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March 30-April 3, 2015

Headache
Retiree health care costs are rising faster than inflation.
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LearnVest deal raises concern over robo bias

By Darla Mercado

LearnVest's purchase by Northwestern Mutual last week could set off a round of similar acquisitions in the robo advice field and raises a question as to whether these startups can continue to maintain their objectivity once they are sold.

Northwestern, a 160-year-old insurer, announced Wednesday it was acquring LearnVest, an online advice platform that also gives clients access to one-on-one counseling through financial planners.

Northwestern Mutual stands to gain 1.5 million users of LearnVest's services and 25,000 clients through LearnVest at Work, a financial wellness program that LearnVest markets to employers.

The deal raised plenty of eyebrows in the financial planning community, as observers blanched at the idea of product-free LearnVest moving under the wing of an insurance company.

Bill Winterberg, a financial planner and technology writer, questioned whether LearnVest's 150 employees would find themselves in an awkward spot now that their parent company is an insurer.

OBJECTIVE OR CONFLICTED

"The LearnVest company and brand originated as an objective source, not a conflicted source, of personal financial planning," he said. "Conflicts aren't as bad as long as ... LearnVest employees [know they] have somewhat of a conflict if Northwestern Mutual products are part of the plan."

Critics also chimed in on Twitter.

"LearnVest's users will follow the path of so many before them," tweeted James Osborne, president of Bason Asset Management. "[They] think they are getting 'financial planning' while being sold life insurance."

But Tim Schaefer, executive vice president of operations and technology at Northwestern Mutual, said LearnVest is expected to continue providing its unbiased planning services.

"From [LearnVest's] standpoint, being unbiased in their work is important to their business model," he said. "[The deal] is not to make them Northwestern Mutual advisers or agents,

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Finding their niche in the industry

By Liz Skinner

EACH of the six next-generation advisers *InvestmentNews* has followed over the past year — their first in the financial advice business — is finding his or her own focus in this changing industry.

One is circumventing a traditional adviser career path and heading his firm's efforts to create a digital advice service for young investors and those with smaller accounts. The days of seeking out only wealthy investors are over, he says.

Half of these 20-something professionals took the certified financial planner exam last week, while the rest are pursuing other designations. One is considering the certified financial analyst mark.

Making time to study for the CFP and other securities examinations has been a struggle for the budding advisers. They sometimes feel overwhelmed by competing priorities, and most are trying to figure out their appropriate work-life balance.

On a personal level, the group has had an exciting year, with two getting engaged and another excited to learn his wife is pregnant with their second child.

These next-generation advisers have lots of guidance for those coming up behind them in the business, including to ask questions, take constructive criticism and accept that you'll make mistakes.

Read their stories beginning on Page 10 and find them online in blogs and video hangouts at InvestmentNews.com/YearOne.

Layton Cox: He's heading up an effort to build a digital advice offering for young investors.

JIM MARSHALL

Fiduciary debate hits brokers hard

By Mark Schoeff Jr.

Given the direction the debate is heading over whether to raise investment-advice standards for brokers, it could end up being solved by requiring them to wear a scarlet "S" for suitability.

As the Department of Labor moves toward reproposing a rule that would require brokers handling retirement accounts to act in the best interest of their clients — and the Securities and Exchange Commission deliberates about a similar rule for retail investment advice — the rhetoric surrounding the regulatory activity is hitting brokers hard.

"The language being used seems a bit harsh," said Juli McNeely, president of McNeely Financial Services Inc. "I don't see one business model being better than the other. They're different for sure. They both have their place."

NEW YORK PROPOSAL

In advocating for a fiduciary standard, proponents have been blatantly critical of brokers.

In fact, the broker shaming reached a new level last week, when New York City Comptroller Scott Stringer launched a proposal to enact in state law a financial-advice verbal and written disclosure that would clearly separate fiduciary and suitability advisers.

The language Mr. Stringer wants brokers to recite as they start working with customers and

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EDITOR'S NOTE

A chance to learn from your peers

One of the things our advisory board — yes, we have an advisory board! — keeps telling me is that we should be writing more about the financial advisers who are "getting it right."

"It's OK to write about the adviser who bolts from one firm to another, but we're more interested in hearing about the adviser who has figured out a surefire way to attract new clients to her firm or to get all that back-office technology working together," seems to be the general consensus of our illustrious group of nine board members. "Find us the adviser who knows how to build, train and retain a great team."

Frederick P. Gabriel Jr.

With that in mind, I'd like to introduce Adviser's Consultant, which can be found in this week's issue on Page 4. Twice a month, we'll profile financial advisers who are getting it right when it comes to building and running successful practices.

GENERATING REFERRALS

In this week's column, for example, we meet Dean Catino, an Alexandria, Va.-based financial adviser who has figured out how to generate referrals from so-called centers of influence — that is, investment bankers, business brokers and estate-planning attorneys who are willing to point potential clients his way. Out of the average of 10 new clients Mr. Catino's firm brings on each year, nine are likely to be referred by one.

We plan to tackle a myriad of issues in Adviser's Consultant, ranging from building a marquee intern program to prospecting for wealthy clients to making sure you have the right people in the right jobs at your own practice.

Not coincidentally, the column is named after our popular monthly Adviser's Consultant newsletter, which you can subscribe to by going to investmentnews.com/consultant.

Next week, we'll be re-introducing another feature that will shine a spotlight on smart people in our industry.

I'm talking about our once-popular C-Suite column. Those of you who have been reading *InvestmentNews* for a while will probably remember the C-Suite. Well, we're bringing it back.

At its heart, C-Suite is a column that features corner-office executives talking about leadership and management. Folks profiled in C-Suite will not only be at the top of their game, they will be passionate leaders with exceptional management skills.

Warning: Before all you well-intentioned public relations types start champing at the bit to get your executives featured in C-Suite, know that we will be very selective about who we profile. Think of C-Suite as a country club you don't ask to join ... you get invited.

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As promised, exec bonuses cut at LPL

By Bruce Kelly

True to its word that it would cut bonuses because of poor performance, LPL Financial Holdings Inc. disclosed that 2014 annual cash awards for its top executives, including chief executive Mark Casady, were down by between 28% and 41%.

But awards of company stock and options made total compensation for the top three executives more consistent with 2013.

LPL's new president, Dan Arnold, had said that its C-suite compensation would take a hit.

"Bonuses will be lower ... because of the overall performance," Mr. Arnold said in an interview last month. "The firm came up short, mainly because of the regulatory environment."

LPL Financial Holdings, parent company to broker-dealer LPL Financial, paid $36.3 million in regulatory charges last year — close to four times its average charges over the previous two years. In a year the S&P 500 was up 11.4%, its shares fell 5%, ending 2014 at $44.55.

According to LPL's proxy statement from March 17, Mr. Casady received a cash bonus award last year of $1.5 million, versus a $2.5 million bonus for 2013 — a decline of 41%.

MULTIPLE BLOWS

His overall compensation also took a blow. He earned $5.5 million in 2014, 10.6% less than in 2013, when he made $6.2 million.

Mr. Arnold had a cash bonus of $536,250 last year, down 28% from the $750,000 he got in 2013.

He was LPL's chief financial officer and became president March 13, replacing Robert Moore, who resigned at the start of the month to become CEO of Legal & General Investment Management America. Mr. Moore's bonus dropped 38.5% in 2014, to $715,000 from $1.1 million the year before.

Despite the cuts in their cash bonuses, Mr. Arnold's total compensation last year rose 6% from 2013, to $2.23 million, and Mr. Moore's was up 11%, to $3.75 million.

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DEAN STEVENSON

Mark Casady: The CEO's 2014 cash award was down 41% from 2013.

Health care a bigger retirement burden

By Mary Beth Franklin

Retiree health care costs continue to rise faster than general inflation and the annual cost-of-living adjustments for Social Security benefits. As a result, retirees will spend an increasingly larger portion of their retirement benefits on health care costs over their lifetime.

A healthy couple retiring at 65 this year most likely will spend more than $266,000 on Medicare Part B, which covers doctors' visits and outpatient services; Part D prescription drug plans; and supplemental Medigap insurance over their lifetime, according to the 2015 Retirement Health Care Cost Data Report.

That is up 6.5% from last year's projection, according to the report compiled by HealthView Services, a provider of Medicare, Social Security and long-term-care planning tools for advisers.

NOT THE WHOLE STORY

When the expected dental, vision and hearing costs not covered by Medicare are included, as well as co-pays and other out-of-pocket medical costs, the lifetime cost estimate increases to nearly $395,000 for a 65-year-old couple retiring this year.

A 55-year-old couple retiring 10 years from now faces expected lifetime costs for Medicare and Medigap of nearly $321,000. When dental, vision and hearing costs, co-pays and other out-of-pocket costs are included, their projected lifetime costs rise to more than $463,800.

"The data also show that Medicare-related costs are only part of the story," said Ron Mastrogiovanni, founder and chief executive of HealthView Services. "Retirees need to plan for health-related expenses not covered by Medicare and the potential impact of income-based Medicare surcharges."

GETTY IMAGES

The estimates assume a couple's retirement income falls below the $170,000 Modified Adjusted Gross Income threshold for married couples ($85,000 for single individuals) at which surcharges are added.

Since 2007, Medicare Part B premiums and all Medicare surcharges have been deducted directly from gross Social Security income, so many beneficiaries may get smaller monthly checks than they anticipate.

HealthView Services' index projects that total costs will consume 67% of lifetime Social Security benefits for a 66-year-old couple retiring at full retirement age this year. For a similar couple retiring 10 years from now, expenses will eat up about 90% of their benefits.

"These numbers are big but are manageable if planned for early enough," Mr. Mastrogiovanni said. "Medicare surcharges can often be reduced by investing in products that do not increase a retiree's MAGI."

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Insurance policy complicates Convergent suicide

By Mason Braswell

A life insurance policy worth approximately $10 million taken out by former Convergent chief executive David Zier, who committed suicide last October, has added another twist to the mystery surrounding his death and what happened to the millions he was managing in a privately held fund.

In 2012, as his fund, Zier Asset Management, suffered substantial losses, Mr. Zier took out a key man insurance policy that would pay death benefits of about $10 million — the approximate value of the assets in the fund — to its investors, who consisted of a handful of close friends and family, according to sources close to the matter.

The policy has since paid out, compensating the investors for their holdings in ZAM, sources said. Those sources declined to speak on the record in light of pending regulatory investigations.

But the timing raises questions because the policy included an exemption for suicide that lasted two years. Mr. Zier, 44, killed himself in the weeks following the two-year anniversary, sources said.

'ULTIMATE SACRIFICE'

A source close to Mr. Zier described him as "very pragmatic" and said that by committing suicide, Mr. Zier may have made the "ultimate sacrifice" to try to ensure his loved ones were made whole on their investments. He also may have been avoiding potential regulatory liabilities for falsely reporting assets, the source said.

The fund is estimated to have held $10 million at one point. The exact value has not been determined because most of the asset amounts Mr. Zier had reported to investors were not accurate, and the fund had lost most of its value. Exactly what happened to the assets is not clear, and regulators are still investigating.

One source with direct knowledge of the matter said it's now clear that losses in ZAM began well before 2012 and may have resulted

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Mary Jo White: "It's a long process, with lots of complex issues."

BLOOMBERG

SEC is just starting its work on fiduciary

Agency's effort is separate from DOL's, White says

By Mark Schoeff Jr.

Securities and Exchange Commission Chairwoman Mary Jo White told lawmakers last Tuesday that the agency will proceed at its own pace — over a long time — to address raising investment-advice standards for brokers. It will not be influenced by a pending Department of Labor rule, she said.

In an appearance before the House Financial Services Committee, Ms. White said the SEC and DOL are talking to each other but working independently as separate agencies with separate jurisdictions and mandates. She also tempered any expectation the SEC would act swiftly.

"We really are at the beginning of this process," Ms. White said. "I've reached my own personal conclusion. But the next step is for me to be discussing in detail all the aspects of my thinking with my fellow commissioners. It's a long process, with lots of complex issues."

