the SEC filed 57% of its cases in district court and 43% in administrative forums that are overseen by five administrative law judges the SEC hires.

The complaint, filed last Thursday by Gray Financial co-founder Laurence Gray and co-chief executive Robert Hubbard, charges that the SEC's administrative proceedings violate Article II of the U.S. Constitution because the agency's judges are separated from presidential supervision by at least two layers of tenure protection.

BLOCK ACTION

The lawsuit seeks to block the SEC's administrative action against the firm.

An SEC spokesperson said agency policy is not to comment on active lawsuits.

Gray Financial officials did not respond to a request for comment.

43%
Portion of SEC cases filed in administrative forums in the most recent fiscal year

GETTY IMAGES

The SEC is investigating Gray Financial to determine whether it violated Georgia law in 2012 by investing in alternative investments on behalf of public pension funds.

According to Gray Financial's complaint, SEC-issued Wells notices in August 2014 indicated the agency had concluded that the $10 billion investment firm had violated certain federal securities laws.

The complaint also stated that while there was no evidence of investment losses from the allocation to the funds of hedge funds, the SEC began a "confidential and nonpublic investigation into Gray Financial."

Although the SEC never issued formal charges, the complaint alleges that the nature of the investigation was "released to the public and national press, and in a significant way."

'HARSH REALITY'

According to the complaint, the consequences of the investigation's being made public triggered a harsh reality for Gray Financial and all of the firm's employees.

"Once the investigation became public, Gray Financial had numerous consulting clients terminate their business relationships, [requests for proposals] for new business opportunities vanished and revenues declined," the complaint stated.

The SEC began using administrative forums more often as a result of Dodd-Frank, which allowed the agency to bring unregistered individuals and firms into administrative proceedings. Previously, the agency could obtain penalties in these cases only if they were tried in district court.

Commenting in December on the SEC's practice of relying more on in-house judges, Thomas Gorman, a partner at Dorsey & Whitney, said it gives the SEC a home-court advantage.

"It's a simpler format for them," Mr. Gorman added. "It gives them maximum control of how the cases proceed."

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RIAs balking at alts

Continued from Page 2

American Realty Capital (ARC) and American Realty Capital Properties Inc. speaking about how to use real estate in client portfolios. An affiliate of ARC, Realty Capital Securities, was a diamond sponsor of the event.

"The alternatives and REITs are seeing the potential there and are willing to pay the fees to get prime placement on the showroom floor," Mr. Smith said.

SPEAKING PRIVILEGES

David Lindenbaum, vice president of managed accounts and alternative investments at Schwab, said sponsors that pay more can get speaking privileges, although he did not mention ARC or other companies specifically.

Mr. Lindenbaum said demand for alternatives is increasing as RIAs seek them out as a tool for diversification.

"At a high level, we do see more usage of alternatives," he said.

But he attributed the increase primarily to product manufacturers' coming out with more liquid alternative funds. Schwab has created its own alternative investment platform that offers RIAs access to private equity, hedge funds and other non-traded, registered funds. Mr. Lindenbaum said use of the platform has jumped 70% in the past two years.

Mark Hurley, a consultant with Fiduciary Network, agreed that use of alts has been growing, because of the advent of more-liquid options and because clients are searching for products with lower correlation as a lingering effect of the financial crisis.

"When really bad things happen, human instincts are to assume the probability of it happening again," Mr. Hurley said. "Whenever a plane crashes, sales of flight insurance go through the roof, even though the likelihood of another crash has not gone up."

Mr. Larson said he is approaching alts warily.

"Clients are asking about them, and then if I go to conferences with other RIAs, a lot are voicing the same caution and [are] moving slowly," Mr. Larson said.

The two main issues, he said, are the higher fees and lower liquidity associated with the products. Most of Savant's clients are preparing for retirement, and they are not good candidates for less-liquid alternatives.

> "IF I GO TO conferences with other RIAs, a lot are voicing the same caution."
>
> **Adam Larson**
> Investment manager
> Savant Capital Management

"Liquidity can be a big discussion point we need to talk to them about," Mr. Larson said. "And since we work with them as a fiduciary, we are standing right beside them working to reduce their investment cost."

