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Curious call
Did the normally straitlaced Morgan Stanley go too far with its branch-manager spoof of the "Hunger Games"? **Page 3**

Despite Obama's push, fiduciary not a done deal

By Mark Schoeff Jr.

President Barack Obama has elevated to the bully pulpit a proposal that would raise investment advice standards for brokers working with retirement accounts. But presidential attention may not get a final rule over the finish line by the end of his administration.

In a speech at AARP last Monday, Mr. Obama directed the Department of Labor to move ahead with a rule that would extend the definition of "fiduciary" to more advisers of 401(k) and individual retirement accounts, requiring them to give advice that is in their clients' best interest.

Mr. Obama criticized financial advisers who "[steer] people into bad retirement investments that have high fees and low returns," reducing their savings.

"These inducements incentivize the brokers to make recommendations that generate the best returns for them, but not necessarily the best returns for you," Mr. Obama said.

The DOL proposal is expected to be publicly released in coming months. It then will be subject to a rulemaking comment period, which usually lasts 90 days. Even if the rule is finalized, opponents could seek a stay in federal court.

"That probably pushes it into 2016 and the presidential election," said Peter Chepucavage, general counsel at Plexus Consulting Group.

"The forcefulness of the president cannot change the nature of rulemaking and the appellate process. I don't see how they can get it done before the next election, and [then] it goes to the next president and his secretary of labor."

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ROLE MODEL
Why the president singled out Sheryl Garrett
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EDITORIAL
Advisory groups squander their moment in the spotlight
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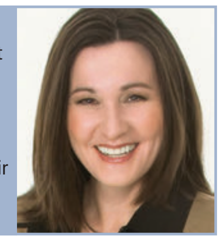

Vanguard robo on tap for advisers?

The fund giant's virtual investor platform is growing exponentially in pilot stage

By Trevor Hunnicutt

As Vanguard Group Inc.'s virtual investing platform grows exponentially, the firm is considering offering a version of it to financial advisers, an executive at the firm told *InvestmentNews* last week.

Assets in Vanguard's Personal Advisor Services increased thirteen-fold last year, even though it is still just a pilot program that has not been officially rolled out and offered to the general public. Assets in the unit reached $10.1 billion at the end of 2014, up from $755 million in 2013, according to the firm. Vanguard expects to release the virtual service to the general public later this year.

Martha G. King, who oversees Vanguard Group Inc.'s adviser-sales division, said the firm is considering offering some form of the service to advisers, although no decisions have been made on what such an offer would look like.

UNCERTAIN REACTION

"In the first two years of this, we've been very thoughtfully discussing it with our existing clients and doing so carefully because we didn't know what kind of reaction we would get," she said. "There may be an intersection of this capability we've designed, the technology platform we've built, as something we could offer to the financial advisers that my team calls on. More to come on that."

The phenomenal growth of the program illustrates the strength of Vanguard's relationships with retail investors who don't use finan-

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Spotlight

IMPACT INVESTING: Green bonds have arrived out of the blue as a feel-good option. Plus, top-ranked socially conscious funds. **Pages 10-15**

MISSING ON IMPACT

Advisers lag in embracing socially responsible options sought by clients

By Liz Skinner

WHEN FINANCIAL ADVISER Marlena Sonn met Bryan Wilson three years ago, she began showing him how his investments could be aligned with his personal beliefs.

"As [our] conversations progressed, it became a priority for me to have the investments reflect my personal ethics and worldview," said Mr. Wilson, a 30-year-old artist and fine-art fabricator.

Adviser surveys indicate that more clients are asking if they can have a positive effect on society with their portfolios, and well-known asset management companies are offering more so-called impact investment options.

Wirehouses, custodians and many independent broker-dealers have platforms that provide advisers with a menu of choices.

At the same time, it can be difficult for clients to

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Bryan Wilson: "It became a priority for me to have the investments reflect my personal ethics and worldview."

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Mission 'impossible'
Former UBS broker seeks reversal of order to repay bonus, claiming workplace was inhospitable.
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LPL movin' on down
The firm's HNW consulting group is uprooting from Maryland to North Carolina, at a cost of $9 million.
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EDITOR'S NOTE

Video worth 1,000 words, and more hits

Talk about an idea that should have been wiped clean off the whiteboard from which it sprang.

I'm referring to Morgan Stanley's video parody of the "Hunger Games," which features branch managers killing each other to remain at the firm.

Frederick P. Gabriel Jr.

The video, which was obtained exclusively by *InvestmentNews* reporter Mason Braswell and first posted on InvestmentNews.com, made headlines across the globe last week for its depiction of Morgan Stanley's inner workings and for being … well, as Business Insider put it, "cringeworthy."

The 10-minute piece, titled "Margin Games: Manager on Fire," is now the most-viewed video ever to appear on InvestmentNews.com. To watch it, go to InvestmentNews.com/margingames.

But the video — which was originally produced to lighten the mood at a branch managers' meeting last year — was never intended to be shown to the general public. In fact, even the muckety-mucks at Morgan Stanley realized it was in poor taste and ordered it scrapped.

NEWSWORTHY LEAK

But then, as often happens in this WikiLeaks world, the video was leaked.

I'll admit I had reservations about publishing "Margin Games," as the plug had been pulled without its even being shown to the branch managers. The video also was made more than a year ago, which called its timeliness into question.

In the end, we decided it was newsworthy, and that it was picked up by so many other major media outlets bears that out. After all, *InvestmentNews* covers Morgan Stanley, which employs about 16,000 brokers, and the video offers a rare glimpse into that company's culture.

"Margin Games" is clearly intended to be funny. But the fact that it was produced on the heels of a major branch consolidation following the 2009 Morgan Stanley Smith Barney joint venture (in the course of which real people lost real jobs) suggests that life at Morgan Stanley is every bit as ruthlessly competitive as one might imagine it to be at a wirehouse these days.

The squelching of the video indicates that Morgan Stanley's top executives are at least somewhat self-aware and have the good sense to know a terrible idea when they see it.

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Fidelity combines clearing, custody

Also creates Fidelity Wealth Technologies unit including eMoney Advisor acquisition

By Alessandra Malito

Fidelity Investments has combined its clearing and custody units and has created a new technology division.

Fidelity Clearing and Custody will be headed by Sanjiv Mirchandani, the president of National Financial.

Michael Durbin, the former head of the custody unit, will lead the new division, Fidelity Wealth Technologies.

The units ended 2014 with $1.5 trillion in assets under administration.

"These are both very fast-growing, fast-moving areas of financial services," Mr. Durbin said.

In February, the custodian acquired the financial software company eMoney Advisor. That business will be part of Fidelity Wealth Technologies.

Division leaders: Sanjiv Mirchandani and Michael Durbin

Fidelity has rejiggered parts of its business serving advisers before. In 2013, the company underwent a major overhaul and streamlined units catering to registered investment advisers, broker-dealers, banks and retirement plan clients. Assets under administration in the clearing and custody business have since grown by nearly 30%.

Fidelity Wealth Technologies is intended to promote innovation in clearing and custody.

Last fall, Abigail Johnson became chief executive of Fidelity and said she aimed to keep advisers in mind.

"A lot of what we've done has come from feedback — it's very client-driven," Mr. Mirchandani said. "These types of moves are not something we take lightly."

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Ex-UBS broker protests Finra finding

Claims practices made it 'impossible' for him to keep working there

By Mason Braswell

A former UBS Wealth Management Americas broker has asked a federal court judge to overturn a Finra arbitration award ordering him to repay more than $300,000 in bonus money, claiming he could no longer work there because of the way UBS marketed structured products.

Michael Hadden, who has been in the industry since 1994, worked at UBS from 2009 to 2011. He is arguing that the company made it "impossible" for him to continue there because of how it marketed and sold structured products to supposedly conservative investors, according to court filings in the U.S. District Court for the Western District of Kentucky.

As a result, Mr. Hadden said, he shouldn't have to adhere to the Finra arbitration award: a $200,000 bonus, $100,000 in attorneys' fees and $16,000 in interest.

"UBS created an inhospitable work environment through its various unethical practices with respect to customers, employees and regulators," he said in his original claim, filed in arbitration in December 2012.

The Financial Industry Regulatory Authority Inc. arbitration panel rejected Mr. Hadden's argument and a counterclaim for $1.3 million in damages in November, siding with UBS' initial claim seeking to claw back the bonus.

BLOOMBERG

But Mr. Hadden said the four-day session did not provide him enough time to present his inhospitable work environment claims. Further, he said, the panel refused to postpone a hearing to give him additional time.

MISLABELING INVESTORS

Mr. Hadden, who is no longer licensed, argued that UBS mislabeled conservative investors as "moderate" in their risk tolerance "for the purpose of avoiding restitution and penalties," the court filings state.

Though sales literature said the structured products and some exchange-traded funds were suitable for conservative investors, brokers couldn't buy the products unless the client was listed as "moderate," as that reduced their liability in lawsuits when some of the products, such as Lehman principal-protected notes, lost value, Mr. Hadden claimed.

He cited another settlement related to Lehman notes in which UBS was ordered to repay "conservative" clients 100% restitution, while "moderate" investors received half.

Mr. Hadden also disagreed with UBS' use of negative consent letters, which required customers to opt out of a change.

UBS spokesman Gregg Rosenberg declined to comment on Mr. Hadden's complaint.

Mr. Hadden, who is representing himself, also declined to comment.

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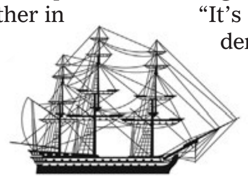
Vanguard finds another way to place its ETFs with clients

By Trevor Hunnicutt

The Vanguard Group Inc. is attracting assets — and advisers — to yet another barely advertised program that puts funds together in client portfolios.

In what's sometimes called the exchange-traded fund strategist business, Vanguard is building model portfolios of its own funds and selling them to investors through financial advisers.



3,700
Approximate number of advisers using Vanguard ETF models

The program, Vanguard ETF strategic model portfolios, has already won as distributors the independent broker-dealer Cambridge Investment Research Inc. and the outsourced investing platform Envestnet Inc.

About $1.6 billion in assets follow the program, and a little over 3,700 advisers use Vanguard models, according to the company.

"It's in direct response to demand from advisers, and to some degree advisers wanting to streamline and outsource," said Mike Lucci, a senior sales strategist at Vanguard. "For us, the value proposition is all about beta — low-cost, broadly diversified beta."

The program's success comes after the firm increased assets in a pilot of its partially automated investment offering, Personal Advisor Services, by more than $9 billion last year.

Both programs push Vanguard deeper into the business of delivering investment portfolios, or asset-allocation guidance, to advisers and clients, rather than just managing funds itself.

BIG BUSINESS

Envestnet works with 24,887 advisers. Cambridge ranks No. 9 among U.S. IBDs by revenue, according to *InvestmentNews* data.

Those firms handle the execution of the models developed by Vanguard, according to Mr. Lucci.

"There are certainly advisers … [whose] core belief is in a passive model," said Colleen Bell, first vice president for retirement and wealth strategies at Cambridge. "The conversation around fees has become more sensitive, and people do look

Continued on Page 25

LPL relocating wealth group to N.C.

By Bruce Kelly

LPL Financial Holdings Inc. is reorganizing its high-net-worth consulting group, Fortigent Holdings Co. Inc., and moving its operations from Rockville, Md., to LPL's campus in Charlotte, N.C.

The company expects to take a $9 million charge in connection with the move, which should be completed this fall, according to a company spokesman, Brett Weinberg. LPL projects that the revamp will result in annual cost savings of $3 million.

LPL acquired Fortigent in 2012 and extolled the wealth management firm for its investment savvy, client proposal generation and technology. At the time, the firm worked with 90 investment advisory firms that used its platform for the reporting of $50 billion in client assets. It was to be LPL's exclusive entry into providing services for independent advisers who work with clients with at least $5 million to invest.

A lot has changed at Fortigent since then. Last fall, chairman emeritus and chief executive Andrew Putterman left to start a new firm. Scott Welch, co-founder and chief investment officer, had left over the summer. About a dozen Fortigent investment professionals were added to LPL's investment team under Burt White, LPL's CIO.

$3M
Projected annual cost savings from the move

SENIOR ANALYSTS LEAVING

Fewer than 10 people at Fortigent were let go as part of the restructuring, according to Mr. Weinberg. It now has about 100 employees. Chris Maxey and Ryan Davis, senior analysts on the alternatives team, were among those leaving. Mr. Weinberg would not comment on the reason.

The Fortigent brand remains, but LPL is launching a new platform for its advisers called LPL Private Client, said Matt Enyedi, LPL's executive vice president of registered investment adviser and high-net-worth solutions.

Fortigent has offers out to hire investment professionals in Charlotte, Mr. Enyedi said. By eliminating overlap and bringing the Fortigent operations to Charlotte, LPL can ultimately increase that business and extend it to LPL advisers, he added.

The restructuring charge includes $4.5 million in employee severance, $2 million in relocation costs, $1.3 million in lease restructuring charges and $1.2 million in noncash impairment charges, according to a filing last Wednesday with the Securities and Exchange Commission.

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Morale de-booster

The 10-minute parody video, which was not shown as planned, appears to depict a cutthroat culture and a lack of collegiality. To view the video, visit InvestmentNews.com/margingames.