She emphasized that even though she supports a fiduciary duty rule, she still needs to get buy-in from at least two other members of the five-person commission to advance a rule. The Republican members, Daniel Gallagher Jr. and Michael Piwowar, have expressed misgivings or outright opposition to such a regulation.

"It's still a 'whether' question, because it's a five-member commission," Ms. White said. "I'm one of five votes."

OPPONENTS OF DOL RULE

Later this spring, the DOL is expected to release for comment a rule that would require brokers to act in the best interest of their clients — or meet a fiduciary duty — when handling 401(k)s and individual retirement accounts.

On March 17, Ms. White told an audience at a Securities Industry and Financial Markets Association meeting she would like the SEC to proceed with its own fiduciary duty rule for retail investment advice.

Opponents of the DOL rule want it to halt its rule-making process until the SEC acts. Ms. White said the timing of one measure won't affect the other and that her backing of a rule was not related to the DOL's activity.

"We are separate agencies, and we need to proceed separately when we think that the time is right and we have something we think should advance," she said.

The DOL rule is being reviewed at the Office of Management and Budget after getting strong backing

Continued on Page 17

$6B RIA Mercer sold by one PE firm to another

By Mason Braswell

As the market hits new highs, registered investment advisers bought five to seven years ago by private equity firms are starting to look ripe.

That's the case for Mercer Global Advisors Inc., a Santa Barbara, Calif.-based RIA with $6 billion in assets under management. A deal was announced last Wednesday in which its owner, private equity firm Lovell Minnick Partners, sold Mercer to Genstar Capital, another middle-market PE firm.

4,300
Number of clients Mercer serves. The firm aims to grow to 20,000 clients.

Mercer, a fee-only firm with 15 offices nationwide, had about $4 billion in AUM when it was acquired in May 2008, according to Jeffrey Lovell, chairman of Lovell Minnick. That dropped to as low as $3 billion after the financial crisis, which began later that year, he said.

'WEATHERED THE STORM'

"We bought them at sort of the peak of the market," Mr. Lovell said. "We weathered the storm with management … The company got positioned for growth and … has had a nice recovery."

Terms of the deal were not announced, but Mr. Lovell said the investment in Mercer "has turned out quite well."

The deal marks the third investment management transaction for Genstar, which also owns AssetMark Inc., a platform with about $25 billion in AUM. It also has a stake in Altegris, an asset management company focused on alternative investments.

Mercer ranks among the top 25 RIAs, according to *InvestmentNews'* annual list of the largest fee-only firms. It manages money mostly for mass-affluent and high-net-worth clients.

Capital from Genstar will help Mercer keep its momentum, according to David Barton, Mercer's chief executive. Under Genstar, the firm aims to expand to 50 to 60 offices and more than 20,000 clients, he said. It currently serves about 4,300.

"Genstar has a long record of investing and growing their portfolio companies, and that's what we need," Mr. Barton said. "We've built the chassis, and it's a beautiful car, but it needs some gas."

The transaction is expected to close in the second quarter.

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How advisers can help restore investor confidence
People are still recovering from the trauma of the financial crisis and probably have more cash holdings than they should, according to **John Taft**, CEO of RBC Wealth Management — U.S. Here, he discusses how advisers can help change that.
InvestmentNews.com/taft

Prepare clients now for a black swan event
Advisers have a responsibility to remind clients that unexpected events happen and to help them understand what a sudden market drop could mean for their retirement.
InvestmentNews.com/swan

WealthTrack
The biggest changes in philanthropic giving
Americans have always been generous with their money, but how they give is changing. Here, **Jed Bernstein**, president of the Lincoln Center for the Performing Arts, and **Jack Lund**, president and CEO of the YMCA of Greater New York, discuss what donors want now.
InvestmentNews.com/giving

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Ric Edelman: Well-known RIA partners with BlackRock's iShares.

New tech ETF dreamed up by adviser

By Trevor Hunnicutt

Imagine if your view of the investing world became an ETF. If you're Ric Edelman, it's happening.

BlackRock Inc., whose iShares division is the world's largest manager of exchange-traded funds, is launching a technology fund this week that it says was dreamed up by the well-known adviser.

The iShares Exponential Technologies ETF (XT) invests in companies that are exposed to potentially paradigm-shifting technologies, from robotics and 3-D printing to intensive data analysis. Those themes and companies will be selected and reevaluated at least annually by Morningstar Inc. analysts.

> "EXPONENTIAL technologies are going to transform our planet."
>
> **Ric Edelman**
> CEO
> Edelman Financial Services

"This is the first time that we've worked so closely with a registered investment adviser," said Hollie Fagan, who leads BlackRock's business with RIAs.

SINGULARITY UNIVERSITY

Fund sponsors often use customer feedback to develop products. But XT is the rare example of an advisory firm that helped develop a concept and marketed it for a fund company without being compensated. Mr. Edelman's firm is likely to invest hundreds of millions in the product on behalf of its clients.

An index-investing advocate, Mr. Edelman founded his Fairfax, Va.-based firm in 1987 and is the face of one of the largest independent wealth management franchises in the U.S. Edelman Financial Services maintains 40 branches as well as an online offering.

He says he also has become a student of the technologies refashioning modern life. In 2012, he enrolled in the Singularity University, an oversubscribed program that links top Silicon Valley technologists

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Courting professionals to win referrals

Ensuring that investment bankers, planners are familiar with your firm is worth the effort

By Liz Skinner

ADVISER'S CONSULTANT
PROSPECTING

Monument Wealth Management depends on "advocates" for 90% of its new business, so president and co-founder Dean Catino spends much of his time keeping those professionals up to speed on what his firm has to offer them.

At least once every three months, Mr. Catino or his colleagues at the Alexandria, Va.-based advisory firm meet with the investment bankers, business brokers and estate planning lawyers who send Monument Wealth Management the business owners who are its ideal clients.

Most advisers call such professionals "centers of influence," but Mr. Catino refers to them as advocates. Courting them is not a "set it and forget it" effort, he said.

CONSTANT REMINDERS

"You have to be consistent with it and constantly remind your advocates how great you are," Mr. Catino said.

"If they understand what we do, it's not hard," he said. "We are a direct benefit to them."

The 7-year-old firm, which manages about $200 million from about 50 family relationships, brings on 10 new clients a year on average. Nine of those are referred by another professional.

It's important to show advocates "how you'll help their clients and how you'll help [the advocates] if you take on their clients," Mr. Catino said.

In addition to reciprocating by making referrals to advocates, Monument Wealth Management helps them deal with unrealistic clients who become fixated on getting a sky-high price for their business. Mr. Catino and co-founder David Armstrong can help clients

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LIZ SKINNER

Dean Catino: Firm hands out Louisville Sluggers to those who refer clients.

Vanguard's robo won't have rival's funds

By Trevor Hunnicutt

When Charles Schwab & Co. selected the 54 funds that would go into its robo-adviser, it extended an olive branch to its rival, The Vanguard Group Inc.

Schwab is using a dozen Vanguard products on its platform, Intelligent Portfolios — almost as many as its own 14 exchange-traded funds on the service. That's a strong embrace by Schwab of its largest competitor in low-cost, index-tracking ETFs.

But Vanguard will not be returning the gesture. It is using only its own products in its direct-to-consumer digital advice platform, Personal Advisor Services, which is expected to debut by this summer.

The different tacks offer a window into the tough choice facing large investment firms embracing the increasingly digital role of building portfolios for investors: to include or not to include the competition.

"The optics of it are a little challenging for me," said Matt Lynch, managing partner at Strategy & Resources, a consulting firm in Dayton, Ohio. "From a marketing standpoint, if I'm an adviser and I have a client asking me about Vanguard's personal advice platform, that's a pretty easy response: 'They're only putting you in their funds.'"

'AT COST' DELIVERY

Each company says its approach is the best one for its clients.

"For us, it made sense just to offer our funds," said Katie Henderson, a spokeswoman for Vanguard. She said the company's delivery of products "at cost" and its funds' favorable performance compared with benchmarks were among the reasons its funds work best.

"We believe that since we're leading with an index portfolio at the core that our funds are the best-suited for Personal Advisor clients," Ms. Henderson said.

> "THE OPTICS of it are a little challenging for me."
>
> **Matt Lynch**
> Managing partner
> Strategy & Resources

A Schwab spokesman said its process for selecting funds did not consider which company managed them.

"The focus in selecting the funds is on achieving diversification and cost efficiency for investors, and we established an objective set of criteria to accomplish that without regard for whether the funds were ours or from a third party," said Michael Cianfrocca, the spokesman. "Low [operating expense ratios] was a primary factor in those criteria, and that led to ours and third-party funds."

Digital platforms are growing in significance, and human advisers are seeking ways either to compete with or to use the platforms to increase their own business.

Both Schwab and Vanguard offer advice to retail investors.

Schwab, however, taps into the larger adviser force through its branch network and its custody unit for independent advisers, the largest in the U.S. (Intelligent Portfolios, which launched this month for consumers, is scheduled to be rolled out in an institutional version for those adviser clients later this year.)

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Dollar's surge can undermine international holdings

Jeff Benjamin
On Investments

As the U.S. dollar continues to surge against most global currencies, financial advisers face three basic paths for navigating the punishing effects on international investments: Ignore it, get out of international markets or get busy hedging.

While the third option might sound like the most challenging, it is actually easy and available in several accessible forms, including mutual funds that do all the work for you.

For an illustration of how the dollar's recent strength is hitting U.S. investors, consider the ready-made example of two funds from Tweedy Brown Co.

The $453 million Tweedy Brown Global Value Unhedged Fund (TBCUX) gained 2.4% from Jan. 1 through March 23. Over the last 12 months, it's down 1.4%.

But the $9.4 billion Tweedy Brown Global Value Fund (TBGVX), which actively hedges its currency exposure, is up 4.6% this year and 6.6% over those same 12 months.

Until recently, the global currency differential wasn't something financial advisers or investors had to worry about much. But as the Federal Reserve continues to move counter to most global central banks — which are generally doing things that deflate their currencies — the dollar is soaring.

RUNAWAY GREENBACK

Since July, the dollar has gained more than 22% against the euro, compared with a decline of almost 4% over the same eight-month period a year earlier.

According to published reports, the dollar's run over the past eight months has been faster than at any point in the past 40 years.

The reason a runaway greenback hurts U.S. investors in international markets is that portfolio managers have to convert to local currencies to buy securities, while the portfolio is priced daily in dollars.

Most global mutual fund managers do not hedge currency exposure, which means the performance of the underlying securities will increase or decrease in proportion to currency moves.

"I think it's always important to hedge currencies, but now more so than ever," said David Marcus, man-

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F-Squared founder 'acted in good faith'

By Trevor Hunnicutt

Howard B. Present "acted in good faith" when he headed F-Squared Investments Inc., the firm that said it misled clients about its track record during his tenure, his lawyers say.

"Any alleged misrepresentations or allegedly false or misleading statements or omissions ... were inadvertent and unintentional," Mr. Present's lawyers wrote in court filings last Monday.

The F-Squared co-founder, who resigned in November, "reasonably relied upon the work, advice, professional judgment, and opinions of others, including ... legal and compliance professionals, upon which Mr. Present was entitled to rely."

F-Squared, the largest ETF-based portfolio strategist, routinely promoted seven years of pre-2008 results for its AlphaSector indexes,

Howard B. Present: His lawyers call the SEC's claims vague and confusing.

despite having launched the product that year.

Further, the hypothetical results were miscalculated to make them look more favorable, according to recent statements by the firm.

Late last year, the firm agreed to pay $35 million to settle the Securities and Exchange Commission charges regarding false performance claims.

Since then, F-Squared has reorganized under new chief executive Laura P. Dagan and worked to retain the business of advisers and institutions that invested clients' money directly through the firm and via mutual funds sold by Virtus Investment Partners Inc.

Citing current needs, F-Squared cut 25% of its workforce, about 40 people, on March 19.

CLAWBACK

The SEC now is trying to claw back some of the millions Mr. Present earned and may also try to bar him from the industry.

F-Squared's claim that its rules-based strategy could sidestep violent market swings (by trading in and out of industrial-sector exchange-traded funds) appealed to advisers stung by the 2008 stock market meltdown.