Dan Bernstein, chief regulatory counsel at MarketCounsel, said RIAs need to have greater caution about some alternatives because the diversity of offerings requires more due diligence.

"You can't just say, 'I'm going to start using alternatives,'" Mr. Bernstein said. "There might be leveraged products, and there are a lot of things that fall into the umbrella of an alternative."

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eMoney to collaborate on new adviser platform

By Alessandra Malito

Software firm eMoney Advisor says it will collaborate with 28 other companies, including Redtail and Orion, on a new adviser platform.

The program, emX Select, will let advisers access their clients' data from their dashboard simply by clicking on a client's name and then choosing the database they want among the options across service functions.

"It is true integration," Edmond Walters, founder and chief executive of eMoney, said at the T3 adviser technology conference earlier this month.

Seven companies are now available on the platform, including Morningstar Inc., HiddenLevers, Albridge, Envestnet and MGP. On May 1, about 10 will be added. By Sept. 1, all 28 companies will be fully integrated.

The collaboration among contenders will inject healthy competition, because advisers will be choosing the companies they want to use. Even if services advisers they use already are available on the platform, the ability to see other options can be valuable.

"If you don't maintain standards, someone else will take your spot and the person determining that 'on or off' won't be the CEOs on the platform — it'll be advisers and consumers," Mr. Walters said.

In other words, the most popular services will remain on the platform, but those that fail to gain traction among advisers will eventually be dropped and replaced by different options.

Edmond Walters

Earlier this month, Fidelity Investments announced that it was acquiring eMoney. Though it is possible that Fidelity will be on emX Select, Mr. Walters said it would not appear until a competing company such as Pershing or Schwab did.

"I want competitors to go out together," Mr. Walters said, adding that the deal with Fidelity was important.

"We don't need money to survive," he said. "We need money to grow."

Companies joining the emX platform will have to pay their own integration costs, Mr. Walters said.

Audience members at T3 seemed excited about the platform.

'MIX AND MATCH'

Deborah Fox, founder of the Fox Financial Planning Network, tweeted to eMoney Advisor, "Thank you for the right vision. It's about time advisers can mix and match their software applications of choice."

But eMoney intends for emX Select to become much more than a platform for financial services and has reached out to Microsoft Corp.'s Xbox and other companies for input.

Advisers working with clients' money will be able to see only finances at this point, but the company hopes to incorporate client data on insurance and health records at some point.

"Advisers right now have a huge disadvantage having so many tools," Mr. Walters said. "Those technologies have to work for advisers — not the advisers working for technology."

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Pimco's economist to exit post

Bloomberg News

Paul McCulley has stepped down from his role as managing director and chief economist at Pacific Investment Management Co. less than a year after rejoining the firm.

"Paul returned to Pimco last May after being recruited by Bill Gross, with whom he had a close friendship and association for more than 20 years," Daniel Ivascyn, the company's group chief investment officer, said in a statement last Friday.

Mr. McCulley's last day at Pimco will be Feb. 28.

JOACHIM FELS IN

The $1.68 trillion company said this month that it had hired Joachim Fels, former chief economist at Morgan Stanley, as global economic adviser. The manager of the world's biggest bond mutual fund is seeking to reassure clients and fortify its ranks after a year of record redemptions and the departures of co-chief investment officers Mr. Gross and Mohamed El-Erian.

In the past year, Pimco has hired 28 senior professionals, including Gene Sperling, a former economic adviser to two U.S. presidents, and Nobel laureate Michael Spence as consultants on economic policy.

Mr. McCulley said he accepted the position last year to work side by side with Mr. Gross.

"My mission here is complete," he said in the statement. "I will continue doing the things I love in other spaces, possibly in the academic arena. Pimco will always be Camelot in my heart."

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Where are oil prices heading?

Continued from Page 3
the commodity until he sees a major reduction in "the glut in crude oil sitting at refineries right now."