Too hot for prime time

Morgan video seen reflecting sour environment

IN Blog

Mason Braswell

There's a grain of truth in every joke, and while a video Morgan Stanley produced last year as entertainment for branch managers was an obvious parody of the Hunger Game series, it provides a unique look at the country's largest wealth management firm.

As it turns out, "Margin Games: Manager on Fire" was not shown as planned at the branch managers' meeting in February 2014, and it was ultimately shelved.

But the 10-minute video (a copy of which was obtained by *InvestmentNews*) seems to depict a cutthroat culture among wirehouse managers and a lack of collegiality between field

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Index-investing purists ignoring mounting downside risks

It's a logical point to recognize the benefits of active investing

Jeff Benjamin
On Investments

Few topics can whip the financial advice industry into a full-blown tizzy the way active versus passive portfolio management can.

For some reason, it's right up there with politics and religion in terms of conversations best avoided around the dinner table — assuming your family is made up entirely of financial professionals.

For some advisers, it has always been a matter of an unofficial blend of indexed strategies for broad exposure and active management in specific sectors.

But at certain points in market cycles — such as six years into a bull run that has seen the S&P 500 more than triple in value — it seems logical to recognize the potential benefits of active management over pure indexing.

"For us, it's all about return per unit of risk, which is something you can't maximize using passive indexes, and I think all the easy money has been made on the passive side," said Tim Holsworth, president of AHP Financial Services Inc.

CORRECTION

Of course, it's impossible to say how close the stock market is to a major pullback, but a correction of at least 10% has not occurred in more than three years.

The fact is that corrections of that magnitude historically come along roughly every 18 months.

We are only a week away from the six-year anniversary of the March 9, 2009, bottom in the S&P 500 during the financial crisis.

But actively managed funds are still taking their lumps in the form of net outflows.

In January, actively managed international and domestic equity funds had more than $13.8 billion in net outflows, while index funds had more than $22.3 billion worth of net inflows, according to Morningstar Inc.

That has been the story for every year — except 2013 — dating back to the start of 2008. Annual net outflows from active funds ranged from a low of $39.2 billion in 2009 to a high of $212.7 billion in 2008.

Index funds, meanwhile, enjoyed net inflows ranging from a low of $31.5 billion in 2009 to a high of $118.5 billion last year.

In 2013, active funds had $93.7 billion in net inflows, while index funds took in a net $99.4 billion.

In hindsight, with the S&P 500 up more than 212% from the bottom of 676.53, it is hard to deny the brilliance of just riding along in that particular index. But the same kind

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ISTOCK

IBD settles stamp suit

Fla. firm allegedly gouged on handling, postage

By Bruce Kelly

Newbridge Securities Corp., a midsize independent broker-dealer in Fort Lauderdale, Fla., has agreed to pay $850,000 to settle a class action lawsuit that alleged price gouging in what the firm charged for postage and handling of clients' securities transactions.

The original complaint alleged that Newbridge failed to disclose that the transactional "handling fee" it charged clients included a profit to the firm, that certain customers paid lower fees and that the fee was not based on the costs of handling a particular transaction.

The suit was filed in December 2012 in Circuit Court of Broward County, Fla., and two months later was moved to the U.S. District Court for the Southern District of Florida.

The lead plaintiff was Newbridge client Richard Remington, who was later replaced by Ursula Finkel. Members of the class action included clients of Newbridge from June 2008 to January 2013, according to the settlement agreement, which was approved in December by federal judge James I. Cohn.

RELEVANT CIRCUMSTANCES

Also in December, the Financial Industry Regulatory Authority Inc. fined Newbridge $138,000 for allegedly failing to buy and sell corporate bonds at a fair price for customers. The firm allegedly had failed to consider relevant circumstances, "including market conditions with respect to each bond at the time of the transaction [and] the expense involved," according to its BrokerCheck profile.

Newbridge did not admit or deny the allegations as part of the settlement. Neither chairman Lenny Sokolow nor chief executive Thomas Casolaro returned calls seeking comment.

BOOST EARNINGS

Newbridge lost $434,600 on $37.9 million in revenue in 2013, according to its most recent annual audited financial statement submitted to the Securities and Exchange Commission.

In May 2011, Finra CEO and chairman Richard Ketchum raised the question of postal price gouging by broker-dealers in a speech to industry executives.

At that time, broker-dealers' postage and handling fees ranged from $3 or $4 to $75 per transaction, executives said. Some firms had begun inflating rates after the financial crisis as a way to boost earnings.

The issue of postage and handling costs has been hanging over Newbridge for four years. In April 2011, the Connecticut Banking Commissioner fined it $10,000, alleging that the firm charged a "handling fee" unrelated to transactional costs and that it had failed to tell customers the fee included a profit for Newbridge, according to BrokerCheck.

In January 2013, Finra fined Newbridge $50,000 over the same issue.

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Excessive-fee lawsuit to result in major changes

Now before high court, case will affect plans no matter the outcome

By Darla Mercado

Oral arguments in a pivotal 401(k) lawsuit before the Supreme Court were heard last Tuesday, and regardless of the outcome, advisers can expect changes to the way they do business.

Tibble v. Edison International, filed in 2007 by plan participants against their employer, paved the way for litigation against plan sponsors for having overly costly funds within a 401(k) plan.

The lawsuit centers on the plaintiffs' claim that six of the funds in Edison's retirement plan were retail share class funds, despite the availability of cheaper institutional share classes.

In 2010, the U.S. District Court for the Central District of California granted a judgment of $370,732 in damages related to excessive fees in three of the retail share class funds. Litigation over the remaining three funds moved to the 9th U.S. Circuit Court of Appeals and then the Supreme Court.

The defendants claimed a statute of limitations required the plaintiffs to file suit alleging a fiduciary breach within six years of the last action constituting the breach.

The appeal before the Supreme Court centers on two questions.

The one legal experts stress is whether the six-year statute of limitations on fiduciary violations protects retirement plan fiduciaries that maintain investments that continue to cause losses if the funds were added over six years earlier.

$371K

Approximate amount of damages previously granted by a California court hearing the case

But surprisingly, both parties in this suit agree that fiduciaries have an ongoing duty to ensure that investments are prudent.

"Even [the defendants] say that you have to go back and monitor if there is a significant change to a fund," said Fred Reish, a partner at Drinker Biddle & Reath. "The plaintiffs say that every year there's a new duty to monitor. Essentially, that's the fight."

In a practical sense, the case serves to remind advisers and plan fiduciaries that they can't simply select funds and then forget them.

"Fiduciaries need to monitor and look at the investments each year to see if there are changes and if they are appropriate for the plan," Mr. Reish said.

That review should include grandfathered options that predate the fiduciary now overseeing the plan.

'OLD AND COLD'

"If something is old and cold in the lineup and you haven't looked at it in a while, is it prudent? Is it best practices if we have this [fund] and it's grandfathered?" asked Marcia Wagner, managing director at the Wagner Law Group.

The second question involved in Tibble is whether the statute of limitations applies in cases in which a plan fiduciary breached the duty of prudence by offering higher-cost retail class mutual funds in a plan when identical, lower-cost institutional class investments were available.

How the Supreme Court addresses retail versus institutional share classes is especially important to small retirement plans and the advisers serving them. Those plans generally don't have the assets needed to buy institutional share classes, and vendors are interested in working with that part of the market because of the 12b-1 fees and other expenses related to retail funds, Ms. Wagner said.

Mutual funds with revenue sharing often help subsidize the administrative costs of smaller plans, and fiduciaries need to consider that when choosing funds.

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Lockheed pays $62M in 401(k) funds suit

By Darla Mercado

Lockheed Martin Corp. agreed Feb. 20 to a $62 million settlement in a lawsuit brought by more than 100,000 employees and retirees who claimed the company invested their 401(k) savings in funds that were excessively costly.

The plaintiffs claimed Lockheed Martin breached its fiduciary duty by allowing the retirement plans to pay excessive fees. They also claimed it imprudently managed the stable-value fund and a trio of company stock funds.

While not admitting liability or wrongdoing, Lockheed Martin also agreed to several initiatives. They include filing an annual notice with the court that the company is complying with the settlement and providing information about the assets held in and the performance of the funds in question.

Jerry Schlichter of Schlichter Bogard & Denton, who represented the plaintiffs, said the case had takeaways for financial advisers.

"Bids and requests for proposal are important in arriving at what the marketplace costs are for recordkeepers," he said. "If sponsors don't get bids, it raises the question of whether fees are reasonable."

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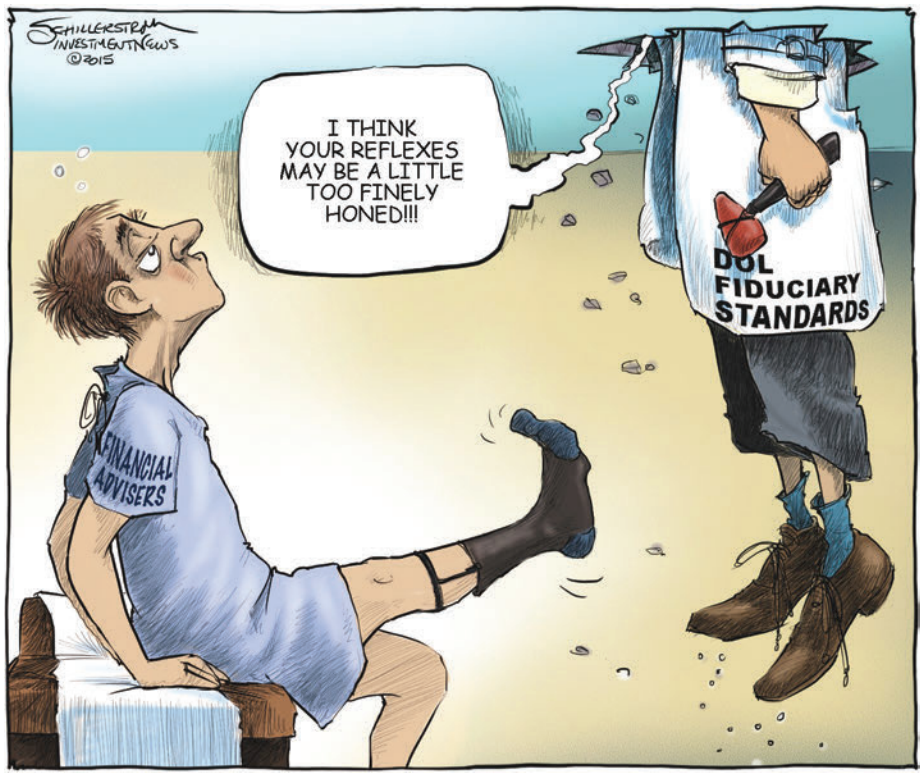
VIEWPOINT

EDITORIALS

Loudest shouldn't speak for everyone

THE NATIONAL spotlight was on financial advisers last week, as it almost never is, when President Barack Obama announced he was backing a fiduciary standard for brokers handling retirement accounts.



The industry is made up of many voices but is dominated by the loudest — those opposing such a standard. It chose the least-effective response and squandered a real opportunity.

The advisory industry could have risen to the occasion and used the limelight to begin to reverse its persistent public characterization: greedy, self-interested and indifferent to what regular people need and deserve. Brokers could have stepped up and said, "Yes, we do believe it's important to act in our clients' best interests. Here are the concerns we have with it."

Instead, this publication, as well as those that cover the issue for consumers, received prepared statements along the lines of "White House attacks poor advisers" and "No middle-class Americans will ever be able to invest for their retirement again! Ever!"

And all before the Department of Labor's proposal has even been released.

The greatest fears of those who oppose a fiduciary standard, that prompt their response of "shoot first, ask questions later," involve compensation models.

But after pulling back from a proposal in 2011 amid industry uproar, the DOL has said on many occasions — and has posted on its public website — that this rule "will not prohibit common compensation practices, such as commissions and revenue sharing. It will include new proposed exemptions from ERISA's and the Internal Revenue Code's restrictions on fiduciaries receiving conflicted compensation, and will request public input on the final design of the exemptions."

In that case, what will it mean to be a fiduciary? Fiduciaries will need to ensure they perform adequate due diligence on the products they offer. They also should have a process for and record of decision-making concerning what they put in clients' retirement accounts.

That sounds a lot like what a competent adviser should already be doing. It also happens to be a wise practice in the service of covering your own behind, even if you currently operate under a more limited suitability standard.

Screaming "The sky is falling" doesn't work with Americans. It's tired. Even worse, it doesn't further the cause of those proclaiming it; it does the opposite. Because anyone can see straight through arguments that big brokerages will no longer be able to afford to serve middle-income families, such scare tactics only substantiate the public's negative impression of the financial services field. Many in the profession deserve better.

SCREAMING "The sky is falling" doesn't work with Americans. It's tired.

A few industry leaders did hold their fire, exemplifying decency and composure at a time when attention was on the advice profession.

In Mark Schoeff Jr.'s story on Page 1, Robert Moore, president of LPL Financial, said, "I don't want to prejudge [the rule] ... because that isn't particularly constructive or helpful. Let's just follow the process and see where it leads."

Mr. Moore added, "We want to be constructively engaged."