The firm, based in Wellesley, Mass.,went from being a nonentity in 2008 to the force behind a $28.5 billion strategy as of last June.

F-Squared indexes were responsible for assets of $21.8 billion in late December, the most recent figure available, according to Morningstar Inc.

As F-Squared's "public face," Mr. Present made "false and misleading statements," the SEC said in December when it released a lengthy summary of its allegations.

A rebuttal signed by his lawyers, at Williams & Connolly in Washington and Foley & Lardner in Boston, called the SEC's claims "vague, ambiguous and confusing."

His alleged conduct "did not cause loss or harm to anyone," they wrote.

The SEC did not respond to a request for comment.

F-Squared reported the discrepancies to clients and adjusted its marketing materials after the SEC launched an inquiry in 2013. The track record of products the firm manages have not been called into question.

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Ted Cruz: Heidi Cruz's employment became a political topic during the health care debate.

BLOOMBERG

Cruz omits wife's Goldman job

Wall Street a sensitive topic for many politicians after financial crisis

Bloomberg News

Ted Cruz, kicking off his 2016 campaign for president, extolled his wife's entrepreneurial spirit by telling of her grade-school business. He didn't mention the 10-year career at Goldman Sachs Group Inc. she just put on hold.

The Republican senator from Texas became the first major-party candidate to formally enter the race last Monday. He was joined on stage by his wife, Heidi, and their two daughters, Caroline and Catherine, after he told a crowd of supporters about Heidi's Bakery, her childhood venture in California.

Aides to Mr. Cruz said he plans to emphasize the role powerful women played in his life. That may be complicated by his wife's profession as an adviser to wealthy families at a firm that finished last among the 100 most-visible U.S. companies in Harris Poll's recent annual ranking of corporate reputations.

"She and her brother compete baking bread. They bake thousands of loaves of bread and go to the local apple orchard where they sell the bread to people coming to pick apples," said Mr. Cruz, 44. "She goes on to a career in business ... rising to the highest pinnacles, and then Heidi becomes my wife and my very best friend in the world."

ON LEAVE

Heidi Cruz, 42, has taken unpaid leave from her job for the duration of the campaign, according to a person briefed on the matter, who asked not to be identified speaking about her employment.

Wall Street has been a sensitive topic for politicians since the 2008 financial crisis. Democrats attacked GOP presidential nominee Mitt Romney's private equity background in 2012. Sen. Rand Paul of Kentucky said last year that Republicans can't be "the party of fat cats, rich people and Wall Street."

Goldman became a target of populist anger because it was one of the first firms sued by regulators over sales of mortgage-related securities and its executives were called before Congress to explain their bets on the housing market.

A Harvard Business School graduate who worked in President George W. Bush's administration, Ms. Cruz joined Goldman in 2005 and in 2012 became managing director, the firm's second-highest rank.

She serves as regional head of the Houston office in the private wealth management unit, which serves individuals and families who have on average more than $40 million with the firm.

Ms. Cruz's employment became a political topic when Sen. Richard Durbin, an Illinois Democrat, tried to push Mr. Cruz into admitting he was on his wife's Goldman health insurance plan after he criticized President Barack Obama's policies, The New York Times reported.

Now, however, the Cruz family must obtain their health care coverage elsewhere.

"We will presumably go on the exchange and sign up for health care, and we're in the process of transitioning over to do that," Mr. Cruz told the Des Moines Register's Jennifer Jacobs.

Ameriprise will pay $27.5M to settle lawsuit over 401(k) fees

By Darla Mercado

Ameriprise Financial Inc. last Thursday settled a four-year-old lawsuit filed by its own retirement plan participants, who claimed the company cost them millions of dollars in excessive fees.

The case, filed in U.S. District Court in Minnesota, was set to go to trial April 13. Instead, Ameriprise and the plaintiffs agreed on a settlement of $27.5 million.

The financial services giant denied the allegations and stood by its finding that it did not commit any fiduciary breaches.

"We have a strong 401(k) plan that is administered for the sole interests of participants," Ameriprise spokesman John Brine said. "The settlement doesn't require any changes to our plan, which will maintain the existing broad and competitive selection of options and features."

Mr. Brine added that the plan always offered funds managed by the company as well as investment options from other providers and a brokerage window.

Nevertheless, the settlement included a variety of improvements to the plan.

"The non-monetary relief obtained, in addition to the financial terms, not only significantly benefits Ameriprise's employees and retirees, but also sets a standard for best practices for plan sponsors," the plaintiffs' attorney, Jerry Schlichter, managing partner at Schlichter Bogard & Denton, noted in a statement.

"Competitive bids and enhanced communications and disclosure will increase the value of the employees' and retirees' 401(k) plans for years to come," he said.

The case is one of many 401(k) excessive fee and fiduciary breach suits pursued by Mr. Schlichter. Most notably, he represents the plaintiffs in Tibble v. Edison, a pivotal 401(k) fiduciary breach case that's being considered by the U.S. Supreme Court.

In 2011, Roger Krueger and a group of other Ameriprise plan participants filed suit against the company and the committees that oversaw its employee benefits administration and 401(k) investments.

The plaintiffs claimed the investment options in the company's 401(k) included funds from the firm's subsidiary RiverSource Investments — now known as Columbia Management Investment Advisers – that were overly expensive. For instance, they alleged the cost of target date funds from RiverSource ranged from 84 to 92 basis points — 74 basis points more than an alternative from Vanguard.

> "THE NON-MONETARY relief ... sets a standard for best practices for plan sponsors."
>
> **Jerry Schlichter**
> Managing partner
> Schlichter Bogard & Denton

Plaintiffs also said RiverSource and Ameriprise Trust Co., the plan's record keeper, received fee revenue from employees' plan dollars.

The settlement requires Ameriprise to conduct a request-for-proposal bidding process for the plan's record-keeping services and investment consulting services, and make a number of other updates to its processes for the next three years.

It also calls on Ameriprise to continue refraining from receiving payment for administrative services provided to the plan other than reimbursement of direct expenses, to continue paying fees to the record keeper on either a flat fee or per-head basis, to provide necessary disclosures of plan fees to participants and to consider the use of collective investment trusts and separately managed accounts.

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AIG Advisor broker-dealer adds an independent

Royal Alliance poised for more acquisitions to run as 'super OSJs'

By Bruce Kelly

Royal Alliance Associates Inc., one of the four broker-dealers that make up the AIG Advisor Group, has acquired the Affiliated Advisors Group, an independent broker-dealer previously known as First Midwest Securities Inc.

Affiliated Advisors is composed of 33 reps and advisers and manages about $600 million.

The group will operate as a large office of supervisory jurisdiction or branch, or a so-called super OSJ, said Dmitry Goldin, president and chief executive of Royal Alliance.

"It's the perfect time to play the acquisition game," Mr. Goldin said. "Smaller broker-dealers can't keep the doors open because of technology costs, as well as increasing legal and compliance costs."

"IT'S THE perfect time to play the acquisition game."

Dmitry Goldin
President and chief executive
Royal Alliance

According to its website, First Midwest Securities, which is closing, was founded in 1989 and was most recently headquartered in Bloomington, Ill.

Royal Alliance did not release terms of the deal.

LONG-TERM TARGETS

In an interview in January, Kevin Beard, executive vice president of recruiting and acquisition strategy for the AIG network, discussed acquiring smaller broker-dealers with annual revenue of $5 million to $45 million.

"I believe we are going to have a few strategic acquisitions in 2015 that fit into the Advisor Group and will be partners for the long term," Mr. Beard said.

Mr. Goldin said that purchasing businesses as super OSJs means advisers can "continue adhering to the culture they are accustomed to. We don't turn the firm's business environment on its head."

He added that he expects to complete more such acquisitions this year.

The AIG Advisor Group currently has 6,100 registered reps and advisers.

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Women the focus of *IN* conferences

InvestmentNews is hosting a three-event conference series aimed at helping female financial advisers increase their business and continue their professional development.

The Women Adviser Summits will be held May 6 in Chicago, July 14 in Washington and Nov. 5 in San Francisco.

The cost to attend is $349, but early-bird discounts are available.

Each event will cover topics related to how an adviser can improve her practice. They will include having a more profitable business, understanding the impact of personality on professional relationships, using technology and apps to work more effectively, and building a brand with social media.

The conferences also will address how advisers can better work with two key types of female clients: those facing complex financial decisions because they are going through major life changes and those who are the breadwinners in their household.

'EDUCATE AND BUILD'

"The purpose of the Women Adviser Summits is to provide a forum to educate and build a community of female advisers," said Suzanne Siracuse, publisher of *InvestmentNews*. "Women want to network with one another and learn from one another. That's why having these female-friendly events is so powerful."

Each event also will include a session titled, "Where are the women?" It will focus on how firms can attract more next-generation female advisers and assist them in achieving success.

The goal is to have practical steps advisers can take in their own practices to encourage and support women in the industry, Ms. Siracuse said.

The Women Adviser Summits are the latest in a series of initiatives aimed at helping boost the ranks of female advisers and ensuring their continuing achievement.

For the complete conference agenda and a list of speakers, visit InvestmentNews.com/WAS.

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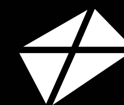

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VIEWPOINT

EDITORIALS

Setting rules for outside exams

SEC CHAIRWOMAN Mary Jo White has endorsed the idea of using third-party examiners to increase the frequency of compliance exams for registered investment advisers. It is a good solution for a widely acknowledged problem, but any plan to allow outside testing firms to conduct RIA exams must be implemented wisely if it is to succeed.

The lack of adequate oversight of RIAs is well-known and has been a long-standing problem. Only about 10% of the nation's 11,500 RIAs are tested each year, despite the fact the SEC has a staff of 450 devoted to RIA exams.

For years, the SEC has pleaded with Congress for more funding to hire additional examiners. This year, legislators added $150 million to the agency's budget, and some of that money will be used to hire more examiners. But the SEC said it was not nearly enough.

FUNDING LEVEL

By coming out in favor of allowing RIAs to hire outside examiners, Ms. White is finally acknowledging that — whether for ideological or fiscal reasons — Congress is not likely to fund the SEC at the level it has requested the past several years, the level it claims it needs to significantly increase RIA exams.

Ms. White made it clear that outside examiners would augment the SEC staff conducting exams, not replace them. One would think that the SEC would want to focus on bigger, more complex firms, but Ms. White did not give any details on how the SEC and outside examiners would divide the work.

There are a couple of other things that should be kept in mind as the SEC begins shaping a formal proposal.

The first is cost.

Each SEC examiner now conducts about three or four exams a year. That translates to the agency's spending in the neighborhood of $25,000 in salary alone on an exam, according to back-of-the-envelope estimates. That may not be a lot for an RIA with $1 billion or more in assets under management, but it is for one with $100 million in AUM. Of course, those expenses probably would be passed along to clients — not a positive outcome for investors.

As the SEC moves toward outsourcing, it is time for the agency to take a hard look at its exam process and consider ways to streamline it. When you have a pool of 11,500 firms that need to be tested every two to three years, each exam can't take three to four months. Coming up with a newer version that takes no more than three to four weeks makes more sense and will be less expensive. That's especially important if RIAs are going to pay for the exams themselves.

THE SEC still has a lot of work to do to flesh out an actual plan for outsourcing.

POSSIBLE CONFLICTS

Another concern has to do with the outside testers who will be conducting the exams. If they are paid by the firms they're examining, there could be conflicts of interest. Will an RIA put pressure on an examiner to go easy on the firm, exploiting the fact that it is paying for the exam? Will a testing firm itself make the decision to go easy on a firm because it wants to be hired again?

The SEC will have to monitor examiners closely to make sure they are conducting the exams impartially, without fear or favor. In fact, the agency should consider creating a pool of examiners and assigning them to the exams itself, taking the choice out of the hands of RIAs.

It is clear that the SEC still has a lot of work to do to flesh out an actual plan for outsourcing.

"This is not an easy road, not a quick road," Ms. White said when she announced her support for the idea. But it is a road worth going down, given the goal of increased protection for the American investing public.