But Paul Schatz, president of Heritage Capital, has a solid argument for the opposite position.

"Warren Buffett is far from perfect," Mr. Schatz said. "If you stick with the blue-chip names, especially in the energy complex, you're going to be rewarded over the long term with growth, and you'll get paid with a dividend while you wait," he added.

NOT A VICTIM

Mr. Buffett is in fact probably not a victim of the drop in oil prices.

According to Bloomberg News, the 41.1 million shares of Exxon he owned through his company, Berkshire Hathaway Inc., cost on average $90.86 apiece in 2013. The stock traded for an average of $93.27 in the fourth quarter of 2014, so he could have sold the stake at a profit.

Crude oil, currently trading at about $52 a barrel, began to slide in earnest last fall and has since forced an intense focus on the fundamentals of supply and demand for the natural resource.

Since the start of the year, crude has averaged just over $48 a barrel. That compares to an average per-barrel price of $92.73 last year.

"If people were bullish on oil back when it was $100 a barrel, you've gotta be bullish when it's at $50," said Leon LaBrecque, chief investment officer at wealth management firm LJPR. "It just seems logical that oil will be higher 16 months from now.

"We bought exposure to oil in all our portfolios in late January when it was trading in the $40s," Mr. LaBrecque said. "Our oil recovery portfolio of two ETFs and 10 oil stocks is up about 15% already, but it's still early."

The ETFs he holds include the iShares U.S. Oil & Gas Exploration & Production ETF (IEO) and the SPDR S&P Oil & Gas Exploration & Production ETF (XOP).

Some of the oil stocks are Anadarko Petroleum Corp. (APC), EOG Resources Inc. (EOG), Phillips 66 (PSX) and Williams Companies Inc. (WMB).

A few strategists point to the action in crude oil futures to get a glimpse of the prospects for oil.

Near-month contracts are trading in virtual lockstep with the price of oil. But one year out (futures contracts for February 2016) are priced at nearly $61 a barrel, meaning investors are willing to take the bet that $61 will be a good price for oil in a year.

This so-called price contango, with futures contracts higher than the spot (or cash) price, has been the case for the past few months. Before that, oil futures experienced almost two years of backwardation, which is when expiring contracts trade higher than contracts dated to expire in the future.

"The futures indicate what we believe is true," said Jay Hatfield, manager of the InfraCap MLP ETF (AMZA). "If oil went to $150 a barrel, people would change their use over time, but they wouldn't be able to dramatically cut consumption, and that's what the futures markets are anticipating right now."

NARROW BAND

In essence, even if gasoline is cheaper than it has been in years, consumers operate in a relatively narrow band of how much they can and will use.

Mr. Hatfield is playing the oil market via oil storage companies such as Plains All American Pipeline LP (PAA), because "they can buy oil now, sell it forward using their storage capacity and lock in some of the arbitrage."

Rob Haworth, senior investment strategist at U.S. Bank Wealth Management, is also looking at futures but comes up with a slightly different take: That futures prices' moving higher as the contracts get further out is a contrarian indicator for the near-term price of oil.

"The futures markets remain fairly net long with regard to speculators, and typically with this kind of price drop, we will see net-long speculators decline," Mr. Haworth said. "This much positive sentiment suggests more downside for oil and oil-sector stocks."

For Chris Beck, who manages more than $4.5 billion in small-cap value portfolio assets at Delaware Investments, the price drop has increased the challenge of allocating even 5% of his portfolios to the energy sector.