And the Financial Planning Coalition sensibly criticized a knee-jerk bill proposed by Rep. Ann Wagner, R-Mo., last Wednesday that would kill DOL's effort before it even comes up for consideration, calling the legislation a "cynical attempt to undermine these critical investor protection efforts."

But those sentiments are largely drowned out by those claiming that a fiduciary standard would mean that only the ultrawealthy could afford the industry's services. Big surprise.

We're not suggesting you should sit on your hands, whatever your view. And we're not saying you can't feel stung by the president's focus on our industry's rogue actors.

But let's be reasonable. Engaging to find the most effective way to ensure that people's hard-earned dollars work for them in retirement is a worthy endeavor. Most financial advisers got into the field for that exact purpose — to help people. It's time to live up to that ambition.

Use this moment to broadcast the nobility of your calling.

And contact any industry groups that purportedly speak for you, and tell them you're tired of the rhetoric — and that they're not acting in your best interests.

Heading to court, but which one?

The controversy over the SEC's increased use of in-house administrative law judges to try civil enforcement cases is not going away.

In the past couple of weeks, Gray Financial Group Inc. filed a lawsuit against the Securities and Exchange Commission seeking to block an administrative action being brought against it. The Atlanta-based firm claims the use of administrative judges violates the U.S. Constitution.

At around the same time, SEC Commissioner Michael Piwowar called on the agency to issue guidelines for determining which cases are brought in administrative proceedings and which in federal courts.

The SEC acknowledges that it is using administrative judges more than in the past, largely because the Dodd-Frank law expanded the circumstances under which it could use those judges.

GETTY IMAGES

OBJECTION

Defense lawyers have complained that administrative proceedings are inherently unfair because the rules of discovery and other court procedures are more restrictive in such settings than in federal district court.

To prove their claim, the lawyers point to the SEC's greater success rate in the administrative arena.

According to an analysis by The Wall Street Journal, the SEC won all six administrative hearings that came to a verdict in the 12 months ended Sept. 30, versus 11 out of 18 federal court cases over the same period.

Of course, a winning record in and of itself doesn't prove anything, and the SEC's use of administrative judges has been upheld by the courts. The agency claims extensive procedural protections are in place for defendants, and that the forum provides benefits to defendants, not the least of which is adjudicating cases in a more timely fashion.

But legalities aside, a bigger issue is at play. It is vital that the public have confidence in all judicial forums, and if there is a perception that individuals and companies are not getting a fair shake in SEC administrative proceedings, the agency should be concerned.

Mr. Piwowar recognizes the importance of public perception, and his recommendation for boosting confidence in the SEC by establishing guidelines for when a case will go to an administrative judge and when it will go to federal court is a good one.

Right now, the SEC makes these decisions on a case-by-case basis. Bringing transparency to the process should go a long way in deflecting criticism that the agency is steering cases to its owns judges just to increase its winning record.

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Audit Bureau of Circulations

Stifel makes deal for Sterne Agee

For $150M, it will gain 730 advisers and reps managing over $20B

BLOOMBERG

Ronald Kruszewski: Stifel also gets one of the 10 largest U.S. clearing firms.

By Bruce Kelly

Stifel Financial Corp. said last Monday that it had agreed to buy the privately held Sterne Agee Group Inc. for $150 million in cash and stock.

The deal will add to Stifel's wealth management group 730 independent contractor representatives and advisers controlling more than $20 billion in client assets. The number of its wealth management advisers will rise by 35%, to more than 2,800.

Along with enhancements to its fixed-income trading, Stifel will acquire a private trust company and one of the 10 largest clearing firms in the U.S. with over $27 billion in assets under custody.

WELL-DIVERSIFIED MIX

The acquired businesses are expected to generate $300 million to $325 million in gross annual revenues when fully integrated.

"This acquisition furthers our goal of creating a balanced, well-diversified business mix with wealth management and institutional exposure," Stifel chairman and chief executive Ronald Kruszewski said in a statement.

The merger is expected to close in late spring.

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$800M Morgan team goes independent

Group forms Mosaic Family Wealth in partnership with Dynasty Financial

By Mason Braswell

A team that managed $800 million in client assets has broken away from Morgan Stanley Wealth Management to form an independent firm.

The group has partnered with Dynasty Financial Partners, a platform and service provider for independent advisers, to form Mosaic Family Wealth. The firm will be located in St. Louis.

"We have noticed a trend toward significantly larger advisory teams choosing independence," Dynasty chief executive Shirl Penney, a former executive with Citi Smith Barney, said in a news release.

ONE STAYS BEHIND

One member of the team, Grant McKay, will remain with Morgan Stanley. It is not known how much of the $800 million in assets he oversees.

A spokeswoman for Morgan Stanley, Christine Jockle, confirmed the move.

Mosaic, which previously operated as HSM Wealth Management, includes founders Scott Highmark and Larry Shikles. They are joined by six other team members.

Mr. Highmark had been with Morgan Stanley and predecessor firms since 2006, according to records with the Financial Industry Regulatory Authority Inc.

Mr. Shikles joined Citigroup Global Markets Inc. in 1994.

Their business manages money for entrepreneurs and some institutional clients, including corporations, endowments and pension plans, according to the news release.

Mosaic marks the 27th partner firm for Dynasty.

The addition, one of the largest since Dynasty's founding in 2010, brings the total assets under advisement by Dynasty's partner firms to about $23 billion, according to Sally Cates, a spokeswoman for the firm.

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VIEWPOINT

Why all investment advisers should join forces to promote the profession

Having walked out the door of the Investment Adviser Association last month, I have two parting words for all investment advisory professionals: Get involved!

If I have learned one thing during the past 18 years working at IAA, it's that the investment advisory profession can and should do a better job of educating public officials — as well as investors, the media and the public — about who we are and what we do. Compared with the banking, insurance and brokerage industries, investment advisory has taken only baby steps to do what needs to be done to be a player in important policy debates taking place in Washington and around the world.

OTHER VOICES
David Tittsworth

Why does our profession need to unite?

Few investors understand the core characteristics of an investment adviser or appreciate the key differences between investment advisers and other financial services providers. Many policymakers, including members of Congress, understand little about the basics of the profession.

Laws and regulations governing the activities of investment advisory firms have significant consequences, and the number and complexity of regulations have increased dramatically.

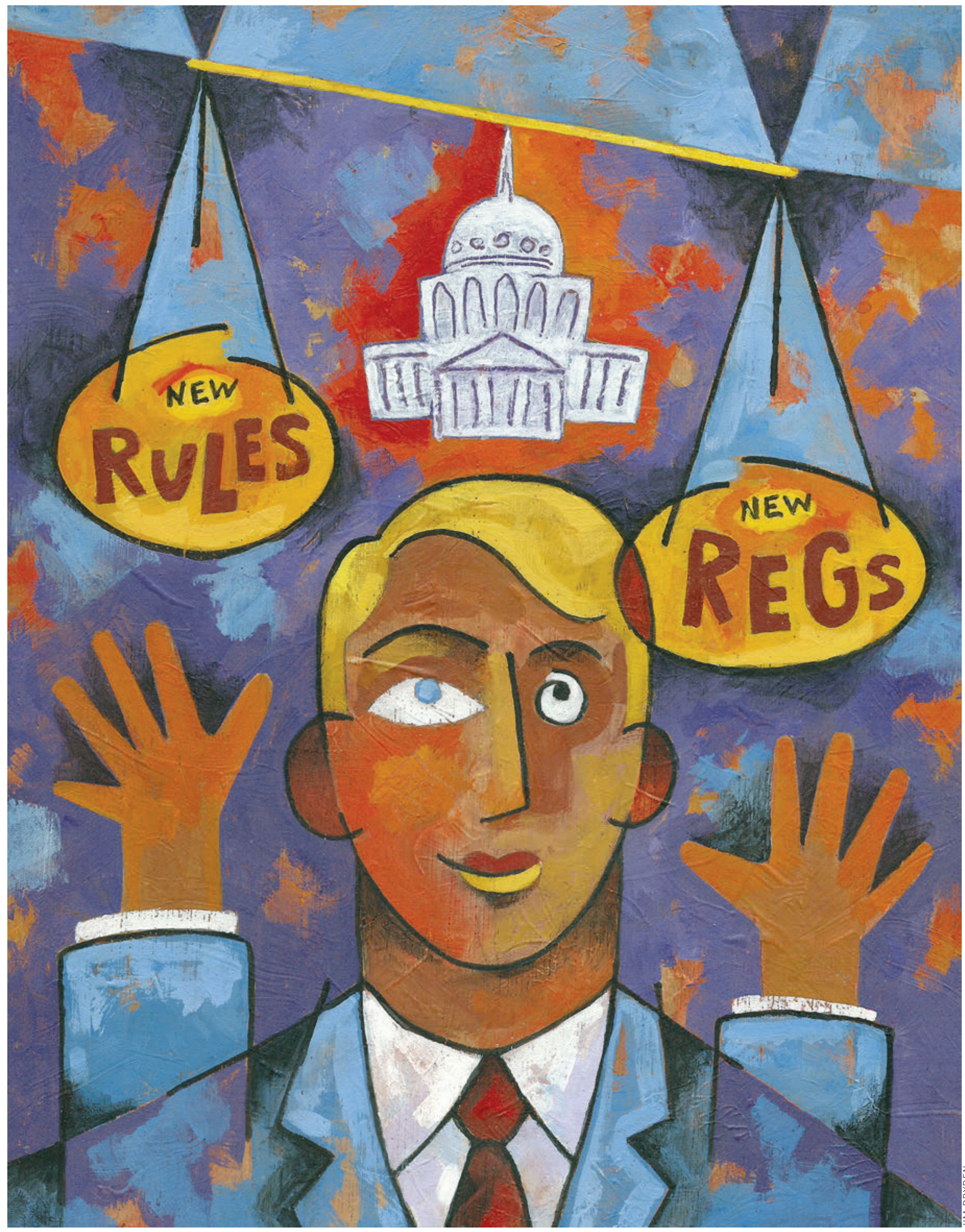
When I was hired in 1996, investment advisory firms were required only to have a written insider-trading policy. Today, investment advisers must comply with numerous rules, from codes of ethics, privacy, registration, disclosure and best execution requirements to custody, pay to play, proxy voting and compliance policies and procedures. Firms that have been around for the past 18 years know their legal, regulatory and compliance burdens have grown exponentially.

ALL ADVISERS share core characteristics, goals and objectives, and should act collectively.

Some of the most important policy debates are yet to be resolved.

For example, the jury is still out on whether and how the Securities and Exchange Commission will extend or revise the Investment Advisers Act fiduciary obligations. In the meantime, the brokerage and insurance industries have caused confusion as they campaign aggressively on Capitol Hill against the Department of Labor's fiduciary proposal, which President Obama came out in favor of last week.

All investment advisory firms have a compelling interest to ensure that the highest legal standard — placing client interests ahead of their own — should not be watered down.



FINRA WANTS ADVISERS

On another front, both Congress and the SEC continue to debate how to enhance the oversight of investment advisers. While denying it, the Financial Industry Regulatory Authority Inc. is itching to expand its jurisdiction to some or all investment advisory firms.

In my 2012 testimony before the House Financial Services Committee, I detailed the consequences of ceding oversight to a quasi-governmental entity that lacks transparency and accountability, and has demonstrated a poor track record. It will result in greater costs to the advisory profession.

Many other important issues need to be addressed, including whether asset management firms will be designated as systemically important financial institutions (and regulated like banks); the interplay between U.S. and international laws and regulations; and whether Investment Advisers Act rules will be "harmonized" with command-and-control regulations governing the brokerage industry.

There are many reasons the investment advisory profession has not done a better job of representing itself. They include the enormous diversity among firms; the tendency of advisers to be fiercely independent thinkers, as well as their disdain for the "nonlinear" ways of Washington; and the fact that laws and regulations are not particularly sexy.

But all investment advisory firms share core characteristics, goals and objectives, and should understand the compelling need to act collectively for the good of the profession.

ALL FOR ONE

Despite the differences, all are "investment advisers" within the meaning of the Investment Advisers Act and subject to the act's well-established fiduciary duty rule. All face potentially negative consequences if laws and regulations become overly burdensome or are not appropriate to the field. All can benefit from positive perceptions of the profession and from encouraging high ethical standards. And all will gain from organized, collaborative efforts to foster a better understanding of the investment adviser profession.

I understand that dealing with politicians in Washington can be difficult. I understand that submitting comments to the SEC and other regulators is not particularly scintillating. But for many years, I have seen that collective, concerted and sustained advocacy efforts are necessary to have any shot at influencing the outcome of policy debates.

I'm grateful for the opportunity I've had to represent the interests of SEC-registered investment advisory firms. And I look forward to seeing the profession make greater progress as investment advisers make the time and effort to get involved.

David Tittsworth is the former president and chief executive of the Investment Adviser Association.

American Funds to double down with active push

Fund giant makes case for active investing, even in retirement

By Trevor Hunnicutt

American Funds is fighting to take back the reins in an argument it insists has moved too far in favor of passive investing.

After a year spent trimming adviser redemptions and collecting data it says prove some active management can be good for you, the man who leads American Funds' growing army of wholesalers in the U.S. says the company is ready to double down.