The war of words among robos

As much as we love a verbal brawl — especially one that pits robo-Davids against a robo-Goliath — it's time to call a truce in the war of words among robo-rivals and get back to business.

Wealthfront chief executive Adam Nash unleashed the first volley a couple of weeks ago, when he accused industry giant Charles Schwab & Co. of purposely misleading investors by promoting its new robo-adviser service, Schwab Intelligent Portfolios, as "free."

Mr. Nash opined that investors actually will pay thousands of dollars in opportunity costs related to high cash allocations and expensive smart beta exchange-traded funds, many of which are proprietary or "from issuers that pay Schwab to use them."

In an unsigned retort, Schwab defended its decision to include cash as one of the asset classes selected by its robo-adviser.

It then accused Wealthfront of overcharging investors by taking a 0.25% management fee, calling such fees "sunk costs for investors."

SNARK ALL AROUND

"Adam wishes he could build a moat around Wealthfront and protect it against competition," Schwab wrote in its post.

Of course, it did not end there.

Also jumping into the battle with a little snark of his own was Betterment CEO Jon Stein, who went on CNBC and made the dubious declaration that Schwab was "too late" to the robo-market.

THE GAME of tit for tat is little more than a distraction.

GETTY IMAGES

In the end, the game of tit for tat being played by Schwab and its robo-competitors — though interesting — is little more than a distraction in the evolution of automated advice platforms.

For better or worse (and this publication believes largely for better), robo-advice is here to stay. After all, automated investment guidance provides a much-needed service to mom-and-pop savers and millennials.

Flesh-and-blood financial advisers would be better off focusing on how to continue expanding their range of services in order to justify their own 1% to 1.25% fees, rather than getting caught up in the hype and hoopla among robos desperately trying to make sure they don't get put out of business by the likes of Schwab.

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PLEASE RECYCLE THIS NEWSPAPER

Colony Group firmly focused on ways to increase assets

By Liz Skinner

The Colony Group isn't content to rely on inorganic growth, even though it has more than tripled assets to $5 billion since 2011 through acquisitions.

The Boston-based wealth management firm with national ambitions is charting a course for organic growth, too.

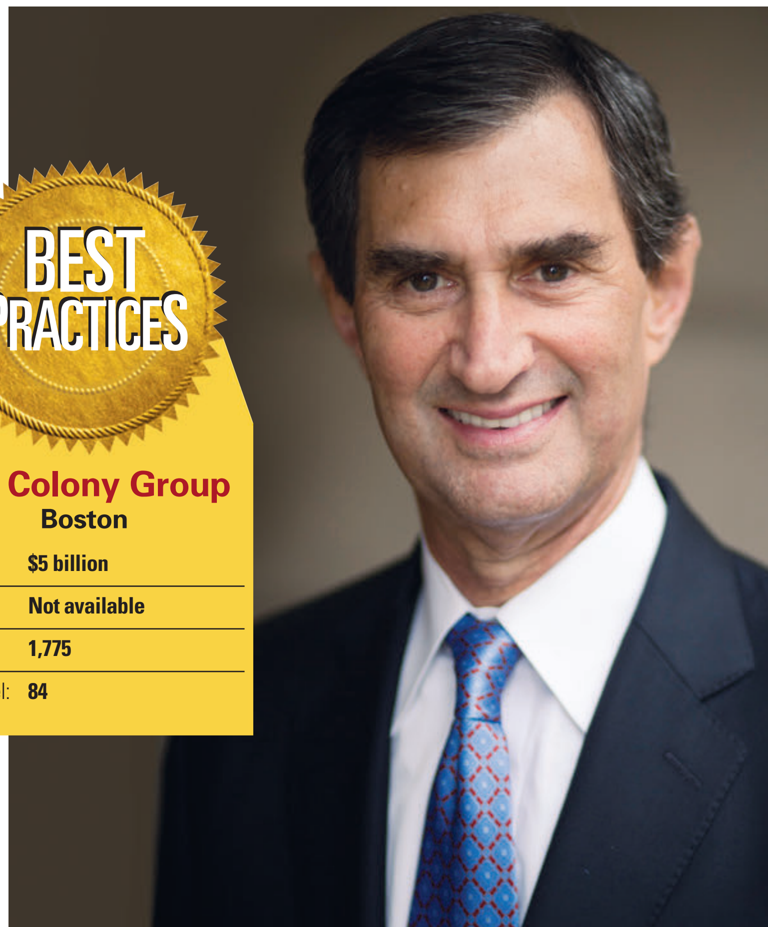
It recently hired a director of marketing and is focusing events and other efforts on attracting more female clients.

"We all know the stats on the number of assets that will be controlled by women, and we recognize that it's a group we do really well with," said Robert Glovsky, vice chairman and principal of The Colony Group. "Now we're trying to be systematic about it."

The firm also will be targeting institutional investors, he said.

Thanks to its most recent acquisition of CapGroup Advisors earlier this month, The Colony Group already boasts $1 billion in institutional assets.

The Colony Group, a Focus Financial Partners firm, has offices in Massachusetts, New York, Florida and Virginia.



BEST PRACTICES

The Colony Group
Boston

AUM:	$5 billion
Revenue:	Not available
Clients:	1,775
Personnel:	84

Robert Glovsky: Teams of employees brainstorm ways to attract more assets.

REVENUE LEADER

Last October, The Colony Group received an *InvestmentNews* Best Practices Award after being identified as one of the top performers among participants in the Financial Performance Study of Advisory Firms. Of the firms studied, The Colony Group ranked high in three-year revenue growth and revenue per professional.

One thing that stands out about the company is its early recognition of the importance of executive level management.

"Professional management really enables us to grow, so advisers can focus on advice and don't have to worry about running the firm part time," Mr. Glovsky said.

With a steady eye on growth, The Colony Group gathers teams of employees every four to six weeks to come up with ways the firm can attract more assets.

At one meeting, a team recommended contacting all clients who were holding assets with other firms and suggesting reasons why they would do better if they rolled those funds into The Colony Group.

> "WE ALL KNOW THE STATS on the number of assets controlled by women, and we recognize that it's a group we do really well with."
>
> **Robert Glovsky**
> Vice chairman and principal
> The Colony Group

The clients were approached with these suggestions and, as a group, added about $10 million, Mr. Glovsky said.

The meetings, which have produced plans to reconnect with certain prospects and reach out to clients who have provided referrals in the past, include people from all levels of the firm.

"By participating, they feel like part of the team and they feel valued," Mr. Glovsky said.

Mr. Glovsky joined The Colony Group in July 2012 after the firm he founded, Mintz Levin Financial Advisors, became part of The Colony Group. He was recently appointed by President Barack Obama to be a member of the President's Advisory Council on Financial Capability for Young Americans.

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Merrill fined for supervisory lapses

Wirehouse to pay $2.5M to Massachusetts for missteps during training

By Srividya Kalyanaraman

Secretary of the Commonwealth of Massachusetts William Galvin fined Merrill Lynch $2.5 million last week for supervisory violations in connection with a training presentation in 2013.

Mr. Galvin, whose office oversees securities regulation in the state, said that during the presentation, Merrill financial advisers were being trained in how to double their production by, among other things, transferring existing customer assets from commission-based brokerage accounts to fiduciary fee-based alternatives.

Mr. Galvin's order stated that this part of the presentation "did not include language regarding client suitability or the fiduciary requirements of Merrill Lynch financial advisers."

"Financial advisers may have been encouraged to move their clients' assets based on their own financial interest rather than their clients' best interest," Mr. Galvin said in a news release.

POLICY VIOLATED

Mr. Galvin noted that the presentation, which was attended by more than 300 Merrill staff in Boston, including financial advisers, was not reviewed ahead of time by Merrill compliance personnel, in violation of the firm's policy.

"Compliance rules and procedures are essential to the integrity of the marketplace, but they are rendered meaningless unless they are rigidly adhered to and address all possible interpretation or misinterpretation by the intended audience," he said.

"We are reiterating to our employees the need to have internal presentations properly approved before their use," said Merrill Lynch spokesman William Halldin. "Importantly, as the state notes, this was not a matter involving any conduct that disadvantaged our clients."

Upcoming Webcasts

Where ***industry experts*** discuss ***hot topics*** relevant to your business

Point-Counterpoint: Active vs. passive

Tuesday, April 7, 2015 | 4:00pm - 5:00pm ET

Since the financial crisis, passive investments have become the go-to choice for droves of people who have bought into the argument that beating the market is impossible. Nonetheless, active managers still manage billions of dollars and continue to pitch their value. This year - with equities entering the seventh year of a bull market and interest rates poised to rise - could be the year that puts active managers back on the map. Or not.

Our panel will consider the following questions:

- Why has passive investing become so popular?
- What has happened to active investing?
- What are the pros and cons of each approach?
- Will passive or active shine this year?
- How should advisers evaluate each approach?
- How can advisers build a solid portfolio using both active and passive?

Attendees may submit questions before and during this live event.

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The Bottom Line on Interest Rates: Discovering Overlooked Opportunities for Returns

Tuesday, April 14, 2015 | 4:00pm - 5:00pm ET

Many advisers and their clients tend to underestimate the impact that the looming changes in interest rates can have on the values of different companies and ultimately the performance of their stocks. Not all companies are created equal, however, and advisers are often overlooking some fundamental drivers of outperformance.

While falling rates last year provided a boost to many domestic equities, the benefits were not distributed evenly and a clear trend emerged among the top-performers. In this exclusive webcast, Ariel Investments™ Charles Bobrinskoy (Vice Chairman and Head of Investment Group) and InvestmentNews will examine:

Our panel will consider the following questions:

- Why advisers often miss some great stock opportunities
- How falling rates tend to help companies with weak balance sheets
- How interest rates will impact stock valuations in 2015 and beyond
- What advisers can do to separate the wheat from the chaff

Attendees may submit questions before and during this live event.

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InvestmentNews

YEAR 1 ONE

New advisers start their careers

WILLIAM NEUMANN

Kelly McNerney: Her FJY co-workers have helped keep her from becoming overwhelmed.

Ordering priorities in a busy schedule

By Liz Skinner

The rigors of working full-time surprised Kelly McNerney, who moved to Virginia from New Jersey last May to become an associate financial planner at FJY Financial.

Ms. McNerney, 22, always took a full course load at William Patterson University in Wayne, N.J., and had several part-time internships at the same time. She expected to have more time on her hands "in the real world."

"I guess time management is something that you always have to work on," she said. "I'm learning what is important and what can be pushed off."

Much of what she's experiencing is the push and pull of conflicting priorities.

EXAM PREP

"I'm getting used to a never-ending to-do list," she said.

Ms. McNerney had studied for many months for the certified financial planner exam, which she took last week. It was a struggle for her to carve time out of her week for studying.

She and a co-worker, who also took the test, had been studying together early before work and late after the work day. Then they spent most of the weekend working on practice exams and quizzing each other.

Her other FJY co-workers have been a great help in keeping her from becoming too overwhelmed, she said.

The firm, based in Reston, Va., a suburb of Washington, has a designated career path that Ms. McNerney said she found inspiring over this first year.

"Seeing someone who started in my position and how they moved up the career path is great," Ms. McNerney said. "Knowing that lead advisers above me were in my shoes just a few years ago is encouraging."

For those who follow her, Ms. McNerney recommends interviewing with as many firms as possible and researching the advisers to understand the culture and what it might be like to work at each firm.

She believes it's also helpful for young professionals to keep in touch with those from their business or financial planning programs.

"You never know down the road who can help you," she said. "A lot of people know each other in this small industry."

The move to Virginia was the part of Ms. McNerney's journey that she feared the most of all the changes in her life over the past year.

But she's thrilled with her decision and how it's gone.

"Moving away was really good for me and for me being able to focus on a new job," she said. "I learned a lot about myself as a person, it was definitely worth it."

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KELLY MCNERNEY
Age: 22
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Education: Bachelor of Science in financial planning, William Paterson University
Employer: FJY Financial, Reston, Va.

"Moving away was really good for me."

Test of time management

By Liz Skinner

Mariah Acap's first year in the advisory business has cemented her resolve to become a full-fledged financial adviser, even if some things are taking more time than she expected.