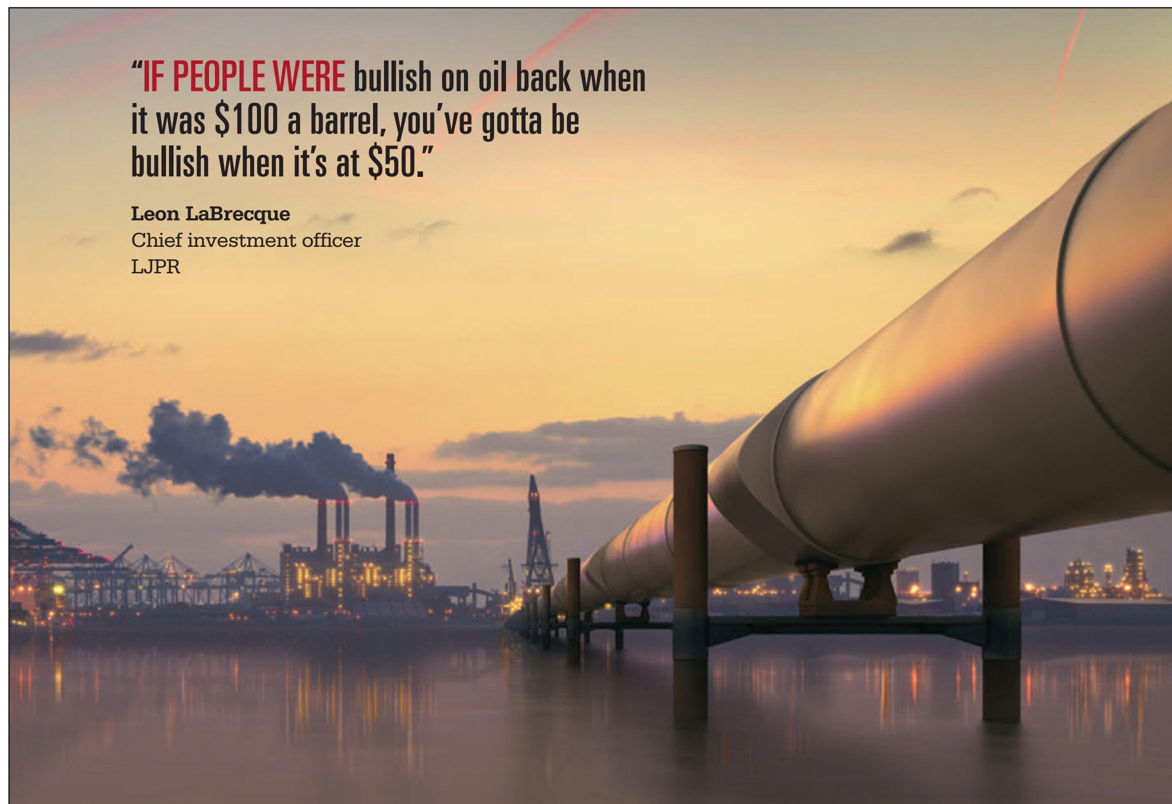
While he acknowledged the price of oil might have "overshot on the downside," Mr Beck doesn't believe $100 a barrel is sustainable.

"Make no mistake, the outlook [for domestic drillers] is bad for the next several months," he said.

"I tend to think there will be a bigger reaction later in the year in terms of declining production growth, because I find it very difficult to believe you can have the rig count decline as quickly as it has happened over the past six weeks and not have it have an impact on production," he added.

The production decline will be part of what slowly gets oil prices back to the comfort level of between $60 and $75 a barrel, according to Mr. Beck.

"The companies won't be making as much as they were six months ago," he said. "But they'll be making more than they are now."



"IF PEOPLE WERE bullish on oil back when it was $100 a barrel, you've gotta be bullish when it's at $50."

Leon LaBrecque
Chief investment officer
LJPR

GETTY IMAGES

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Stifel mulls Sterne Agee

Continued from Page 1
Bloomberg News.

Stifel's chief executive officer, Ron Kruszewski, did not return an email on Friday seeking comment. Spokeswoman Lynda Hofstetter said the company does not respond to market rumors.

Eric Needleman, chairman and CEO of Sterne Agee Group, also declined to comment, saying that the company doesn't comment on market rumors.

11 ACQUISITIONS

Since 2005, Stifel has made 11 acquisitions of investment banks and financial services firms.

Only two were acquisitions of entities that focus on retail financial advice, however. In February 2007, Stifel closed its purchase of Ryan Beck Holdings Inc., a full-service brokerage and investment banking firm with a focus on private clients. And in the second half of 2009, Stifel acquired 56 branches from UBS Wealth Management.