"There clearly is a one-sided view in the marketplace," said Matthew O'Connor, head of the firm's distribution force in North America. "If you do just the surface-level discussion, the only logical answer is passive."

In a nod to the estimated 10,000 baby boomers who retire from the U.S. labor force every day, American Funds' next goal is to highlight why active management matters not only when investors are building wealth but while they're spending it, Mr. O'Connor said.

It will release new research on the topic later this year.

American Funds' previous papers have held that, while it may be true that most active managers fail to outperform their respective benchmarks, certain funds have a better chance.

In particular, it has said, those with low expenses and more investment by their portfolio managers deliver higher returns and better outcomes to investors.

GAINING GROUND

That viewpoint may be gaining ground among advisers.

Mr. O'Connor's team of 155 external wholesalers helped American Funds turn its cash flows positive last year for the first time in seven years.

About $345 million moved into the firm's mutual funds in 2014, according to a Morningstar Inc. estimate. Another $1.9 billion flowed in during January, making it the best month for American Funds since May 2009.

But the success the firm, which is owned by Los Angeles-based Capital Group Cos. Inc., is enjoying now pales in comparison to what it has endured over the past several years.

As passive-tilted Vanguard Group Inc. became the undisputed leader in mutual funds, with $2.3 trillion in mutual fund assets, American Funds lost the top spot in the mutual fund business, dropping to third.

With $1.2 trillion, it now sits in that ranking behind Vanguard and Fidelity Investments (another fund company struggling with the passive investing trend).

Vanguard successfully dealt with advisers' movement to business models increasingly based on their charging fees directly to clients, in part via exchange-traded funds.

But American Funds didn't replace outflows in its "load" funds with sales of products that don't pay adviser commissions. And advisers' disappointment with the funds' performance during the financial crisis didn't help matters.

HEMORRHAGED ASSETS

American Funds lost $251 billion to redemptions from 2008 until 2013. To put it in perspective, that's more than all the assets held today in the mutual fund lineups of BlackRock Inc. and Dimensional Fund Advisors. (Those two brands also have a significant constituency of financial advisers, brokers and consultants.)

As American Funds looks to build momentum and regain the portfolio space it lost in recent years, Mr. O'Connor conceded that it's fighting against an environment "very much driven, at least from a U.S. equity perspective, to passive."

Alec Lucas, a Morningstar analyst who covers American Funds, said it has demonstrated "good recent performance, combined with attractive investment options, especially for those at or near retirement."

Over half of its funds had returns in the top third of their categories,

> "IF YOU DO JUST the surface-level discussion, the only logical answer is passive."
>
> **Matthew O'Connor**
> Leads distribution in No. America American Funds

and about two-thirds beat their peers, Mr. Lucas said.

The flows reflect American Funds' greater emphasis on retirement-focused sales.

Its largest fund, the $140.5 billion Growth Fund of America (AGTHX), continues to lose assets — $7.9 billion over the last year.

But its "balanced" and income-oriented funds have been among the winners: The AMCAP (AMCPX), International Growth and Income (IGAAX) and American Balanced (ABALX) strategies have brought in $8.3 billion over the same period.

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Spotlight
Impact Investing

ONLINE BONUS

Community Capital Management's David Sand discusses the key issues for advisers.

TIAA-CREF's Amy O'Brien debunks the myths about responsible investing.

Go to InvestmentNews.com/impact

GREEN FUNDS GROWING

Issuance climbs as investors seek bonds that match their environmental goals

By Jeff Benjamin

NORM BENDELL

IN A RELATIVELY SHORT eight years, green bonds have come from out of the blue to give fixed-income investors a feel-good alternative.

Environmentally correct bonds have emerged as a legitimate force in fixed income, with issuance hitting $36.6 billion last year, more than six times the $6 billion issued in 2012.

Though that's still a small number in the context of a global bond market that tops $100 trillion, green bond issuance in 2014 was more than double the $15 billion issued in 2013.

"Green bonds represent the fastest-growing sector within the socially responsible investing space," said Louise Herrle, managing director of capital markets at Incapital.

Green bonds are debt issued to raise money for environmentally friendly projects and causes.

"The growth can be attributed to a couple of things," Ms. Herrle said. "There has been an explosion of investor interest, and the sector has matured."

SET OF PRINCIPLES

That maturity can, in large part, be pegged to the International Capital Market Association's adoption last year of a set of green bond principles to which the fixed-income industry has generally adhered.

Even though the principles are "completely voluntary," Ms. Herrle said, they are designed to provide basic guidelines and to help prevent instances of issuers "greenwashing" their debt to attract environmentally conscious investors.

"It's a way for the issuer to communicate about the use of the proceeds of the debt they're issuing, because it's not about the issuer, it's about the proceeds," Ms. Herrle said.

A unique aspect of the green bond market is that a corporation doesn't have to be christened green to issue green bonds, as long as the proceeds from those bonds are used for qualifying green projects. Eligible projects include renewable energy, clean transportation, sustainable waste management and energy efficiency.

As the category has gained some heft, the debate has heated up concerning what qualifies as green in the fixed-income universe. But most proponents of green bonds view the increased scrutiny as a positive development.

Benjamin Bailey, co-manager of the Praxis Intermediate Income Fund (MIIIX), described his fixed-income strategy as "green inclined" and acknowledged that despite the market's growth, it would be difficult today to build a fully diversified strategy using just green bonds.

"We're probably years away from that point, because the corporate sector has been slow to grow in terms of green bonds," he said.

The pace was set early on by such environmental and social justice leaders as The World Bank and the European Bank for Reconstruction and Development.

"There has been a lot of growth in the supranational, sovereign and foreign agency space," Mr. Bailey said. "You could get a very diversified portfolio if all you cared about were those areas of fixed income."

"A lot of folks want to put their money where their heart is."

J. Brent Burns
President
Asset Dedication

J. Brent Burns, president of Asset Dedication, which builds customized bond portfolios, recognized the potential of green bonds as a marketing strategy, which makes the case for more issuing companies' jumping on the bandwagon.

"A lot of folks want to put their money where their heart is," Mr. Burns said. "If a pension fund, or a particular investor, has a mandate or a heart that drives them to something like that, it's a good thing."

He said he doesn't seek out green bonds for investment but added, "I like the concept."

LINGERING QUESTION

While equity strategists and fund managers have been applying various investing screens related to religious, environmental and social issues for decades, stock funds have never quite resolved the question of whether investors are sacrificing performance in support of a cause.

As Mr. Burns pointed out, though, that's less of an issue with bonds, because they present investors with the yield at the time of purchase. That makes them much easier to compare with nongreen bonds.

"On the equity side, I think investors have always feared the 'give-up factor,'" he said. "But with a green bond, it's clear the day that you buy it what you're going to get, because it's a bond."

There is no indication of a significant performance difference between green and nongreen bonds, according to Delmar King, who co-manages the Praxis bond fund with Mr. Bailey.

"Green bonds are generally in line with other comparable credits," Mr. King said.

But Ms. Herrle said establishing the return differential will be more difficult in fixed income than in equities because of the nature of the bond markets.

"Some issuers will believe they're taking the trouble and added expense of the segregation of the funds, plus offering a social return in addition to the investment return, so they may shave off a couple basis points, but others will issue the debt at the same level as other debt," she said.

On the investor side, Ms. Herrle said, "certain funds might be willing to give up a couple of basis points to get a green bond, but most investors have a threshold for how much yield they will give up to support certain activity."

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TURN OVER

Comparison Chart

Criteria	iShares ETFs	Active Mutual Funds
Performance Goal	Track a benchmark	Outperform a benchmark
Management	Passive	Active
Performance Risks	• Performance may differ from benchmark • Holdings not altered during rising/falling markets	• May not meet performance goals • May underperform due to manager's holding selection
Buying/Selling Shares	Intraday on exchanges	Once per day via fund company
Price to Buy/Sell	Current market price, which may differ from NAV	End-of-day NAV, less fees
Fees	Expense ratio + transaction/brokerage costs	Expense ratio + any sales loads / redemption fees
Tax Impact of Buyers/Sellers	Shareholders only impacted by their own action	Shareholders may be impacted by all other shareholders' actions
Holdings Disclosure	Daily	Typically quarterly

As of 12/31/14			1-Year Returns				5-Year Returns				10-Year Returns			
Ticker	Fund Name	Gross Expense Ratio	NAV	Market Price	Post-Tax Held	Post-Tax Sold	NAV	Market Price	Post-Tax Held	Post-Tax Sold	NAV	Market Price	Post-Tax Held	Post-Tax Sold
IVE	iShares S&P 500 Value ETF	0.18%	12.14%	12.14%	11.31%	7.07%	14.65%	14.65%	14.12%	11.73%	6.59%	6.58%	6.05%	5.20%
IVV	iShares Core S&P 500 ETF	0.07%	13.62%	13.62%	12.89%	7.88%	15.37%	15.38%	14.90%	12.35%	7.62%	7.62%	7.16%	6.08%
IVW	iShares S&P 500 Growth ETF	0.18%	14.67%	14.69%	14.11%	8.43%	15.83%	15.85%	15.46%	12.75%	8.36%	8.37%	8.02%	6.75%
IJJ	iShares S&P Mid-Cap 400 Value ETF	0.25%	11.87%	11.91%	11.20%	6.84%	16.16%	16.15%	15.71%	12.99%	9.15%	9.14%	8.68%	7.36%
IJH	iShares Core S&P Mid-Cap ETF	0.12%	9.64%	9.68%	9.09%	5.55%	16.38%	16.40%	16.02%	13.19%	9.58%	9.59%	9.23%	7.77%
IJK	iShares S&P Mid-Cap 400 Growth ETF	0.25%	7.40%	7.40%	7.04%	4.25%	16.49%	16.50%	16.26%	13.32%	9.85%	9.85%	9.67%	8.09%
IJS	iShares S&P Small-Cap 600 Value ETF	0.25%	7.27%	7.35%	6.73%	4.23%	16.75%	16.81%	16.38%	13.51%	8.39%	8.40%	8.01%	6.74%
IJR	iShares Core S&P Small-Cap ETF	0.12%	5.67%	5.76%	5.18%	3.29%	17.19%	17.25%	16.85%	13.88%	8.93%	8.93%	8.63%	7.23%
IJT	iShares S&P Small-Cap 600 Growth ETF	0.25%	3.71%	3.79%	3.40%	2.14%	17.49%	17.52%	17.24%	14.16%	9.34%	9.35%	9.17%	7.64%

The performance quoted represents past performance and does not guarantee future results. Investment return and principal value of an investment will fluctuate so that an investor's shares, when sold or redeemed, may be worth more or less than the original cost. Current performance may be lower or higher than the performance quoted. Performance data current to the most recent month end may be obtained by visiting www.iShares.com or www.blackrock.com. Shares of ETFs are bought and sold at market price (not NAV) and are not individually redeemed from the Fund. Brokerage commissions will reduce returns. Market returns are based upon the midpoint of the bid/ask spread at 4:00 p.m. Eastern Time (when NAV is normally determined for most ETFs), and do not represent the returns you would receive if you traded shares at other times.

1. Morningstar, as of 12/31/2014. Post-tax comparison made between the returns at NAV of iShares S&P domestic equity style box funds and all share classes of all active Open-End Mutual Funds within the Morningstar US style box category available in the US at the beginning of the investment period that survived through the end of the investment period. Returns are calculated after taxes on distributions, including capital gains and dividends, assuming the highest federal tax rate for each type of distribution in effect at the time of the distribution. Overall figure is a weighted average of the percentage of funds that the iShares ETF outperformed in each style box, weighted based on assets in each style box. Performance may be different for other time periods. US style box mutual funds are those active funds categorized by Morningstar as US Large Cap Growth / Blend / Value, US Mid Cap Growth / Blend / Value or US Small Cap Growth / Blend / Value. 2. Morningstar, as of 12/31/14. Comparison is between the Prospectus Net Expense Ratio for the average iShares ETF (0.38%) and the average Open-End Mutual Fund (1.27%) available in the US. 3. Based on $4.652 trillion in AUM as of 12/31/2014.

Advisers slow to adopt the trend

Continued from Page 1
find advisers who have the knowledge and expertise required to serve the expanding number of clients who want to incorporate impact investing into their portfolios.

"There has been a tremendous amount of client demand for impact investments, and that is forcing advisers to catch up with the market," said Ms. Sonn, founder of Treebeard Financial Planning. "Clients want their money invested in people they trust and who they don't fear will do things in the basement that they won't know about."

In a survey of financial advisers who do not specialize in socially responsible investing, 49% said they offer or have offered such an option, according to a First Affirmative Financial Network survey of 1,913 advisers released last October. About 70% of those advisers said they provide an SRI choice because clients have asked for it.

There's little professional infrastructure to help advisers get up to speed in this area. They lack a central resource for information about impact investing, and the strategy itself often is not described clearly.

GROWING FRACTION

At about $36 billion in assets, impact investing in the U.S. represents a small but growing fraction of the broader, $6.6 trillion universe of sustainable or socially responsible investments.

Unlike SRI, which is passive — in that it applies sets of negative or positive screens to lists of public companies — impact investing is active. It seeks out companies or projects making positive social, economic or environmental changes.

Next-generation investors — namely millennials, or those born between 1980 and 2000 — rank social impact as a crucial criterion when they are making investment decisions.