The adviser assistant at Buttonwood Financial Advisors finds herself struggling to block off time from work and her personal life to study for securities exams. She already earned her life and health insurance license, but she had been hoping to take the Series 65 exam a couple months ago.

"It's taking longer than I expected," said Ms. Acap, 23. "Work stuff comes up and life stuff comes up, and it becomes hard to focus on knocking out the exams."

Part of the distraction has been planning for her Nov. 7 wedding. But she also finds herself not wanting to put down her work helping to create financial plans for clients.

Her bosses support making the exams a priority and give her subtle nudges by reminding her that she can't meet with clients about the plans she creates until she has that designation.

"Every time I write a plan, they say, 'You should be presenting this,'" Ms. Acap said.

ON TO NEXT LEVEL

After conquering the Series 65 exam, she's planning to take classes for the certified financial planner designation and expects to be a full adviser within four years.

Ms. Acap, who graduated from Towson State University last May with a degree in business administration and a concentration in finance, has some advice for those following behind her in this industry.

"Sign on with a firm that jibes with your lifestyle," she said. "If you are a family-oriented person, don't sign on with a firm that wants you to work 60 hours a week."

She recommends that candidates be candid with potential employers if work-life balance is important to them and keep interviewing with firms until they find a good match.

"Don't hate your job," she said.

Ms. Acap is thrilled with her decision to join Baltimore-based Buttonwood. In addition to supporting a sound work-life balance, she said, the mentoring offered by the firm's two principals, Damian Gallina and Jeff Malcom, has been critical to her growth.

"If they hadn't invested all this time in me, I wouldn't be where I am, helping them write plans now with no direction," she said.

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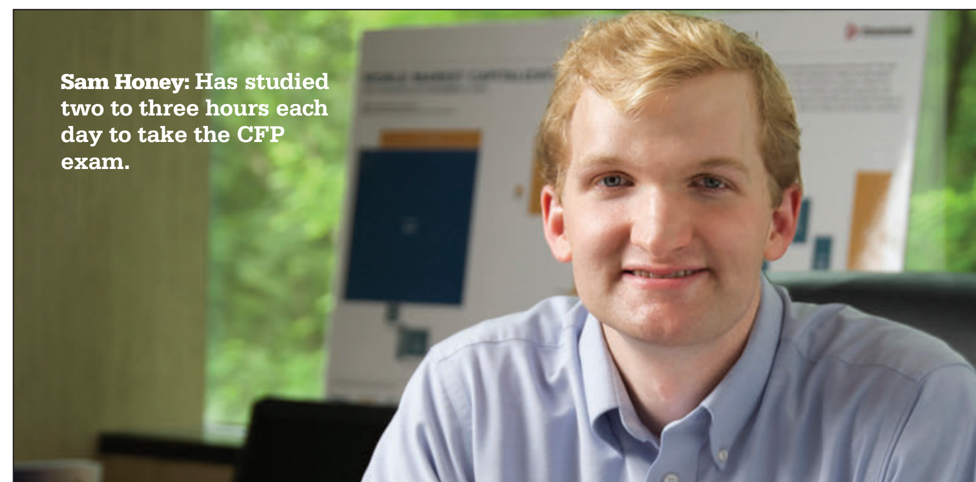
MARIAH ACAP
Age: 23
Hometown: Huntingtown, Md.
Education: Bachelor of Science in business administration with concentration in finance, Towson State University
Employer: Buttonwood Financial Advisors, Baltimore

"Work stuff comes up and life stuff comes up."

JOHN DEAN

Mariah Acap: "Sign on with a firm that jibes with your lifestyle."


DAN DONOVAN

Sam Honey: Has studied two to three hours each day to take the CFP exam.

Finding his planning niche

By Darla Mercado

Spring is looking busy for Sam Honey as he prepares for the certified financial planner exam and the arrival of his second child.

The 26-year-old planning associate at Plancorp expected to take the CFP exam last Saturday. In the course of studying for the exam and doing his day-to-day work, he has discovered a knack for estate planning.

"My strongest subject, I think, will be estate and income taxes," Mr. Honey said. "The subjects I'm spending more time on are retirement planning and insurance. Those are a little harder to grasp and memorize all the components, but I'm making progress on all of them."

He estimated that he has studied two to three hours each day to prepare for the test.

His interest in estate planning goes beyond what's covered in textbooks and the CFP review course he took in February.

NEW CLIENTS

Mr. Honey now works with a different group of advisers within Plancorp than when he started, and is getting a sense of what it's like to help clients with their legacy planning.

"One of the advisers I'm working with has been here a few years and has carved out a niche in estate planning," he said. "So the clients I've been exposed to are more in need of that."

The clients Mr. Honey worked with previously were still in the accumulation phase of their lives, growing their wealth. These new clients, however, are an older demographic, and their biggest concerns center on transferring wealth to the next generation.

It's a corner of financial planning that just might be Mr. Honey's calling.

"It's a definitely a possibility, pursuing estate planning," he said.

Mr. Honey, his wife and their 18-month-old son, Henry, will be welcoming a new baby at the beginning of June. The young couple's mothers will be dropping by to help the family out after Mr. Honey's paternity leave is up.

Though life is busy, it's still good, he said.

"It's really nice after a long day to go home to my family," Mr. Honey said.

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SAM HONEY
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Education: Bachelor of Science in personal financial planning, Kansas State University
Employer: Plancorp, St. Louis

"My strongest subject will be estate and income taxes."

YEAR 1 ONE
New advisers start their careers

Treavor Dodsworth: Has run an entire client meeting, and is chipping away at the CPA exam.

JOHN R. BOEHM

Taxes can be 'lots of fun'

By Darla Mercado

Tax season is in full swing, which means aspiring accountant Treavor Dodsworth is especially busy.

Mr. Dodsworth, 23, is about eight months into his tenure at NorthWest Financial Services Inc., where he's been putting his tax know-how to work. At the same time, he's chipping away at the four modules that are part of the uniform certified public accountant exam.

So far, Mr. Dodsworth passed the first two sections and hopes to take the third and fourth in May and August, respectively. The exams won't stop there, however.

"I'm taking the CFP at a different time, and in between the CPA and CFP, there are some smaller tests I'll take," Mr. Dodsworth said. Those assessments include an insurance licensing exam, the Series 65 and the Series 7.

NUMBER-CRUNCHING

"Work is a lot busier now because we're doing taxes along with all the normal stuff," he said. He's taking a closer look at clients' tax returns and learning how to go through them.

Number-crunching has proven both challenging and enjoyable. "I enjoy doing taxes," he said. "It's a big puzzle and lots of pieces are coming into play. It's lots of fun to get through."

Management at the firm also has given Mr. Dodsworth more responsibility, so he is now stepping up his game at client meetings.

Not too long ago, a new client visited the office for a data-gathering session, and the soon-to-be accountant ran the entire meeting. It takes a light touch to get clients to share details, and sometimes they're not inclined to be naturally chatty, he said.

"Some clients come in and play it very close to the vest, so you ask questions to get them to open up, trust you and share information," Mr. Dodsworth said.

His advice to people looking at a career in financial planning is to accept that you will make mistakes as you learn about the industry.

"You can't be so scared to make mistakes that it hurts your productivity or your willingness to take chances," Mr. Dodsworth said. "Be willing and accept that you're going to make mistakes and bounce back from them. If you make a mistake, just apologize and keep going. Do the best you can."

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Employer: NorthWest Financial Services Inc., Indianapolis

"You ask [clients] questions to get them to open up, trust you."

An entrepreneur at heart

By Liz Skinner

Layton Cox entered the profession nearly a year ago, mentally prepared to make a lot of cold calls.

Instead, he has gained valuable entrepreneurial experience and really figured out where the industry — and his career — are going.

Mr. Cox, 24, is heading up Pathway Financial Partners' efforts to build a digital advice offering for young investors and those with smaller accounts. He helped build the portfolio models for MyPathway, as the new unit is called, and currently is concentrating on the marketing plan.

Now through July he'll be focused on marketing the Tucson, Ariz.-based firm's digital advice platform, and then he'll create training manuals for the additional advisers the firm hopes to add to serve MyPathway clients.

"At heart I'm an entrepreneur," Mr. Cox said. "It's been a lot of fun getting to do this during the first year of my career."

Mr. Cox believes the advice industry is poised for a shift away from focusing solely on high-net-worth individuals and families.

NEW CLIENT BASE

Both the increasing prevalence of online advice platforms and the trend toward fee-only advice suggest the future of the business is about servicing a new client: the individual who doesn't have the time, ability or assets to figure out their own financial security, he said.

Mr. Cox follows blogs by Michael Kitces, a partner and director of research at Pinnacle Advisory Group, and Barry Ritholtz, founder and chief investment officer of Ritholtz Wealth Management — two advisers he considers visionaries of the advice industry.

Mr. Cox, a graduate of the University of Arizona, recommends that those headed into the career tune in to these two and others "who understand the changes happening."

When he graduated, Mr. Cox planned to pursue the certified financial planner designation and then perhaps a master of business administration. But now he's leaning toward the pursuit of a certified financial analyst designation.

"If we grow as much as we think we will, we're going to need a CFA on our investment committee," Mr. Cox said.

Layton Cox: Focusing on marketing a new digital advice offering.

JIM MARSHALL

Earlier this month, Mr. Cox's girlfriend accepted his marriage proposal and he wrote a blog about the important financial planning issues he intends to review with his fiancée. Their pre-wedding discussions include goals, debt, savings, retirement and fun, he wrote.

"It's been an eventful first year," he said. "I'm looking forward to the next 25."

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LAYTON COX
Age: 24
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Education: Bachelor of Science in business administration with a concentration in accounting, University of Arizona
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"It's been an eventful first year. I'm looking forward to the next 25."

Amanda Moore: Her strongest topics are retirement, taxes and investments.

RABIAH KHWAJA GOHAR

Getting life back after finishing CFP exam

By Darla Mercado

Nine months after the start of her financial advisory journey, the moment of truth arrived for Amanda Moore last Saturday when she sat for the CFP exam.

For the 23-year-old Virginia Tech alumna, the certified financial planner exam was the center of her life for the past three months. "I [would] wake up, study, go to work and study some more," said Ms. Moore, a resident in financial planning at Cornerstone Wealth Management in Edina, Minn.

"My thought process after the exam is to relax and get my life back a little bit," she added. "I'm excited to go to the gym and not feel like I should be studying."

Her strongest topics, Ms. Moore said, are retirement, some aspects of taxes, and investments. She credits her strength in the latter topic to the additional investment-focused courses she took while in the financial planning program at Virginia Tech.

The financial-planner-to-be is finding that all the work she put in at school and preparing for the CFP exam is leading to real-life results with the clients she has been seeing.

Lately, Cornerstone has been scooping up a number of new Gen X and Gen Y clients, some of whom are the children of existing clients. Those younger clients are facing a number of major milestones, including weddings, having children and buying homes. They're also laying the groundwork for retirement planning.

"We've talked about some things, like [required minimum distributions], principles of investment, and it's very cool to do that for the first time and to be engaged in talking about the planning," Ms. Moore said.

AMANDA MOORE
Age: 23
Hometown: Ashburn, Va.
Education: Bachelor of Science in finance on the CFP certification track, Virginia Polytechnic Institute and State University
Employer: Cornerstone Wealth Advisors Inc., Edina, Minn.

"It helps to be able to absorb everything going on around you."

PRO BONO WORK

Now that the exam is over, Ms. Moore hopes to work more closely with her FPA chapter's pro bono committee and participate in volunteer work. "I have a co-worker who's doing Prepare and Prosper," which is tax preparation for low-income people," she said. "I'm excited to get involved in those things."

Ms. Moore suggests that new advisers get comfortable with asking questions and taking notes. "It helps to be able to absorb everything going on around you and to take every opportunity to ask questions about what's going on with clients," she said. "You're never going to know everything, and you're never going to know as much as you think you should. If you don't understand something, just ask."