If the Sterne Agee deal goes through, Stifel will be facing a number of challenges.

Sterne Agee itself has been a buyer of independent broker-dealers in recent years, the latest of which was WRP Investments Inc., a mid-size firm. Since the close of that acquisition, WRP reps and advisers have been moving accounts to Sterne Agee, which is a self-clearing broker-dealer.

If advisers have to move their client's accounts again, this time to Stifel, it's tough on the adviser, said Larry Papike, president of Cross-Search, a third-party recruiting firm that focuses on independent reps and executives at such firms.

"ACQUISITIONS and mergers of strengths and capabilities make sense right now."

Derek Bruton
CEO
Lucia Capital Group

"If that's the case, it makes it extremely difficult for advisers to go back to customers and say, 'We're moving your account to a different clearing firm,' and explain a whole new situation about their broker-dealer again," Mr. Papike said.

"The disruption in the adviser's life is monumental, and each time they have to tell the story again they lose a little bit of credibility with their clients," he said.

Meanwhile, Sterne Agee has been under a cloud for most of the past year, although that could work in Stifel's favor if it were able to pick up the firm at a fire-sale price.

Sterne Agee last May fired its chairman and CEO, James Holbrook Jr., for allegedly misusing company assets and spending lavishly on perks.

The board of Sterne Agee fired Mr. Holbrook after it learned of a federal criminal investigation into possible misconduct.

In December, Sterne Agee sued Mr. Holbrook for the same reason: allegedly using company assets and resources for personal reasons.

In 2015, high costs of technology and compliance are expected to continue to force small broker-dealers to sell to large firms that have the scale to afford the bells and whistles that broker-dealers increasingly need to compete.

"I don't know the specifics of a potential deal, but it isn't shocking that this deal could culminate," said Derek Bruton, CEO of Lucia Capital Group. "From regulatory pressures to competitive pressures, for firms to compete with larger firms, acquisitions and mergers of strengths and capabilities make sense right now."

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No suit against ARCP

Continued from Page 1
who was familiar with the case said no money changed hands between the plaintiff and defendants.

The decision to drop the suit provides a shot of confidence to American Realty Capital Properties (ARCP), the publicly traded real estate investment trust, and RCS Capital Corp. (RCAP), the holding company that owns a retail broker-dealer and a wholesale broker-dealer that markets nontraded REITS, according to an analyst note from William Katz, who follows RCAP for Citigroup Global Markets Inc.

'NO CURRENT TIES'

Nicholas Schorsch, one of the executives whom Ms. McAlister accused of ordering ARCP's former accounting officers to cover up improper financial reporting, had been chairman at both companies before resigning from his posts in December.

"While there are no current economic ties between ARCP and RCAP, the prior worries reflect investor concern around: 1) headline risks; 2) belief of wide ranging corporate governance issues given the chairman's dual roles; and 3) potential legal issues [that] would climb up and over to RCAP," Mr. Katz wrote. "It would seem the dismissal neutralizes much of these tail risks."

In afternoon trading Friday, RCAP's stock was up about 6% at $10.86. ARCP was trading relatively flat, at about $9.30.

ARCP and RCAP still face an investigation from the secretary of the Commonwealth of Massachusetts, William Galvin. The Securities and Exchange Commission and the FBI have also been investigating ARCP, according to news reports.

Ms. McAlister's suit, filed Dec. 18, had accused Mr. Schorsch and former chief executive David Kay of instructing her and former chief financial officer Brian Block to alter quarterly financial results at ARCP.

She said she had been terminated and made a scapegoat for the $23 million ARCP accounting error cover-up that was disclosed in October, according to the initial complaint.

Mr. Kay had hired Robert Khuzami, former head of enforcement at the SEC, Robert Khuzami, to defend him. Neither Mr. Khuzami nor Lorin Reisner, an attorney for Mr. Schorsch, returned a call requesting comment.

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