According to a May 2013 Spectrem Group study, a survey of wealthy millennials found that 45% want to help others and consider social responsibility when they are investing.

About 29% of millennials in a Bank of America Merrill Lynch survey said they look to their advisers to provide values-based investing, the third most-requested service.

In fact, the prospect of a surge of interest from these emerging investors could help break the logjam and push impact investing activity to a level of greater professionalism.

Some companies are getting the message. BlackRock Inc., the world's largest money manager by assets, in February announced the launch of BlackRock Impact, a business unit that will house its $225 billion in values-based strategies and concentrate on developing more products.

Laurence Fink, chief executive of BlackRock, said clients are demanding investments that have multiple payoffs, and that such requests are becoming more frequent and increasingly complex.

"Clients are looking to measure the returns on their investments both by the societal and financial outcomes they can help to create," Mr. Fink said.

The addition of products will translate into more opportunities for advisers to come up with solutions for their clients.

But advisers will have to do their homework. Those looking to engage interested clients will need to perform more in-depth due diligence than is required by most traditional holdings. They can either become experts in the field or team up with other advisers or firms that already have that know-how.

GETTING STARTED

Those looking to acquire expertise have a few places to start.

For the past year and a half, the Forum for Sustainable and Responsible Investing (US SIF) has offered an online course aimed at financial advisers. About 500 people have taken it, and two-thirds of them were financial advisers, according to Lisa Woll, CEO of US SIF.

Also offered live at US SIF's conferences, the course has been popular enough that the group plans to vote in May on whether it should be turned into an adviser certification, Ms. Woll said.

"Many advisers have said they would rather be getting a designation they could put on a business card," she added.

Advisers also can receive training at a handful of other conferences hosted over the course of the year by the First Affirmative Financial Network and the Global Impact Investing Network.

A Calvert Foundation nonprofit, ImpactAssets, publishes an annual list of 50 investment managers who specialize in the activity. The list can be a sound starting point for investigating products that might match up with client priorities.

Wealth management firms Abacus Wealth Partners and Aspiriant are creating an investment platform to help smaller advisers integrate impact investing with traditional advising, according to Jennifer Kenning, managing director for the joint venture, Align.

"Not every advisory firm can build this in-house," Ms. Kenning said. "We can educate advisers or their clients. Either way, advisers retain the lead relationship."

In addition, Ms. Woll said, advisers most likely will need to enhance their process for bringing on new clients that have an interest in impact investing.

Intake forms should include questions about which issues clients are most concerned with and want to address with their investments, she added.

MORE GUIDANCE ON THE WAY

Additional guidance may be on the way.

The Money Management Institute will issue a report at the end of March aimed at making advisers aware of impact investing and convincing them that they need to become familiar with it, according to William Burckart, a consultant partnering with MMI.

"It will help advisers meet client demands for impact investing" and assist them in addressing the hurdles involved, Mr. Burckart said.

Enhanced client retention could help make the case that advisers should put in the effort.

Advisers report that clients in impact strategies tend to be "stickier" than others.

"Investors are unlikely to leave someone they feel is genuinely in line with what they're looking for and is doing the work to update them about what's happening in the space," Ms. Sonn said.

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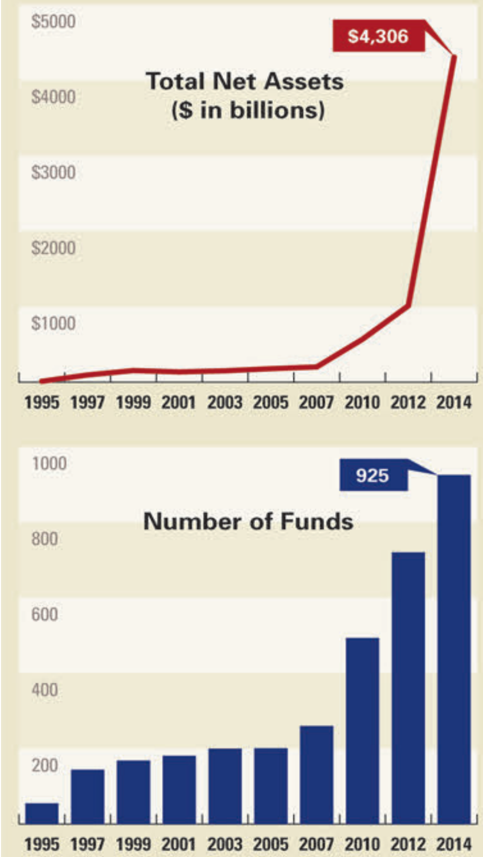
Impact investing surges

Funds incorporating environmental, social and governance factors



Note: ESG funds include mutual funds, variable annuity funds, closed-end funds, exchange-traded funds, alternative investment funds and other pooled products, but exclude separate account vehicles and community investing institutions.

Source: US SIF Foundation

GERARDO TABONES

ISTOCK PHOTOS

5 questions to ask before recommending an impact investment to a client

1 Does this opportunity make sense?
Make sure the investment is a fit with what you're trying to accomplish for your clients. Just because the opportunity looks appealing doesn't mean it's appropriate as an investment.

2 Is this a good business? Does it have reasonable return potential?
Remember, if it looks too good to be true, it probably is. These investments require as much or more due diligence than traditional ones. Take an extra-hard look at risks and payoffs.

3 Can you allocate the investment properly?
If a client's investment strategy is to be 70% stocks and 30% bonds, impact investments should follow the same parameters.

4 Is the investment fully consistent with the client's values?
Advisers need to know clients' political leanings and religious beliefs. For instance, a faith-based investment that would appear to make sense for a client could stand in opposition to stem cell research, which the client might support.

5 Can the investment vehicle be aligned with the client's asset size?
Many advisers recommend that clients with $1 million to $2 million be invested in separately managed accounts, while those with less than $1 million are often steered toward mutual funds.

5 reasons to learn more about impact investing

1. Millennial clients will demand it.
2. It helps with multi-generational planning.
3. It makes clients "stickier."
4. It will be a $1 trillion market globally by 2020.
5. Bill Gates and Steve Case do it.

Socially conscious funds

By category, ranked by one-year total return

VALUES-BASED INVESTING won new attention this quarter when BlackRock Inc. announced plans to launch BlackRock Impact, a unit catering to investors' social, environmental or religious goals. But the largest money manager is just one of many companies offering funds based on more than performance. Advisers need not take returns completely off the table as they shop around, however, as this list demonstrates. The following portfolios posted the top performance among funds tracking more than $82 billion in assets, according to Lipper.

— Trevor Hunnicutt

DOMESTIC EQUITY

	Fund	1-year return	3-year return	5-year return	Portfolio net assets ($M)	Expense ratio*
1	Parnassus Endeavor Fund (PARWX)	**20.57%**	20.45%	16.97%	$812.6	0.95%
2	Ariel Fund Investor (ARGFX)	**19.91%**	21.75%	17.90%	$2,312.4	1.03%
3	Vanguard FTSE Social Index Fund Investor (VFTSX)	**17.35%**	20.38%	16.70%	$1,558.5	0.27%
4	Praxis Growth Index Fund I (MMDEX)	**17.31%**	18.68%	16.57%	$171.3	0.47%
5	Parnassus Fund (PARNX)	**16.95%**	20.15%	16.80%	$668.0	0.86%
6	Domini Social Equity Fund Investor (DSEFX)	**16.25%**	15.49%	14.73%	$1,077.5	1.20%
7	Dreyfus Third Century Fund Inc. Z (DRTHX)	**16.16%**	15.94%	15.12%	$322.1	1.01%
8	Epiphany FFV Fund N (EPVNX)	**16.03%**	16.17%	14.24%	$30.8	1.50%
9	Calvert Social Index Fund A (CSXAX)	**15.89%**	18.31%	15.67%	$423.8	0.75%
10	GuideStone Equity Index Fund Investor (GEQZX)	**15.75%**	17.55%	15.84%	$418.5	0.39%
	Domestic-equity SRI funds average/total	**11.39%**	**15.35%**	**14.30%**	**$46,041.7**	**1.24%**

FIXED INCOME

	Fund	1-year return	3-year return	5-year return	Portfolio net assets ($M)	Expense ratio*
1	GuideStone Extended-Duration Bond Fund Investor (GEDZX)	**14.31%**	7.91%	10.51%	$317.2	0.76%
2	Calvert Long-Term Income Fund A (CLDAX)	**12.43%**	6.88%	8.16%	$91.3	1.25%
3	TIAA-CREF Social Choice Bond Fund Institutional (TSBIX)	**7.67%**	N/A	N/A	$348.5	0.40%
4	GuideStone Medium-Duration Bond Fund Investor (GMDZX)	**5.11%**	3.57%	5.14%	$919.5	0.65%
5	Calvert Tax-Free Bond Fund A (CTTLX)	**5.09%**	2.44%	3.58%	$143.2	0.93%
6	Calvert Bond Portfolio A (CSIBX)	**5.06%**	3.67%	4.53%	$869.8	1.12%
7	Praxis Intermediate Income Fund A (MIIAX)	**4.27%**	2.60%	4.02%	$415.5	0.95%
8	Parnassus Fixed Income Fund (PRFIX)	**3.72%**	1.52%	3.43%	$196.3	0.68%
9	PIMCO Total Return Fund III Institutional (PTSAX)	**3.69%**	3.43%	4.75%	$1,421.3	0.50%
10	Epiphany FFV Strategic Income Fund N (EPINX)	**3.49%**	2.58%	N/A	$19.7	1.30%
	Fixed-income SRI funds average/total	**2.90%**	**3.14%**	**4.33%**	**$11,261.6**	**1.03%**

MIXED ASSET

	Fund	1-year return	3-year return	5-year return	Portfolio net assets ($M)	Expense ratio*
1	Calvert Balanced Portfolio A (CSIFX)	**11.06%**	10.86%	10.71%	$688.8	1.18%
2	ESG Managers Growth Portfolio A (PAGAX)	**10.66%**	13.45%	11.21%	$16.6	1.75%
3	Calvert Aggressive Allocation Fund A (CAAAX)	**9.98%**	13.59%	11.79%	$102.0	1.26%
4	ESG Managers Growth and Income Portfolio Institutional (PMIIX)	**9.81%**	12.28%	10.60%	$17.5	1.49%
5	Walden Asset Management Fund (WSBFX)	**9.62%**	10.22%	10.07%	$81.2	1.00%
6	Green Century Balanced Fund (GCBLX)	**9.52%**	12.69%	10.84%	$137.3	1.48%
7	1919 Socially Responsive Balanced Fund B (SESIX)	**9.12%**	9.32%	8.78%	$134.6	2.38%
8	New Covenant Balanced Growth Fund (NCBGX)	**8.98%**	9.59%	9.50%	$297.7	1.20%
9	Calvert Moderate Allocation Fund A (CMAAX)	**8.97%**	10.89%	9.99%	$219.8	1.38%
10	Pax World Balanced Fund Individual Investor (PAXWX)	**8.87%**	9.53%	9.26%	$1,956.0	0.91%
	Mixed-asset SRI funds average/total	**7.53%**	**9.41%**	**9.14%**	**$10,200.2**	**1.48%**

WORLD EQUITY

	Fund	1-year return	3-year return	5-year return	Portfolio net assets ($M)	Expense ratio*
1	GuideStone Real Estate Securities Fund Investor (GREZX)	**18.98%**	10.97%	15.78%	$281.6	1.06%
2	Steward Global Equity Income Fund Institutional (SGISX)	**11.81%**	10.69%	11.66%	$156.8	0.71%
3	UBS Global Sustainable Equity Fund P (BNUEX)	**11.17%**	10.67%	7.99%	$22.0	1.00%
4	Gabelli SRI Fund Inc. I (SRIDX)	**9.98%**	11.61%	10.15%	$73.5	1.49%
5	Pax Ellevate Global Women's Index Fund Individual Investor (PXWEX)	**8.65%**	11.45%	9.41%	$69.0	0.99%
6	Calvert Emerging Markets Equity Fund I (CVMIX)	**8.18%**	N/A	N/A	$63.4	1.42%
7	Northern Global Sustainability Index Fund (NSRIX)	**7.79%**	13.26%	11.02%	$205.8	0.30%
8	DFA Emerging Markets Social Core Equity Port Institutional (DFESX)	**5.76%**	0.12%	3.54%	$967.6	0.66%
9	Frontier RobecoSAM Global Equity Fund Institutional (FSGLX)	**4.50%**	10.38%	9.49%	$13.0	1.20%
10	Portfolio 21 Global Equity Fund Retail (PORTX)	**4.23%**	10.46%	8.43%	$453.9	1.37%
	World-equity SRI funds average/total	**0.13%**	**8.59%**	**5.25%**	**$14,854.0**	**1.46%**

Returns as of Feb. 18; assets as of Jan. 31. Distinct share classes only. Three-year and five-year returns annualized.
N/A=not available (fund has been in operation for less than the period indicated). *Net prospectus.

Source: Lipper, a Thomson Reuters company

IRA ALERT
Ed Slott

Help clients avoid first-time RMD errors

Steer clear of common mistakes and high penalties related to required minimum distributions

Each year, a growing crop of IRA owners begins taking required minimum distributions from their individual retirement accounts and company plans. Generally, RMDs begin once an IRA owner (or plan participant) reaches the required beginning date, which for most is April 1 of the year after the year in which they turn 70½ .