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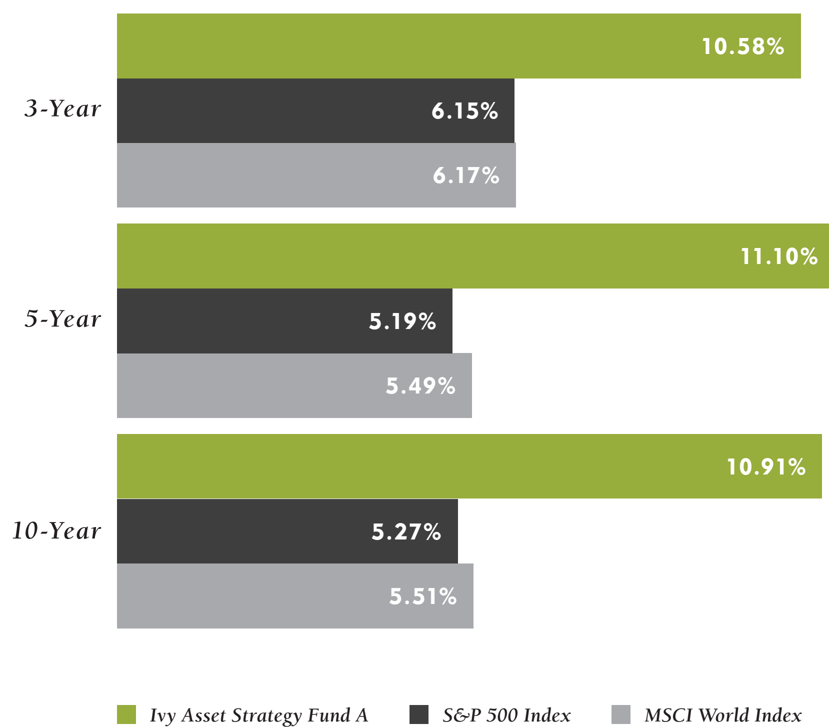
Measure Strength in Years, Not Quarters.

MONTHLY ROLLING AVERAGE RETURNS (8/1/2000–12/31/2014)
Source: Morningstar



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IVY ASSET STRATEGY FUND A (Load)	-10.47%	6.12%	9.82%	0.96%

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INVESTMENT STRATEGIES
Jeffrey Rosenberg

Fed alters investor expectations

Wages, other forms of inflation take on heightened market significance in wake of meeting

The surprisingly dovish March Federal Open Market Committee (FOMC) communications — the combination of the FOMC statement, Chair Janet Yellen's press conference and the Statement of Economic Projections — led to a large equity market rally and lower bond yields last Wednesday, driven by the short end of the yield curve.

Though the market was fixated on the change to the Fed's forward guidance in the form of the removal of the "patient" language, this change was widely anticipated. What was not was a significant update to the Fed's viewpoints on the critical pillars of its dual mandate: jobs and inflation.

In a nutshell, the Fed indicated it now sees "more slack" in the labor market and "less inflation" rebound in the economy. By dropping its estimate for the long-term unemployment rate from the previous level of 5.35% to 5.10%, the Fed was indicating that it saw more room for unemployment rates to fall, and therefore more slack in the labor market. What's more, this change implied that the improvement in the labor markets could continue to run apace without the risk of accelerating inflation.

RETURN OF INFLATION

On the inflation front, the Fed now expects the return of inflation toward its 2% target to take even longer than it had previously indicated. A slower return of inflation implies a slower pace of interest rate increases.

Capping off these changes, the policy implications of a slower pace of normalization were reinforced in the "FOMC participants' assessments of appropriate monetary policy," otherwise known as the "dots plot." These showed significant reductions across the forecast horizon for the federal funds rate — of 50, 62.5 and 50 basis points for year-end 2015, 2016 and 2017, respectively — while longer-run estimates were unchanged. Lowering the estimates for the funds rate is entirely consistent with expectations of more labor market slack (and hence less inflationary pressure from wages) and a longer period of normalization of inflation rates.

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These changes in the Fed's communications, likely more than the changes in the statement itself, did the most to alter market expectations, leading to lower shorter-maturity yields and higher prices on risky assets like stocks, corporate bonds and high-yield debt.

With this new guidance, the Fed went a long way toward closing the gap to market expectations. This is important in establishing the best possible environment so the first increase in interest rates does not lead to a significant negative market reaction. In that sense, last Wednesday's communications helped lay the groundwork for the first increase in interest rates and raised the likelihood that such an increase could occur without a significant impact on the financial markets.

The Fed's indicated pace of tightening now more closely aligns with investor expectations, though market prices still reflect significantly greater accommodation than was indicated by the Fed. Furthermore, the market's response to the March FOMC shows the potential for once again widening the gap between market expectations and Fed communications.

While that remains a future risk, the Fed clearly moved its guidance closer to market expectations, and in so doing reduced one of the risks in the market to the first tightening of policy.

NORMALIZATION

The March FOMC communications also underscore that the pace of normalization remains far more important to the outlook for the financial markets than the exact date of the first hike. We continue to think the Fed's first increase can occur sometime between June and September, but the March communications certainly shift the likelihood toward a slightly longer period of waiting before the first increase.

Finally, by easing the pace of normalization of interest rates in market expectations, the Fed indirectly addressed one of the head winds for the economic recovery resulting from higher short-term rates, namely the strength of the dollar. By reducing expectations for future rate hikes while at the same time actually lifting off interest rates, the Fed would go a long way toward easing the "one-way" bet viewpoint on the dollar.

The March FOMC updated the Fed's view of the economy as "more slack, less inflation," and financial markets cheered the dovish implications. That also means, however, that wages and other forms of inflation will take on heightened market significance in the months ahead.

Jeffrey Rosenberg is chief investment strategist for fixed income at BlackRock Inc.

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IRA ALERT
Ed Slott

Untimely rollover leads to trouble

IRS unconvinced medical condition affected taxpayer's ability to meet 60-day requirement

The IRS denied a taxpayer's request to waive the 60-day rollover rule when he couldn't prove that his medical condition affected his ability to make timely IRA rollover distributions.

The taxpayer tried to buy real estate as an investment in his individual retirement account but didn't know how to do it properly, despite having a team of professional advisers. He ended up with a taxable distribution instead of a real estate investment in his IRA.

"Frank's" intention was to buy an investment property and "place it into" his self-directed IRA. To make sure everything was done correctly, he hired a CPA, a lawyer, a financial adviser and a real estate agent to help him with the transaction.

DOOMED TO FAILURE

So far, so good. On Feb. 1 and Feb. 6 of 2013, Frank took two IRA distributions that he used to buy the investment property. By doing so, Frank had already doomed his transaction to failure. He had taken two distributions from one IRA on two different dates and following the once-per-year IRA rollover rule (both the "new" and the "old" interpretation of the rule), only one of them was eligible for rollover. However, he went on to make matters worse. He used the money from his IRA distributions to buy the investment property outside of his IRA. He then intended to put the property into his IRA, completing what he thought would be a 60-day rollover.

Around the time he bought the real estate, he was undergoing treatment for an illness, which he claimed was a contributing factor to his inability to adequately manage his finances, including the real estate purchase. He said he didn't complete the rollover within 60 days because his medical condition weakened his ability to handle his finances and he was confused regarding the structure of the transaction.

The IRS denied Frank's request for more time to do the rollover. As a result, not only are his IRA distributions taxable, but any income or capital gains generated from the real estate investment property will not be tax-deferred because the property is not held inside his IRA.

As far as his medical condition, the IRS noted that "during this time, taxpayer continued to maintain employment and handle his other affairs." This implies that whatever his medical condition was, it wasn't serious enough to diminish his ability to handle his IRA — at least in the IRS' opinion.

ROLLOVER WINDOW

Even if Frank got the investment property back into an IRA within the 60-day rollover window, it still would not have been a valid rollover. In fact, had Frank completed such a transaction, the tax consequences of doing so would have been even more severe than what he already faces, due to the "same property" rollover rule.

For IRA-to-IRA rollovers, including Roth IRA-to-Roth IRA rollovers, the property distributed from the original IRA account must be the same property contributed to the receiving IRA account. These rules also apply to SIMPLE and SEP IRAs.

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If cash is distributed from an IRA, as was the case with Frank's distributions, then cash must be rolled over within 60 days. An individual cannot, as Frank falsely believed, receive an IRA distribution of cash and then roll over property (such as shares of stock or real estate) that he bought with the cash or that he currently owns. If such a transaction were to occur, not only would the amount of the failed rollover be taxable, but the property contributed to the IRA would likely result in an excess contribution, subject to a 6% penalty each and every year until it was removed.

There is an exception, however, to the same-property rule for rollovers of property distributed from a company retirement plan, such as a 401(k). If a distribution of property is made from a company retirement plan, the recipient has a choice. He can either roll over the same property to an IRA, or he can sell the property distributed from the plan and roll over the cash proceeds from the sale. This is true even if the sale proceeds are greater or less than the value of the property when it was initially distributed from the company plan. The client would not have to recognize any loss or gain on the sale, either.

What about all those advisers and professionals Frank had hired to help him buy the property? Aren't they at least partially responsible for the untimely rollover?

Basically, the IRS said it was his own fault.

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.

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SEC's fiduciary pace

Continued from Page 3
from the White House. If the OMB signs off, as expected, the DOL will put the rule out for public comment and work toward finalization.

The Dodd-Frank financial reform law gave the SEC the authority to promulgate its own fiduciary duty rule. The agency has not acted in nearly five years.

Several lawmakers pressed Ms. White on whether a fiduciary duty standard for retail investment advice would raise regulatory costs for brokers and force them to abandon investors with modest assets.

Rep. Steve Stivers, R-Ohio, asserted that a fiduciary duty rule would "leave the little guy out."

Ms. White said raising requirements for brokers to a best-interest standard, which investment advisers already meet, is a positive for smaller investors.

"It's to the benefit of retail investors," she said. "That's who we're acting for."

Rep. Ann Wagner, R-Mo., questioned Ms. White about whether her support for a fiduciary duty was backed by evidence that different standards for brokers and advisers harmed investors.

"Confusion is not a good thing in and of itself," Ms. White said.

'BALANCE'

She later added that a fiduciary duty rule should achieve "balance" and that Dodd-Frank requires the SEC to be "sensitive to existing business models."

In her SIFMA speech, Ms. White said fiduciary duty rule-making should include a related effort to establish third-party examinations for investment advisers to supplement the agency's exams, which each year reach only 10% of the roughly 11,500 registered advisers.

Rep. Maxine Waters, D-Calif., ranking member of the committee, asked Ms. White how much more third-party exams would cost advisers compared with SEC oversight.

Without a fleshed-out rule, "it's hard to judge that," she replied.

Ms. Waters, who supports having the SEC charge advisers user fees to fund exams rather than farming them out to the private sector, also questioned Ms. White closely on how to avoid conflicts related to third-party exams.

"That clearly needs to be addressed," Ms. White said.

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Convergent insurance

Continued from Page 3
from a risky trade that went awry. Mr. Zier had been attempting to recover or hide losses by bringing in more money but was unable to do so.

The life insurance could have been a "Plan B," sources said.

Doug Wolford, who took over as chief executive of Convergent Wealth Advisors, said he had heard that investors were made whole through a life insurance policy but that he did not have direct knowledge of the matter. The assets were held in a private account, he said, and ZAM cleared through a third-party broker-dealer.

It would not be unusual for a successful person to take out life insurance, Mr. Wolford said, and Mr. Zier did not show signs of trouble.

"He was a cheerful and positive guy and remained a cheerful and positive guy shortly before his passing," Mr. Wolford said. "We just don't know why Dave took his own life."

Mr. Wolford said in December that shortly before the suicide, Convergent's compliance officials had begun to question him about trades in ZAM that appeared to violate firm policy.

Those concerns were reported to regulators, and speculation at the time was that Mr. Zier was seeking to avoid the potential fallout.

The Financial Industry Regulatory Authority Inc. and Securities and Exchange Commission are investigating Mr. Zier's "outside personal account activity," according to his BrokerCheck report.

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Dollar's surge threatens global holdings

Continued from Page 4

ager of the $273 million Evermore Global Value Fund (EVGIX).