Those who turned 70½ last year have April 1, 2015, as their required beginning date. This starts their transition to the withdrawal phase of retirement planning.

No one likes change, especially when it brings more complexity, but advisers can help clients avoid problems and penalties.

Here are the most common mistakes for those starting their RMDs:

Omitting accounts. Clients who have several IRAs or 401(k)s need to make sure they have a full listing of all their accounts. If they omit one, they will be short on their calculation and could be subject to the 50% penalty for not taking an RMD.

Not knowing the exceptions. There are RMD exceptions for certain company plans, and clients should know which accounts may be exempt.

For example, clients who are still working (and do not own more than 5% of the company) can delay RMDs on that company plan until they retire.

This "still working" exception applies only to the plan of the company clients still work for, however.

In addition, the exception does not apply to IRAs.

Using the wrong balance. Again, clients who turned 70½ in 2014 have a beginning date of April 1, 2015, but their RMD calculation is based on their IRA balance on Dec. 31, 2013.

For archived columns, go to InvestmentNews.com/iraalert

Aggregating incorrectly. The aggregation rules are tricky, especially for first-timers. IRA account balances can be aggregated for taking RMDs.

For example, while the RMD is calculated on each IRA balance (including SEP and SIMPLE IRAs), the total RMD can be taken from any one or any combination of IRAs (except inherited IRAs). The same aggregation rule applies to 403(b) plans if clients have more than one.

For 401(k)s, though, the RMD must be taken from each account. It's the same with Keogh accounts and other company plans subject to RMDs: You cannot satisfy a 401(k) RMD from an IRA, or vice versa. Likewise, you cannot satisfy an IRA RMD from a 403(b) or vice versa.

Even advisers make mistakes in this area.

EXPENSIVE BLUNDER

In a recent private letter ruling (PLR 201501026; Jan. 2, 2015), an adviser thought a client could satisfy both his plan and IRA RMDs with one withdrawal from his IRA. Based on that incorrect advice, the client took both his plan and IRA RMDs from his IRA.

His company plan notified the client that he still had to take his RMD from that plan, which he did. But then he wanted to roll the excess amount he took from his IRA back into the IRA.

The IRS granted the ruling and allowed the late rollover of the excess, but getting the mistake corrected was costly and took months.

Here are other important components to dealing with RMDs:

IRS tables. IRS tables are used to calculate the RMD. There are three, but most account owners will use only the Uniform Lifetime Table.

A client whose spouse is more than 10 years younger and was the sole beneficiary for the entire year can use the more favorable Joint Life Expectancy Table. It will produce a lower RMD.

The third table, the Single Life Expectancy Table, is never used for IRA owners but only for beneficiaries.

Age calculations. The right age for the first RMD can be either 70 or 71. This quirk occurs because of the 70½ rule.

To find the life expectancy factor for calculating the RMD, use the client's age on Dec. 31 of the year they turned 70½.

Here's the easy way to get this right every time: If the client's birthday is between Jan. 1 and June 30, use age 70. If the birthday is between July 1 and Dec. 31, use 71.

Timely RMDs. It's not the end of the world if a client misses an RMD or miscalculates and comes up short, as long as the oversight is corrected immediately.

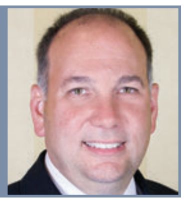
Have the client make up the missed RMD as soon as it is discovered, and file Form 5329 to request a waiver of the 50% penalty.

The IRS will generally waive it, especially in the case of first-timers.

Advisers can help relieve clients from the anxiety and stress of figuring this out for themselves as they transition to the withdrawal phase.

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

RETIREMENT WATCH
Michael Russo



Offense-only strategy won't succeed

Risk management is as important to long-term financial planning as the growth of investments

People who can be classified as members of the growing mass-affluent group might be considered better informed and more sophisticated when it comes to planning their financial future.

They have achieved success by working hard, and they've invested wisely, often with the help of a financial professional.

By definition, so-called mass affluents have investible assets of $100,000 to $1 million; they frequently spread their allocations across investments such as 401(k)s, individual retirement accounts and certificates of deposit.

These are the same people who would presumably understand the need for a diversified approach to financial planning, one that supplements growth strategies with the right protection products: life insurance, disability insurance and annuities.

They most likely know their income stream is their most valuable asset, and they realize an injury or illness that would prevent them from getting a paycheck could dramatically affect their ability to save. They might even be aware of a sobering statistic from the Social Security Administration: Just over 25% of today's 20-year-olds will become disabled before they reach age 67.

MASS AFFLUENTS' income stream is their most valuable asset.

Yet the results of a poll conducted in November by the MetLife Premier Client Group suggest that mass affluents may not be as prepared for retirement as we expect.

WORK TO DO

The MetLife Financial Planning Perspectives Poll shows that financial professionals still have work to do in educating these "smarter" investors about implementing a holistic approach to long-term planning. The poll surveyed adults identified as mass affluents and offered a glimpse into their thinking:

• Seventy-two percent say they have a financial plan in place to provide for their future, and an equal number believe they are on the right track.

Their confidence may be misplaced, however. Fifty-five percent of those surveyed said protecting their assets with products such as insurance and increasing their assets with products such as mutual funds were not equally important. That indicates that even more-astute investors don't fully understand how critical it is to deploy the right safeguards.

• There is still plenty of confusion and uncertainty surrounding insurance. Roughly two-thirds of those surveyed don't know how much life and disability coverage they should have.

• Many people are taking what might be called the "offense-only" approach to financial planning.

Nearly three-quarters of those surveyed are participating in 401(k) and other retirement plans. Meanwhile, a much smaller number have invested in products such as annuities (37%), long-term-care insurance (34%) or disability insurance (32%).

Sound financial planning and sports of every kind share a common organizing principle: An offense-only approach will not lead to a win. Clients who are focused solely on increasing their assets are ignoring the potential risks to their current earnings capacity as well as to their future income stream. That can put their entire strategy in jeopardy.

The risks are even greater when you consider that Americans are living longer.

IMPLICATIONS

For archived columns, go to InvestmentNews.com/retirementwatch

The Centers for Disease Control recently reported that a baby born in the U.S. in 2012 has a life expectancy of 78.8 years. That represents an increase of two years since the beginning of the century and of more than nine years since 1960.

The prospect of living longer has significant implications for retirement and long-term financial planning, and it should serve to alert financial and insurance professionals as they help clients formulate strategies.

The poll shows that 63% of those surveyed expect that they will be able to retire while they are in their 60s. With longer lifespans, however, those same people may need to build a financial structure that keeps them secure into their 80s or beyond.

Financial professionals can go a long way toward securing the trust of their clients by demonstrating the value of a diversified approach to long-term planning. That means adding a smart defensive strategy to the offensive one that's probably already in place.

Michael Russo is a financial adviser with MetLife Premier Client Group in Milwaukee.

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RECRUITMENT CONNECTION

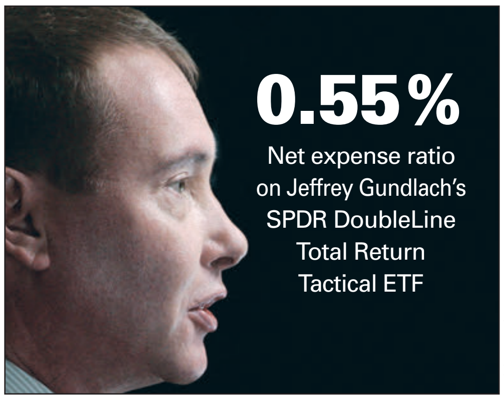
Gundlach tests ETF waters with new active fund

Bloomberg News

The last of the rock star portfolio managers is about to see how big his name really is.

The SPDR DoubleLine Total Return Tactical exchange-traded fund (TOTL) launched last Tuesday.

It will be managed by Jeffrey Gundlach, who also runs the DoubleLine Total Return Bond Fund (DBLTX), a top-performing mutual fund. TOTL is the 26th ETF to be launched this year, but it is possibly the most important as a test of whether active management can ever thrive inside the ETF industry.



BLOOMBERG

Actively managed ETFs haven't exactly inspired investors. They number 120, with a total of $19 billion in assets. That may sound like a lot until you realize it's less than 1% of ETF assets. Even the ones with three-year track records of beating their benchmarks are struggling to attract investors.

A rare exception to ETF investors' rejection of active management is Bill Gross and the Pimco Total Return Bond ETF (BOND). It collected $1 billion in assets within three months of its launch in 2012 — unheard of for an ETF — and eventually topped $4 billion in assets.

Mr. Gross left Pacific Investment Management Co. in September 2014 and is running a Janus mutual fund. BOND's assets are now a little over $2 billion.

Active management's struggle extends beyond ETFs. Index mutual funds took in $125 billion last year, while ETFs took in $243 billion. Meanwhile, actively managed mutual funds lost $52 billion, according to the Investment Company Institute.

SOME FLEXIBILITY

Mr. Gundlach's mutual fund has bucked those trends. Assets rose $10 billion last year, to reach $44 billion in less than five years. His new ETF will invest primarily in U.S. investment-grade debt, though it can invest as much as 25% in high-yield debt and up to 25% in emerging markets.

Mr. Gundlach's ETF, like Pimco's BOND, costs investors 0.55% of assets; the retail class of Mr. Gundlach's mutual fund charges 0.73%. But while cheaper than a mutual fund, TOTL is six times as expensive as popular aggregate bond ETFs, such as the iShares Core U.S. Aggregate Bond ETF (AGG) and Vanguard Total Bond Market ETF (BND). Both charge 0.08% in annual fees.

Mr. Gundlach also will contend with more-sophisticated fixed-income ETFs that have come out since BOND's launch.

It's fitting that the iShares U.S. Fixed Income Balanced Risk ETF (INC) was introduced the same week as TOTL. It weights bond allocations by risk, with half tied to interest rates and half to credit risk. INC charges 0.30% in annual fees.

Regardless of the headwinds, a famous name can trump all sorts of challenges. Mr. Gross proved that. Now, can Mr. Gundlach?

RCAP wholesaling unit posts 50% revenue decline in Q4

By Mason Braswell

RCS Capital Corp., or RCAP, had a challenging fourth quarter, with its wholesaling unit responsible for marketing nontraded real estate investment trusts posting a revenue drop of more than 50%.

The unit, led by Realty Capital Securities, raised $9.7 billion in equity capital for all of 2014 but just $1.1 billion in the last quarter of the year. As a result, the unit lost $10.2 million on a pro forma basis in the period, compared with $6.03 million in the year-earlier period.

SUSPENDED SALES

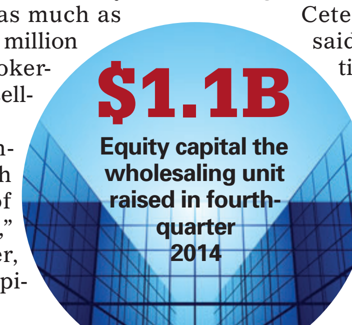
In November, RCAP warned that sales of nontraded REITs and other alternative investments offered by the wholesaling division had slowed as some broker-dealers temporarily suspended sales in light of accounting problems at a then-related firm, American Realty Capital Properties Inc., or ARCP.

"The fourth quarter was particularly challenging for RCS Capital," chief executive Mike Weil said on a conference call discussing earnings.

"We had planned for significantly higher equity sales in the quarter prior to the temporary suspension of some of our sales agreements," Mr. Weil added.

Overall, the company reported a loss of $122 million in the quarter on a pro forma basis, wider than the $1.4 million loss reported in the fourth quarter of 2013.

Still, executives said they are confident that the wholesaling unit is on track to "normalize" in 2015. They said they expect that adjusted EBITDA will be as much as $15 million to $25 million annualized as broker-dealers reinstate selling agreements.



"We will continue to see growth in the number of sales agreements," said Bill Dwyer, CEO of Realty Capital Securities.

"The ongoing reinstatement of our selling agreements and the expansion of our selling group will continue to be a positive contributor to our capital raising activities," Mr. Dwyer added.

He did not mention specific broker-dealers on the call. In November, the company said it had reinstated at least 51 agreements with broker-dealers.

Overall, Realty Capital Securities had 1,132 selling agreements at the end of 2014, down from 1,151 in January 2014.

Nicholas Schorsch was executive chairman of RCAP before resigning in December, around the same time he resigned from ARCP, which in October had disclosed a $23 million accounting cover-up.

RCAP's independent broker-dealers, operating under the Cetera Financial Group umbrella, posted good results. Retention among that company's 9,023 advisers remained strong at 97%. Cetera said it had brought in 242 advisers.

Cetera CEO Larry Roth said he and other executives spent time during the fourth quarter reassuring advisers in the wake of the accounting errors at ARCP. They stressed that RCAP was distant from the scandal, he said.

"Some of the market confusion even had some of our advisers unclear [if] ARCP is a distinct and separate business," Mr. Roth said. "We did spend a fair amount of time communicating with [advisers] and helping them understand how healthy Cetera is."

CLOSING DEALS

Cetera expects to close on two acquisitions — VSR Financial Services Inc. and Girard Securities — later in the first quarter. Those will put the combined companies at more than 9,500 advisers and $214 billion in client assets.

Executives said Cetera would remain on the lookout for appropriate acquisition targets.

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Crapo presses Finra on CARDS

Senator on banking committee questions data-collection program

By Mark Schoeff Jr.

A senior Republican on the Senate Banking Committee has contributed his voice to the chorus of those unhappy with Finra's plan for a brokerage data-collection system, claiming that it could jeopardize investor privacy and be used for government surveillance.

Sen. Michael Crapo: His letter to Finra's chairman included a list of nine questions about the data proposal.

BLOOMBERG

"This big data proposal raises a number of concerns about investor privacy, data security, duplication of regulatory data collection and the role of Finra," Sen. Michael Crapo, R-Idaho, the second-ranking Republican on the banking panel, wrote in a letter last Tuesday to Finra chairman and chief executive Richard Ketchum.

Mr. Crapo's letter adds to the resistance facing the Comprehensive Automated Risk Data System, a mechanism that would collect customer-account data from clearing firms and brokerages every month.

The Financial Industry Regulatory Authority Inc., the industry-funded broker-dealer regulator, argues that the system would enable it to detect harmful product-sales practices more quickly.

Finra declined to comment on Mr. Crapo's letter.

The regulator introduced CARDS as a concept release in December 2013. It released a proposal to implement the system last September. After industry pushback, it modified the proposal so that CARDS would not collect information that could identify individual investors.

But Mr. Crapo said CARDS still puts investor privacy at risk.

GOVERNMENT SURVEILLANCE

"Simply removing personally identifiable information, while helpful, is not sufficient to resolve privacy concerns in a database of this scope and size," Mr. Crapo wrote in his letter. "The CARDS database could become a tool of government surveillance."

He included in the letter a list of nine questions he wants Finra to answer about the need for CARDS, Finra's authority to implement it and details about how it would work.

Finra received similar opposition to CARDS from Rep. Scott Garrett, R-N.J., last fall. Mr. Garrett is a subcommittee chair on the House Financial Services Committee.

In his letter, Mr. Crapo cited a survey sponsored by the Securities Industry and Financial Markets Association that claims most investors say the costs of CARDS will outweigh the benefits.

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Transamerica chooses first CEO for B-D unit

Former president Seth Miller promoted

By Bruce Kelly

GETTY IMAGES

After several years of merging disparate broker-dealers into one brand, Transamerica Financial Advisors Inc. announced it has chosen one of the primary architects of those mergers, Seth Miller, as chief executive.

Mr. Miller has been president of Transamerica Financial Advisors since 2009, when TFA merged with InterSecurities Inc. Three years later, it merged with another insurance-focused broker-dealer, World Group Securities Inc.

> "PROMOTING from within demonstrates the bench strength of … TFA."
>
> **Marty Flewellen**
> Chief distribution officer
> Transamerica life and protection

Dutch insurer Aegon NV owns TFA through subsidiaries.

InvestmentNews' most recent survey of independent broker-dealer shows that TFA has close to 5,000 registered representatives and financial advisers, and reported $267.3 million in total revenue in 2013.

NEW POSITION

The CEO position is a new one at TFA, according to spokeswoman Tiffany Taylor.

The company is still searching for a managing director of its related registered investment advisory firm, Ms. Taylor said. Former managing director George Chuang was selected to be its president.

"Promoting from within demonstrates the bench strength of the TFA organization, and recognizes the talent and expertise we have in Seth and George," Marty Flewellen, chief distribution officer for Transamerica's life and protection division, said in a press release. "With George taking over day-to-day management of TFA, Seth will be freed up for an expanded role within the life and protection organization."

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Index-investing purists ignore risks

Continued from Page 4

of hindsight also can be applied to down markets.

Last year, for example, when the S&P 500 gained 13.7%, 85% of large-cap U.S. equity funds underperformed the benchmark. That further supports the argument for passive investing when markets go up.

But if you look at commodity funds — the worst-performing mutual fund category, with a 24.4% decline in 2014 — 89% of active funds beat their benchmark. Another example is foreign large-cap value funds, 60% of which did better than the benchmark MSCI EAFE's 4.9% decline last year.

HIGHER FEES

One of the standard arguments against active management is its higher fees compared with indexes. But those fees are often earned on the downside, when active managers can exit positions and move to cash. That becomes a positive drag on the portfolio when stocks are falling.

"Indexing can be self-fulfilling, and it usually ends when valuations get to the point that [they] are no long sustainable," said Keith Trauner, co-founder of Goodhaven Funds.

BLOOMBERG

"Typically, the time when active managers shine is when you get indexes that start to look expensive by historic standards," Mr. Trauner added. "And right now, the indexes are not offering a very good deal."

SMART BETA

If active management is climbing the steep side of the mountain, there might be some middle ground found in the emerging popularity of smart-beta strategies, which often combine the best of active and passive approaches.

Smart beta, which includes nearly 500 funds and a wide range of variations on the traditional market-cap-weighted index, might represent the foot in the door for indexing purists.

Anything has to be better than just blindly loading up on indexes in the hope that everyone else will keep doing the same.

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2015 RETIREMENT INCOME SUMMIT

MAY 4-5 // CHICAGO, IL

DAY ONE // SESSION TOPICS

- Commonly Overlooked Tax Strategies
- When Deferred Income (Longevity) Annuities Make Sense
- Best and Worst Practices for Decumulating Assets in Retirement
- The Adviser as Quarterback: Why You Need a Tax Planning Team
- Innovations in Retirement Income Products
- Using Technology to Streamline your Retirement Income Planning
- The Future of Retirement: How Huge Leaps in Technology Will Completely Upend Your Work With Retirees

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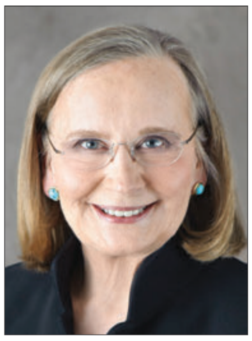
FEATURED EXPERTS



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President,
Bedrock Business Results, LLC

DAY TWO // SESSION TOPICS

- Case Studies: Real Life, Real Answers
- Social Security: The Key to Building Your Retirement Income Practice
- How to Keep Medicare from Wrecking Your Clients' Retirement
- The Convergence of Health Care and Financial Planning
- Roth IRA Immersion

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TECH CONNECT

Tools to maximize an adviser's online voice

Pros and cons of three popular blogging sites

By Alessandra Malito

A growing number of financial advisers are blogging to connect with clients and prospects.

But producing a first-class blog can be daunting without the right equipment. As with most technology, there are plenty of options and it can be overwhelming to find a platform that provides functions helpful to advisers.

Here are three popular tools to help you up your blogging game.

WordPress.com

Pros: One of the most popular blogging websites, WordPress.com is a widely customizable choice for an adviser. Once you create an account, you can log into a dashboard, where you can write posts, add media, create more pages — in the event you want to have sections for various topics — and review comments from guests.

In the appearance section, an adviser can select from a variety of free and priced themes and adjust menu settings.

There's also a section to work with widgets. Those are applications that show up on the blog site and include a list of fellow blogs the author may want to follow, contact information, most-viewed posts and a Twitter feed.

Cons: WordPress.com offers plug-ins (software made compatible on the blog) but not nearly as many as are available elsewhere. And though there are hundreds of themes, you cannot create your own, and customization is limited to certain ones.

Your domain name will end with .wordpress.com instead of .com unless you upgrade to the premium account. Ads can be removed with the premium account, as well.

Advisers can open a WordPress.com account for free or get the premium package for $99 a year.

WordPress.org

Pros: WordPress.org, which has all the capabilities of WordPress.com, is downloadable software offering myriad customization possibilities. Advisers who already have a fully functioning website can add their new blog to it, usually with just one step.

The platform has a very heavy do-it-yourself component that lets users choose exactly how they want their blog to look in every detail. It also has a number of help forums and guides.

Advisers can open thousands of plug-ins on WordPress.org, including adding social media or special software coding. Ads are already removed.

Stephanie Sammons, founder of Wired Advisor, said she uses WordPress.org and loves it.

"You can publish any content for-mat that you're comfortable with," Ms. Sammons said.

"ANY CONTENT you publish is out there 24/7 for someone to discover."

Stephanie Sammons
Founder
Wired Advisor

Cons: Unlike WordPress.com, the site isn't free, but comes with a monthly charge. And, as with any site, having a domain name requires an annual renewal fee.

Blogger

Pros: Another well-known blogging website is Blogger, an easy-to-use site that is accessed via a Google account. You can select a simple template and see your posts, pages, comments and stats on your dashboard.

The Blogger account will automatically link to your Google+ account, which includes all the Google abilities, as well as connecting with readers through Google+ Hangouts.

In addition, it's free.

Cons: Blogger doesn't rank as high in functionality as WordPress. It isn't as customizable, either, and it has a limited number of templates.

Blogging has promise for advisers, who can use their posts and other content to attract potential clients and gain exposure within their professional community. Jeff Rose, a CFP in Illinois, recently tweeted that a 4-year-old post had helped him land a new client.

But to see returns from blogging, you need to get acquainted with the platform and stick with it.

Ms. Sammons suggests creating a content strategy plan, complete with a calendar and list of topics.

"Blogging is a powerful tool for educating prospective clients and even existing clients, and making a human connection," she said. "Any content you publish is out there 24/7 for someone to discover."

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ISTOCK

The art of creating strong passwords

With all the musts and must-nots, it's no wonder they're a pain to manage

Passwords are a pain. They have to be "strong." They have to meet the sometimes-conflicting guidelines of various web services (must contain special characters, cannot contain special characters, must be more than six characters, etc.).

They should be changed periodically and typically can't be the same as or similar to one you've used before. Somehow you're supposed to keep track of them all ... in a way that's secure.

NO COMPLETE WORDS

What's a strong password? It's one that can't be guessed by someone else or easily cracked by hackers.

Obviously, passwords shouldn't be your birthday, address or name. It's recommended that they not contain complete words; that you use both uppercase and lowercase letters, as well as special characters (when they're allowed); and that you substitute numbers or symbols for letters. Additionally, the more random the better.

Examples of weak passwords:
- **SherylR**
- **February14**
- **123MainSt**

Examples of strong passwords:
- **R0w1Ing*%**
- **EyeAM$cPa!**
- **AY(2Zq7$/**

How can anyone be expected to remember passwords like that? (I can't even remember why I walked into a room.)

Even worse, how can you remember passwords when you have to change them periodically? You can't write them down on an accessible piece of paper titled "Passwords." Maybe you can store them in a password-protected file, assuming you can remember the password. You can use online software, but is that secure?

What's the answer?

For now, I'm opting for the password-protected file. I really want to use a simple software service, but I don't trust that it's safe. What do you think?

Sheryl Rowling is chief executive of Total Rebalance Expert and principal at Rowling & Associates. She considers herself a non-techie user of technology.

Robo for advisers

Continued from Page 1

cial advisers, and sends a strong signal about the potential growth for technology that continues to gain backing from venture capitalists.

It's a market that's also soon to include the Charles Schwab Corp., whose program, called Intelligent Portfolios, hasn't been released yet. But a spokesman for the company, Michael Cianfrocca, said the program would include a variety of funds, some managed by Schwab, as well as others from outside firms. Schwab expects to roll out a free service directly to consumers by the end of the month, and later offer a white-label version to advisers who custody with it.

ASSET BASE

Vanguard Personal Advisor Services, which combines virtual elements and human advisers for a fee topping out at 0.3%, has about $5 billion from other programs the company already manages. The rest of the money is new assets, according to Vanguard spokesman David Hoffman. The program is currently available to a small number of the firm's retail clients, including investors who use an existing Vanguard platform for wealthy savers.

Some advisers said Vanguard's use of its own products could diminish its usefulness to independent advisers.

0.3%
Fee for Vanguard's Personal Advisor Services virtual platform

"You do not get an independent, unbiased opinion when you go to the Dodge dealership," said Daniel P. Wiener, chief executive officer at Adviser Investments in Newton, Mass. "They're not going to tell you about the Japanese cars that might have better service records and better performance."

In a statement, Mr. Hoffman said Vanguard's advice is "centered" on its funds "because we believe we offer best-in-class investment products." Vanguard will recommend keeping investments from outside the firm in some cases, for instance when an investor has a large capital gain in an existing investment, he said.

Vanguard has consistently maintained it has a broad enough suite of products to serve many investors.

Despite its breakneck growth, the offering is still small for Vanguard. Overall, the firm has $3 trillion in U.S. fund assets and 20 million clients, with about a third of those assets coming from financial advisers.

By contrast, Wealthfront Inc., a start-up with a mostly online offering, manages $1.8 billion.

"We have this interesting dynamic where everyone's covering these sexy tech startups," said Dieter T. Scherer Jr., a financial adviser at Adaptive Wealth Solutions in Chester, Md. "Firms that are already large like Vanguard can raise so much more capital so much more quickly."

Mr. Scherer said Vanguard's deeper entry into enabling advisers with technology is positive, though it wouldn't fit his practice because he prefers a more active style of investment management than is Vanguard's hallmark.

NO BRANCH OFFICES

Vanguard executives said the firm sees its direct-to-consumer business and adviser-sold business serving different clients, and said the intention was not to open branch offices for its in-house advisers.