"We're stock pickers, and we're over 60% invested in international developed markets, so if I don't hedge, I feel like I'm making a currency call," Mr. Marcus said. "I don't want to fight against the currency, so I kill it by doing forward contracts on the whole portfolio's exposure to the currency."

He claims he is not trying to play the strong dollar so much as he is trying to neutralize its dramatic separation from other currencies.

The Evermore fund is up 10.7% so far this year, versus a 5.5% gain in its benchmark MSCI All Country World ex-US Index, and a 4.6% gain for the world stock fund category, as tracked by Morningstar Inc.

While it is not easy to find the few international mutual funds that are actively hedging currency exposure, Todd Rosenbluth, director mutual fund and ETF research at S&P Capital IQ, said a good place to start is by looking for recent outperformers.

GROWING MISMATCH

Such a search fleshed out the $11.7 billion Thornburg International Value Fund (TGVAX), which has gained 9.6% since the beginning of the year.

Tim Holsworth, president of AHP Financial Services Inc., is a financial adviser who has been actively seeking out funds that can help his clients avoid the growing currency mismatch.

One that came on his radar is the $1.8 billion Deutsche Croci International Fund (SCINX), which is up 11.1% so far this year.

"It seems to me that almost nobody is addressing this issue," Mr. Holsworth said.

Though the currency issue has some of his clients wanting to move out of international funds entirely, at least for now, he is trying to persuade them to stay diversified by using currency hedged international funds.

His new challenge is swapping out funds to get a manager who hedges currencies, Mr. Holsworth said.

"As we move into international funds that hedge currencies, we might be giving up a better manager, but time will tell," he said.

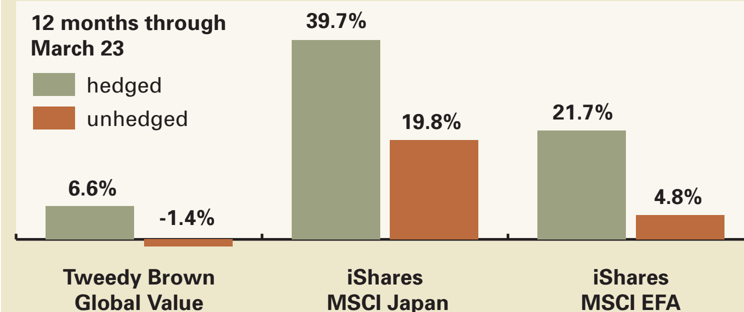
One reason more international funds don't hedge might have something to do with the pursuit of relative performance. Because benchmarks aren't hedging out the currency exposure, most of the funds can keep up without making the extra effort to avoid exposure.

"We're more absolute investors, and we want to beat the benchmark and protect our clients' money," said William Fries, co-manager of the Thornburg International Value Fund. "If you don't have the flexibility to hedge the currency, you can be victimized by it."

You can also be victimized by hedging the currency, of course, which is something that would show up in a sudden reversal by the dollar. In that case, benchmarks and the nonhedged portfolios would benefit from the currency exposure.

To hedge or not to hedge

Impact of currency hedging increases over time



Source: Morningstar Inc.

For advisers ready to roll up their sleeves in the world of currency hedging, some ETFs offer hedges to foreign equity markets.

The iShares Currency Hedged MSCI EAFE ETF (HEFA) has gained 12.5% this year and 21.7% over the past 12 months. Meanwhile the unhedged version, iShares MSCI EFA ETF (EFA), gained 8.5% this year and 4.8% over the past 12 months.

Investors can gain similar exposure to Japan via the iShares Currency Hedged MSCI Japan ETF (HEWJ), which is up 14.1% this year and 39.7% over the past 12 months. The unhedged version, iShares MSCI Japan ETF (EWJ), gained 14.5% this year and 19.8% over the past 12 months.

"In theory, you could own both the hedged and unhedged ETFs and just tweak the exposure based on how you feel about the currency markets," Mr. Rosenbluth said.

Most advisers would probably be better off leaving those kinds of moves to the portfolio managers, assuming you can find one that is hedging currencies.

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Courting professionals to win referrals

Continued from Page 4

figure out how much they need to have the life they want and how much is "excess," he said.

Business brokers typically deal with clients over the course of a transaction, which can take 12 to 18 months. After the sale, clients who may have had a net worth of $500,000 can suddenly have $25 million — and they're looking for help, Mr. Catino said.

"Even if [the client] has been working with 'a guy,' typically that person isn't enough anymore," he added.

'MAD MEN' EVENT

Monument hosts events for advocates and clients, including a "Mad Men"-themed March Madness night March 20 at a private cigar club.

Arranging events that people look forward to every year is important, Mr. Catino said. The venue and the quality of speakers should be paramount considerations.

Monument also invites advocates to its office regularly to show them how the firm assists clients with comprehensive wealth planning.

"We bring them in and let them know about process, and show them we're not running this out of a basement," Mr. Catino said.

Cultivating referrals from other professionals isn't something that happens overnight, he warned. It can take years for the lunches, meetings and other events to pay off.

Tip sheet

- Find advocates who are in a prime position to refer ideal clients.
- Figure out how your business can help those advocates do their job better.
- Make sure advocates understand what your firm can do to help their clients and how you do it better than the competition.
- Keep your firm top of mind with your best advocates through frequent touches and events.
- Plan events that will be memorable by choosing speakers and locations carefully.
- Reach out consistently; it can take years for an advocate relationship to pay off.

One special touch Monument employs is sending a Louisville Slugger to those who refer clients and to clients who sell their businesses.

"It's unique," Mr. Catino said. "It's not like someone's going to throw away a baseball bat."

While it's important to be consistent in efforts to gain referrals, firms should also recognize when such efforts are futile, he said. For instance, Monument has had disappointing results winning business from certified public accountants.

The firm knows several good CPAs and recommends clients to them, but those referrals aren't being reciprocated, Mr. Catino said. Therefore, CPAs are not a central focus of the firm's efforts.

Got your own practice management success story to share? If so, contact Liz Skinner at lskinner@investmentnews.com. Follow Liz on Twitter: @skinner_liz

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Edelman's new technology ETF

Continued from Page 4
with corporate executives.

"It became apparent to me very quickly that exponential technologies are going to transform our planet, virtually every aspect of our lives, and in a surprisingly short amount of time," Mr. Edelman said. "I discovered that our portfolios did not have the targeted exposure to exponential technologies that I believe are appropriate for today's investment management strategy."

Mr. Edelman said the fund is involved where other technology-focused indexes are lacking. Those funds can be risky bets on one sector of the economy. XT, instead, will concentrate on a range of companies that could benefit from new innovation.

For instance, a fact sheet on the ETF from Morningstar lists AstraZeneca as one company poised to benefit from "bioinformatics," the study of biological data; eBay Inc., whose PayPal unit is "helping to transform global commerce"; and Applied Materials Inc. for its investment in nanotechnology.

BIG DATA

Google makes the list, but Yahoo does not: "Facebook and Google not only have broader reach, but they also have proprietary data about their users," the fact sheet states.

Yet for all the opinion-making on companies, XT is not actively managed. Instead, the fund represents the latest iteration on another innovation: "Strategy" indexes, which track rules-based investment strategies instead of markets. They have been attracting a growing share of the money in ETFs.

Morningstar uses the work of its team of stock analysts to generate inputs for an index it licenses to BlackRock for the fund. Those analysts had to be trained to understand the methodology of the index, according to Peter Wahlstrom, the director of technology for Morningstar Equity Research.

"We're the experts covering these companies; we're the experts looking at trends," Mr. Wahlstrom said.

Mr. Edelman said the allocations his firm makes to the fund will vary and that moderate risk investors might see an allocation of 4% of their invested assets in XT. Overall, however, it's a substantial first client for an iShares product. Mr. Edelman's firm manages more than $13 billion, according to regulatory filings.

> **"WE'RE THE EXPERTS covering these companies; we're the experts looking at trends."**
>
> **Peter Wahlstrom**
> Director of technology
> Morningstar Equity Research

His regular radio and television appearances cultivate a middle-brow audience often shunned by top financial advisers.

In recent years, Mr. Edelman has used that platform to predict the demise of mutual funds and to highlight the challenges facing active asset management.

He has also warned other financial advisers that their businesses face extinction from the competitive threat mounted by robo-advisers.

His TV show, "The Truth About Money with Ric Edelman," has been sponsored by iShares "from time to time," according to disclosures Mr. Edelman has made to the Securities and Exchange Commission.

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Vanguard

Continued from Page 4
Vanguard has not said yet if it intends to roll out an institutional version of its platform. Its retail robo-advice program includes a component with human financial advisers.

Both Vanguard and Schwab build market-tracking index funds and ETFs, though Vanguard reigns supreme in that business. At Schwab, those funds account for $78.5 billion; at Vanguard, it's $2 trillion.

And the two companies offer those products at the industry's lowest prices. Schwab's index ETFs charge annual expenses averaging 16 basis points; Vanguard's are 13 basis points, according to Morningstar Inc. That compares to an industry average of 58 basis points.

DIFFERENT NATURES

But the differences in the companies' approaches may come down to the nature of their businesses.

Because Schwab offers fewer and somewhat more expensive proprietary funds, it's more difficult for the company to justify limiting itself to its own products, according to Ron A. Rhoades, assistant professor of financial planning at Alfred State College in Alfred, N.Y.

"Vanguard's lack of an incentive to generate profits for shareholders results in a substantial reduction of the conflict of interest present," Mr. Rhoades wrote in an email. "Given the fact that Schwab is a for-profit company, how Schwab manages its conflicts of interest is certain to receive a greater deal of scrutiny as time goes on."

Unlike Vanguard's program, Schwab's retail offering does not charge management fees on top of the funds. Instead, the company generates revenue in part through reinvesting cash allocations in the fund and receiving payments from some of the third-party fund managers and brokers it uses. Vanguard typically does not pay those kinds of distribution fees.

Mr. Cianfrocca said Schwab relies on disclosed criteria.

"We mitigate any potential conflict by adhering to written objective criteria in selecting funds," he said. "Ultimately, this is about providing a service aimed to help investors reach their goals."

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TECH CONNECT

Do you own your website, or are you simply renting it?

Proprietary template-based systems can pose problems for advisers

In today's online world, the front door to any business is its home page. Just as advisers continue to embrace the digital wave and Internet technology evolves, so do the number of website solutions available to business owners of every kind.

In the wealth management industry, advisers use websites as a way to inform current clients and attract new ones.

USING A TEMPLATE

A number of service providers have emerged to meet the demand. Whether industry-specific or not, template-based web design systems purporting to offer elegantly simple templates with varying levels of customization have saturated the market.

On the surface, these templates appear to be a fantastic opportunity for independent advisers: They are easy to use, relatively inexpensive and promise to get a site up and running "within minutes."

Most of these template-based website systems have a major drawback that most advisers aren't aware of, however: The website is not yours. Not really.

When you build a site using one of these systems, you are doing so entirely within the provider's ecosystem. That means that, while the website is yours as long as you pay your monthly fee, if you choose to leave, you leave everything.

You don't take your code or your template. In most cases, you don't even take your photos or your words.

You take nothing.

In other words, with template-based systems, you don't own your website. You're simply leasing it.

In many cases, these systems are proprietary and built on top of content management systems, such as WordPress.

WordPress has an open-source architecture that lets advisers create beautiful, responsive websites while having access to a wealth of application-program interfaces — which is how websites talk to one another — that connect the site to a wide range of financial software systems.

However, proprietary template-based website systems can close off that access and potentially hinder important updates to the WordPress system core.

Updates are generally designed to address browser compatibility issues, add features and address malware threats. Delaying or ignoring them may leave the adviser not only behind but vulnerable.

Most proprietary systems combat those challenges by recommending that you move to a new template every year or two. Doing that gives you the "latest version" and the benefit of a shiny new website. And by migrating within the system, you avoid much of the cost of a completely different build.

Again, that seems like an unbeatable opportunity to have a new website on a regular basis, right?

DIGITAL STOREFRONT

While almost everyone agrees that a website should not remain static, a "new" one every year may not be the best solution, either.

A site should evolve with a business. It should expand with your team, your product offerings, the needs of your clients and your view on the markets. It should be a digital storefront that is the hub of your online world and the tentpole of your brand identity.

ISTOCK

If you change your website every year, at best you lose much of the benefit of the brand identity and at worst you risk appearing like a fly-by-night organization that suffers from an identity crisis.

So the next time you evaluate your business' website — something you should do often — consider these three questions:

- Is the site built on an open-source platform? Do you have access to our industry's constantly growing connectivity, or are you closed off?
- Can your website evolve? Do you have the ability to expand it along with your firm, or are you confined by a template?
- Are you leasing your website, or do you own it?

Christopher Norton is creative director at Blu Giant, a multidisciplinary creative firm.

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Schwab unveils adviser robo

Institutional version will require a minimum cash allocation of 4%

By Alessandra Malito

Borrowing a page from the product development playbook for its retail online advice platform, Charles Schwab & Co. will require advisers who use the institutional version of its robo-platform to hold a certain amount of client assets in cash.

Advisers using the service must maintain a minimum 4% allocation to cash. Those with under $100 million in client assets held in custody by Schwab also will be charged an annual fee of 10 basis points.

About 70% of the 7,100 advisory firms on Schwab's custodial platform have under $100 million in assets on the platform.

The company expects to launch the adviser service, Institutional Intelligent Portfolios, in the second quarter.

A STABILIZER

"We've long felt that cash is one of the best stabilizers," said Bernie Clark, executive vice president at Schwab Advisor Services.

The stipulation also lets Schwab offer the service free, because the cash will be put into Schwab Bank, where the company can generate revenue on interest rate spreads.

"The cash does support the platform ... because it's swept into the FDIC bank cash product," Mr. Clark said. "But advisers will determine from there if they want to have a higher cash allocation."

The average cash balance is 7% to 9% of assets held in custody for registered investment advisers at Schwab, according to Naureen Hassan, executive vice president of Schwab Intelligent Portfolios.

Advisers using Institutional Intelligent Portfolios will have access to more than 200 exchange traded-funds and 28 asset classes.

Advisers also will be able to customize the robo-adviser with their own branding.

Schwab's announcement of a robo-platform for retail investors was criticized by some competitors and advisory firms, which said the company was being deceitful by promoting its service as free.

> "THE CASH does support the platform ... because it's swept into the FDIC bank cash product."
>
> **Bernie Clark**
> Executive vice president
> Schwab Advisor Services

In the retail version, investors are required to maintain at least a 6% allocation to cash.

Adam Nash, chief executive of Wealthfront, a rival robo, wrote a blog post bashing the discount broker-dealer for betraying its values and hiding fees under the term "free."

Ben Carlson, an investment analyst at Van Andel Institute who blogs at A Wealth of Common Sense, is not surprised by Schwab's robo-offering for advisers.

"A lot of advisers use Schwab for other purposes, so it definitely makes sense for them to pay attention to the adviser," he said. "I think where we're eventually headed is almost every fund shop or ETF provider will have some form of a robo-adviser."

And given Schwab's brand and assets, its robo-platform is expected to be successful.

"For all the adviser-bashing that Betterment used to do and Wealthfront still does, it takes time for the product providers to realize the magnitude of the assets the advisory community controls, and maybe it's going to be more effective for them to partner instead of fight," said James Osborne, a certified financial planner and president of Bason Asset Management in Lakewood, Colo.

Betterment recently entered the business-to-business market with an adviser robo-platform.

Jon Stein, Betterment's CEO, agreed that Schwab will be successful because it is the biggest registered investment advisory custodian.

"If they couldn't make something work, I'd be shocked," Mr. Stein said.

The key difference between his company and Schwab is that Betterment has only one fee and is transparent, he added.

"We aren't making money on the back end. That's where Schwab is making money, and that means not working in the customer's best interest," Mr. Stein said.

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Is LearnVest first of many deals?

Continued from Page 1
but to allow them to operate their model."

While LearnVest is more of a financial planning tool than other robo-advisers that predominately offer online investment advice, its acquisition could set off more deals, especially now that mega-firms such as Charles Schwab & Co. and The Vanguard Group are entering the robo space. Independent firms may find it easier to partner with larger companies than slug it out with them.

What the LearnVest deal and the Fidelity and eMoney pairing a month ago show is the lengths to which large financial services firms will go to acquire new technologies from startups. Why build your own client-facing technology if you can buy it?

'RACE TO UPGRADE'

"These firms have built something unique, and larger players aren't able to put it together on their own in a reasonable time frame," said Sophie Schmitt, a senior analyst with Aite Group. "Traditional firms are really behind on client-facing digital technology; they're in a race to upgrade that."

But could one financial services firm acquire another without fostering competition between two different sales forces? That's a matter that can come down to the offerings and cultures of both the buyer and seller.

Ms. Schmitt believes other buyers of robo-advisers could include retirement plan service providers, but others say insurance companies would be logical purchasers, too.

"LearnVest's personal financial planning tool is different because it focuses on cash flow and budgeting," said Michael Kitces, partner and director of research at Pinnacle Advisory Group.

"That fits well in the context of insurance companies," he added. "They have a history of doing cash-flow-centric financial planning and serve a lot of the middle market."

The acquisition is really a win for human-hybrid tech firms that combine client-facing technology with human financial planners or advisers, Mr. Kitces noted.

Matthew Eschmann, an analyst at Corporate Insight, said that because LearnVest's planners aren't offering investment advice, the reps working at Northwestern Mutual likely won't feel threatened by them — thus they can coexist peacefully.

ADVISERS COMPETING

"Insurance providers have an easier time with this purchase," he said, noting that LearnVest isn't a traditional robo-adviser to begin with. "LearnVest isn't offering specific investment advice, so the advisers won't compete with the service they're acquiring and they can be parallel and use the technology."

Such a deal might not go peacefully if the acquirer were a brokerage firm, however. For one thing, it'll raise concerns about competition among advisers at both entities, Mr. Eschmann said.

And there's always the possibility that the robo-adviser would be used to target clients who just don't have assets necessary to make the relationship with a brokerage or wealth management firm work. Consider LPL Financial's decision to launch NestWise, which targeted clients with less than $100,000 in assets. The venture was later shuttered.

Northwestern Mutual said LearnVest will retain its own identity and continue to provide unbiased financial planning as usual.

The insurer's spokeswoman Jean Towell also confirmed that LearnVest is investing in its LearnVest at Work program and will continue to grow that channel.

But will planners at LearnVest stay put and work within their own culture in the future? That's still up in the air.

"'Will this approach work?' is the million-dollar question," said Grant Easterbrook, a financial tech analyst who is starting his own firm. "There's a difference in the culture and business model, and there are a lot of questions. But if they're keeping [LearnVest] separate, it's a good way to start."

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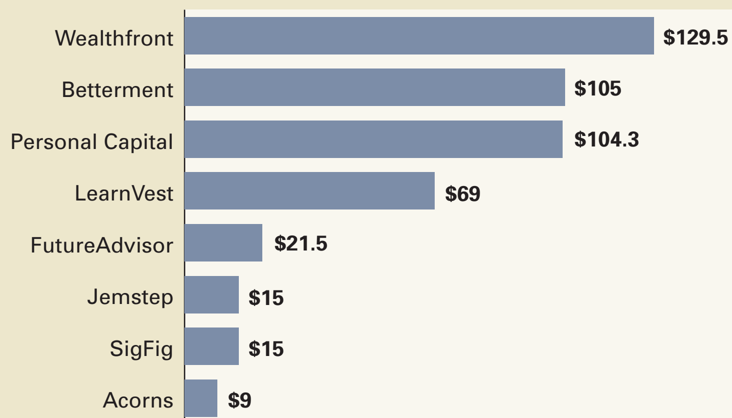
"TRADITIONAL FIRMS are really behind on client-facing digital technology; they're in a race to upgrade that."

Sophie Schmitt
Senior analyst
Aite Group

Tech money

Top venture-capital robo-advisers, $ in millions



Source: CrunchBase

GERARDO TABONES

Fiduciary debate hits brokers hard

Continued from Page 1
throughout the relationship is bracing:

I am not a fiduciary. Therefore, I am not required to act in your best interests, and am allowed to recommend investments that may earn higher fees for me or my firm, even if those investments may not have the best combination of fees, risks and expected returns for you.

"I don't think it's reasonable to assume that someone working under a suitability standard is a crook, and they shouldn't have to tell a client they are," said Amy Webber, president of Cambridge Investment Research Inc. "It's unfortunate that the policymakers are reading too much into what a regulation can do in the real world. Both sides can come to the table to do what's right for the client."

Criticism of brokers got its highest profile from the bully pulpit in February, when President Barack Obama pulled no punches in his remarks directing the DOL to move ahead with its rule.

'BACKDOOR PAYMENTS'

"There are a lot of very fine financial advisers out there, but there are also financial advisers who receive backdoor payments or hidden fees for steering people into bad retirement investments that have high fees and low returns," Mr. Obama said in a Feb. 23 speech at AARP. "So what happens is these payments, these inducements incentivize the broker to make recommendations that generate the best returns for them, but not necessarily the best returns for you."

Investment advisers currently meet a best-interest, or fiduciary, standard. Brokers adhere to a suitability rule that requires them to sell investment products that meet a client's needs and risk tolerance but may carry high fees, for example.

At the event, Mr. Obama highlighted a registered investment adviser, Sheryl Garrett, and praised her as being among advisers "who do put their clients' interests first."

He then pivoted to slam brokers.

"The system makes it harder, in fact, for those financial advisers like Sheryl who are trying to do the right thing, because if she's making really good advice but somebody who is competing with her is selling snake oil, she's losing business," Mr. Obama said.

It almost sounds as if brokers, who are operating legally and presumably trying to help their clients increase their assets, should be ashamed of what they do every day.

"I would never apologize for what we do," said Rick Carlson, president of Carlson Advisors. "I know we're providing exceptional advice on a cost-effective basis for our clients."

Dean Harman, owner of Harman Wealth Management, operates under both a fiduciary and suitability standard. Most of his clients are in fee-based accounts. But he doesn't agree that the fiduciary rule is more stringent than suitability.

"There's an attempt to politicize this," Mr. Harman said. "To put brokers and advisers under a cloud of suspicion is unfair, especially with all the regulation we have anyway. Even the suitability standard is high."

Adding insult to injury, a report by the Public Investors Arbitration Bar Association last week compared brokers to used-car salesmen.

CLIENT INTERACTION

But Joe Heider, founder of Cirrus Wealth Management, who practices under both a fiduciary and suitability standard, said the same principle of client interaction applies to each.

"The most valuable asset [advisers] have is the relationship and the trust of the client," he said. "When they lose that, they get fired and they lose all revenue opportunity."

The DOL has said the fiduciary rule is needed to protect workers and retirees from conflicted advice — and losses that amount to $17 billion annually, according to a White House report. Critics say the rule could significantly increase regulatory and liability costs for brokers and price them out of the advice market for middle-income savers.

Ms. Webber, Mr. Carlson and Mr. Harman are all board members of the Financial Services Institute. Ms. McNeely is president of the National Association of Insurance and Financial Advisors. The groups have been waging a battle against the DOL fiduciary rule, but with Mr. Obama leaping into the fray, it appears they're being outgunned.

A fiduciary proponent denies his side is trying to humiliate brokers.

"Sales is an honorable profession, if you do it honorably," said Knut Rostad, president of the Institute for the Fiduciary Standard. "This is not about shaming brokers, this is about telling the truth."

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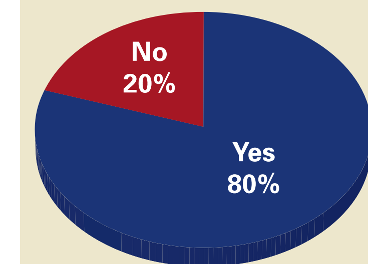
Scott Stringer: New York City comptroller wants a state law on financial-advice disclosure.

GETTY IMAGES

Readers weigh in

In the online version of this story last Friday, *InvestmentNews* asked readers: "Do you think commission-based brokers are being unfairly criticized as the fiduciary debate heats up?"



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