Tom Orecchio, principal at Modera Wealth Management in Westwood, N.J., said many clients need more than a diversified investment portfolio and an occasional phone call.

"Financial planning is a very detailed, complex process, and very difficult to do solely by phone," said Mr. Orecchio. "I'm not sure you can deliver comprehensive financial planning in a very systematic manner."

"We believe investors have varying preferences when working with a financial adviser — some prefer face-to-face interactions and, for those clients, we recommend [they] consult an external local financial adviser," Mr. Hoffman said. "For those investors who do not meet the asset threshold set by traditional financial advisers and who are comfortable with a virtual experience, our advice service offerings may be an option."

Lee Kowarski, a vice president at kasina, a consultant to money managers, said the threat to advisers tends to be exaggerated.

"There have been reports out there every several years of something that's going to kill the adviser, and the reality is the online brokerage in the '90s ... did not kill the adviser," Mr. Kowarski said. "The vast majority of people don't have the time, the acumen or the comfort level to do that themselves."

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Too hot for prime time

Continued from Page 3

leaders and corporate executives.

"Margin Games" stars a number of Morgan Stanley's top brass, including Shelley O'Connor, who oversees its adviser force of about 16,000.

In the video, executives are in a war room at headquarters, pitting branch managers against each other in a death match resembling one portrayed in the "Hunger Games" series.

There are moments in which managers joke about the coldness of senior leadership: "They'll have somebody at your desk on Monday," one manager says to a competitor.

Other scenes feature jokes that hinge on racial stereotypes, including one in which an Asian woman who plays an expert in martial arts pulls knitting needles from her hair and throws them at a dart board.

The company won't talk about the video or say why it decided not to show it. A spokeswoman for the firm would say only that the video was never released.

But according to sources familiar with the video who did not want to be identified, Greg Fleming, the president of Morgan Stanley Wealth Management, was involved in the decision. The sources cited different possible reasons for pulling the video, including the concerns of human resources personnel about some of the jokes or scenes of violence in the workplace.

EXECUTIVES' DETACHMENT

Some current and former Morgan Stanley executives who asked not to be identified said the fact that a video was even made that joked about people losing their jobs shows executives' detachment from other employees. In fact, two months after the managers' meeting, the firm began a reorganization. It cut the number of regions to eight from 12 and reduced the divisions to two from three. One of the divisional directors featured in the video left Morgan Stanley after his position was eliminated. Four regional managers were moved to different roles.

Last August, a number of other managers departed amid a separate reorganization of the consulting unit, which oversees Morgan Stanley's fee-based business.

Those kinds of shake-ups have become commonplace at many wirehouses, and at Morgan Stanley in particular, according to industry recruiter Danny Sarch of Leitner Sarch Consultants. Branch managers have found themselves the target of cost-cutting and consolidation efforts following the 2009 Morgan Stanley Smith Barney joint venture, he said.

For example, the firm has reduced its branch footprint by more than a third, from around 960 branches at the time of the Smith Barney merger in 2009 to 622 by the end of last year.

> "THEY DON'T HAVE factories, so what are their costs? Their costs are people."
> **Danny Sarch**
> Leitner Sarch Consultants

"They're a financial services company. They don't have factories, so what are their costs? Their costs are people," Mr. Sarch said. "And [Morgan Stanley executives] don't believe that compliance decisions and personnel decisions should be made locally. They feel they should be made higher up."

Mr. Sarch did say, however, that past videos produced by Morgan Stanley for the managers' meeting have helped to alleviate tensions at the firm and showed executives' ability to make fun of themselves.

Although he had not seen the video, he said he gives the firm credit for having a sense of humor.

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Vanguard builds ETF strategies

Continued from Page 3

for low-cost solutions that complement their own philosophy."

Beyond providing access to its 3,000-plus registered representatives, Vanguard's alliance with Cambridge could move ETFs deeper into a space that hasn't been particularly welcoming: the retirement-plan market.

Ms. Bell said the firm is offering the Vanguard ETF models to those plans through its division serving retirement plans.

The portfolios are often simple, made up of as few as four ETFs and a money-market fund. Vanguard doesn't charge a fee for the service, and once the cost of the underlying funds is included, the average expenses of the models range between 0.07% and 0.14% of assets annually.

The most popular portfolio is one of the most straightforward: 60% stock exposure, 40% bonds. It has $298.5 million in assets and returned 6.92% last year, 11.06% over three years and 9.26% over five.

The simple portfolios stand in stark contrast to other ETF strategists, who also trade on the popularity of ETFs but generally offer highly tactical strategies, many positioned as guarding against market risk.

PERFORMANCE REPORTS

Vanguard recently became the first large ETF manager to send performance reports on its 25 strategies to be ranked by Morningstar Inc., alongside once-high-flying managers such as F-Squared Investments Inc., Windhaven Investment Management and Good Harbor Financial. (Vanguard is 16th on that list.)

F-Squared has been dogged by challenges with regulators, Charles Schwab Corp.-owned Windhaven by the departure of its founder last year and Good Harbor by faltering performance.

Because those firms are also clients of ETF businesses, money managers such as Vanguard and BlackRock Inc., owner of the largest ETF business, have been reluctant to compete directly by offering tactical models. But they have increasingly offered more "strategic" asset allocation models.

"Strategic has a range of definitions in the marketplace. If there was a pendulum on strategic, these are way out on the strategic end," Mr. Lucci said. "That's what makes us an obvious complement to other strategists."

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Obama 'proud' of this adviser

President quoted Sheryl Garrett in supporting DOL fiduciary standards

By Liz Skinner

In President Barack Obama's speech last Monday backing tougher investment-advice standards for brokers who handle retirement plans, he singled out Sheryl Garrett as an adviser who puts clients' interests first.

"I want to emphasize once again, there are a whole lot of financial advisers out there who do put their clients' interests first. There are a lot of hardworking men and women in this field, and [they] got into this field to help people," Mr. Obama said at an AARP event in Washington. "They're folks like financial adviser Sheryl Garrett."

Mentioning Ms. Garrett eight times by name, Mr. Obama said he was proud of her. He had the founder of the Garrett Planning Network stand up in the audience, which included between 150 and 200 people.

He also quoted her argument for stronger fiduciary rules.

"Sheryl says, 'The role of a financial adviser is one of the most important jobs. But there is a segment of the industry today that operates like the gunslingers of the Wild West. We don't have the rules and regulations to protect those who we're supposed to be serving,'" the president said.

"Couldn't have said it better myself," he added.

In his speech, Mr. Obama said he's directed the Department of Labor to move ahead with its fiduciary rulemaking, something the agency tried to do in 2011 but backed off amid fierce opposition from the brokerage industry.

"WE SEND an example that you can make a living servicing middle America as a fiduciary."

Sheryl Garrett
Founder
Garrett Planning Network

The president's speech criticized advisers who earn "back-door" payments or hidden fees for putting clients into certain retirement investments that don't benefit them.

The DOL was familiar with Arkansas-based Garrett Planning Network's work with middle-income investors and new investors, Ms. Garrett said.

MIDDLE AMERICA

"We send an example that you can make a living servicing middle America as a fiduciary," said Ms. Garrett, speaking from Arkansas last Tuesday.

Ms. Garrett said she had talked with a White House speechwriter earlier last month. The president's office called on Feb. 20 and asked her to attend the speech.

"I had not imagined that the president would quote me, let alone ask me to stand up," she said, calling it a surreal experience.

Ms. Garrett started her network of hourly based, fee-only advisers in 2000. It now has about 300 members, and its founder has been a vocal supporter of the DOL's issuing new rules for advisers who handle pension retirement plans.

She dismissed opponents' argument that under a uniform fiduciary duty, middle-income Americans would be priced out of the advice market because brokers would abandon commissions and charge fees based on assets.

Her recognition from the commander in chief earned her kudos from other advisers.

"I'm thrilled for her and for the profession," said Edward Gjertsen II, 2015 president of the Financial Planning Association and vice president of Mack Investment Securities. He has known Ms. Garrett for about 15 years.

"Having a level landscape from the regulatory patchwork out there is important, most so for customers," he said. "It's great that the president recognizes that too."

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Despite nod, fiduciary not a done deal

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Even with the president on board, the fate of the rule is uncertain, agreed Brian Hamburger, president of MarketCounsel, an advisory compliance consulting firm.

"I don't think it's a done deal that we'll get a final rule," Mr. Hamburger said. "There's too many moving parts."

Still, the fact that Mr. Obama put an event on his schedule to endorse the rule gives it the most important support in Washington.

"Given the history of this rule, I'd hesitate to say anything is a done deal," said David Certner, AARP legislative counsel and policy director. "But the backing from the president and the secretary of labor is a big push forward for this rule."

BLOOMBERG

President Obama: His support of the DOL proposal is seen by some as a big push forward for the rule.

The proposal has been sent to the Office of Management and Budget for a review that could last 90 days. After OMB approval, the DOL will release it publicly for comment.

The first hang up could occur at the OMB, where costs and benefits are assessed. Dale Brown, president and chief executive of the Financial Services Institute, noted last Monday that an OMB rule review takes an average of four months.

"We expect this review will take as long as necessary to ensure that any final rule avoids serious unintended consequences for Main Street investors," Mr. Brown said in a statement.

DELUGE OF INPUT

Once the DOL puts the rule out for comment, it will be deluged with input from both fiduciary advocates and the industry, which has been able to slow the rule but not stop it.

LPL Financial wants to shape the rule from this point so it does not prevent brokers from helping investors with small retirement accounts, said Robert Moore, LPL's president.

"We want to be constructively engaged," Mr. Moore said during an interview on Capitol Hill, where he was preparing for meetings with 30 lawmakers last Wednesday as part of a lobbying effort by the board of the Insured Retirement Institute.

Two days after Mr. Obama came out in support of the DOL rule, Rep. Ann Wagner, R-Mo., introduced a bill that would effectively kill it by forcing DOL to wait until after the Securities and Exchange Commission has acted on a similar fiduciary rule it is considering for retail investment advice. The SEC has circled around such a regulation for years and is not close to making a proposal.

"They seem to be doubling down on another massive rule-making that is going to harm thousands of low- and middle-income American families," Ms. Wagner said, echoing brokerage-industry arguments that the rule would sharply raise regulatory costs for brokers and force them to drop middle-income clients.

Not all industry voices oppose the DOL rule. The Financial Planning Coalition — comprised of the Certified Financial Planner Board of Standards Inc., the Financial Planning Association and the National Association of Personal Financial Advisors — sharply criticized Ms. Wagner's bill, calling it a "cynical attempt to undermine these critical investor protection efforts."

But the first DOL proposal was withdrawn in 2011 after fierce industry protest. Mr. Moore said the administration has promised it has listened to industry concerns and there will be continuing talks with skeptics.

"I don't want to prejudge it sitting here today, because that isn't particularly constructive or helpful," Mr. Moore said. "Let's just follow the process and see where it leads."

In a document on its website, the DOL said the new rule will not prohibit commissions or revenue sharing.

"There will be clarity that a fiduciary can engage in different fee arrangements as long as the fiduciary discloses the conflicts of interest that go along with that fee arrangement," Mr. Hamburger predicted.

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DOL videos on conflicts rankle some

By Alessandra Malito

Financial advisers have gotten national attention after President Barack Obama directed the Department of Labor to move forward with a fiduciary standard rule.

To accompany the president's announcement last Monday at an AARP event that conflicted financial guidance was costing Americans their retirement savings, the Department of Labor released two videos to send the message that clients may need to re-evaluate their advisers.

The response from advisers was mixed. Some said the comparison of financial advisers to doctors and lawyers was correct and that a fiduciary standard is preferred. Others, however, complained that all advisers were being cast in a negative light.

PROFESSIONALIZE

"I have long believed the financial profession has to professionalize in the same way," said Blair H. duQuesnay, principal and chief investment officer of ThirtyNorth Investments. "Unfortunately, a lot of systems [aren't] set up in the best interest of clients."

One DOL video says Americans go to experts for advice for important matters — be it doctors for health or lawyers for legal issues — and financial advisers should be in the same category. It goes on to say that's not

"MY ONLY question is what their intention is with the video."

David Mendels
Director of planning
Creative Financial Concepts

always how it works out.

The argument raised on Twitter was that the video is so simplistic it lumps together all financial advisers, when the White House was referring to brokers, who do not follow fiduciary standards.

David Mendels, director of planning at Creative Financial Concepts, said it might spark conversations.

"It raises the question, it doesn't answer it," Mr. Mendels said. "My only question is what their intention is with the video."

The second video highlighted the conflicts of interest that arise when advisers don't disclose their fees.

"I think it's spot on from the standpoint of appropriate fee disclosure," Kevin Starkey, president of FTN Capital Management, said. "But I think the video is intellectually dishonest and only points to the expenses."

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WHO'S GOT
YOUR BACK?
When the first climbers reached the 29,035-foot pinnacle of Mount Everest in 1953, they did so under the expert guidance of Sherpa Tenzing Norgay. Widely lauded as the quiet power behind the team's success, Norgay went on to serve as the first field director of the Himalayan Mountaineering Institute — and to help hundreds of other parties reach new heights in the Himalayas.
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