BILL BUTCHER

Spotlight

Wirehouses: Dwindling head count is a critical challenge facing big brokerages. **Pages 12-16**

BREAKING: Labor Department extends comment period on fiduciary duty proposal by 15 days. Read backstory on Page 3. For the latest, go to InvestmentNews.com.

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LIVING TO 120

What medical progress will mean for the financial planning industry

By Liz Skinner

RESEARCHERS have found that pumping old mice full of young mice blood revives their aging organs and extends their lives. Now, scientists in California are testing the notion in humans.

Other researchers are tailoring genetic therapies to an individual's biological makeup and more effectively targeting cancer cells. This 'personalized medicine' approach already has added years to the lives of lung cancer patients in clinical trials.

These and other medical breakthroughs

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BOOMER DILEMMA

Be prepared for active retirees to need elder care. **Page 4**

EDITORIAL

Advisers fall short on implementation of long-term planning. **Page 6**

GETTY IMAGES

Get tougher, brokers say

Harsher new Finra suitability sanctions 'elevate industry'

By Mark Schoeff Jr.

Brokers endorsed a move by their regulator this week to toughen sanctions for violations of the suitability rule even as they acknowledged the standard leaves room for interpretation.

The Financial Industry Regulatory Authority Inc. on Tuesday revised its Sanctions Guidelines, which included raising its suggested suspensions to two years from one for brokers making unsuitable recommendations. It also strongly advises barring of brokers and expulsion of firms for fraudulent activity.

Cracking down on suitability violations will help clients, said Jeremy Gottlieb, owner of Gottlieb Wealth Management. In reviewing investments of clients transferring to his firm,

Continued on Page 36

United Capital moving more assets in-house

By Trevor Hunnicutt

United Capital Financial Advisers, one of the larger independent wealth management companies, is moving a growing share of its investors' portfolios out of mutual funds and into cheaper separate accounts it manages itself.

And in a twist, the firm's managers are using the ideas of traditional asset managers, asking them for a handful of their best, highest-conviction ideas, and then doing the trading themselves.

The firm hopes the effort will result in a best-ideas portfolio with a better chance at delivering returns exceeding the market's average than an index-hugging portfolio, at a low cost. The investment management fee for investors is 35 basis points, compared with the

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Danger, danger

SEC and Finra issue investor alert on robo-advisers, warning about security.

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EDITOR'S NOTE

Extra few decades of life coming at ya

Having just become lucky or unlucky enough (depending on your perspective) to receive my own personal copy of AARP's bimonthly magazine, I read with both fear and optimism Liz Skinner's cover story on how advances in medicine are significantly increasing the life expectancies of Americans.

Frederick P. Gabriel Jr.

It's already becoming more common for people to live past age 100. In the not-too-distant future, average life expectancies could easily surpass 110 or (gasp) 120. Truth be told, that kind of makes me wish I stayed out of the sun when I was younger, and that I had started saving for retirement when I was 12.

In reporting this week's Page 1 story, we set out to examine the effects that extreme longevity will have on financial planning. Make no mistakes: Those effects are going to be huge. They will be bigger than anyone ever imagined.

In fact, I would even go so far as to say that extreme longevity will be to financial planning what global warming will be to, well, civilization (my apologies to those who don't believe that global warming is a "thing").

One of the important questions Liz's article asks is how today's financial planning models will adapt to support clients who save for retirement for 40 years, but need to live off that savings for another 50 years?

The answer, of course, is that they can't. Entirely new financial planning models will have to be created.

In truth, clients of the future will likely have three or four distinct careers and save for retirement over a period of 60 or even 70 years.

What does that mean for financial advisers? Well, as Liz' story points out, it means financial advisers also could see their role in their clients' lives morphing into something that resembles a career or life coach.

To be sure, extreme longevity has societal implications that stretch far beyond financial planning. But no doubt, sound financial planning will be as crucial to living happily at 110 or 120 as good knees and a full set of teeth.

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ISTOCK

Fired Morgan broker gets revenge – $500K

By Darla Mercado

A Finra arbitration panel has decided in favor of a former Morgan Stanley rep following a dispute between the broker and firm over an alleged breach of a promissory note.

In a disagreement dating back to December 2012, Morgan Stanley asserted that the former rep, John Offenburger, breached a promissory note that would be payable to the firm in full once the rep was no longer employed there, according to the award letter.

The wirehouse alleged that Mr. Offenburger's employment at Morgan Stanley was terminated on Oct. 5, 2012, and that he refused to pay the balance due, according to the award letter released May 7. Morgan Stanley sought $519,131.98 in payment, along with damages, interest, costs and attorneys' fees.

In response, Mr. Offenburger filed a counterclaim in April 2013, denying the firm's claims and leveling a slate of accusations against Morgan Stanley, including breach of contract, fraudulent or negligent presentations, defamation, and tortious interference with business relations, per the award letter.

FORCED TO RESIGN

The former rep claimed that he was forced to resign and that Morgan Stanley's agents made "false and defamatory statements" about him to his clients.

Mr. Offenburger also sought $1.395 million in damages.

The arbitration panel denied all of Morgan Stanley's claims, stating that "the promissory note was unenforceable and no fraud was proven," according to the award letter.

Meanwhile, the arbitration panel awarded Mr. Offenburger $500,000 for his claim of lost income.

The panel decided that Morgan Stanley's promissory note to the former rep satisfies the award, meaning that the sum due to Mr. Offenburger has been paid in full, according to the award letter.

Calls to Mr. Offenburger's attorney, James J. Eccleston, were not returned. Morgan Stanley spokeswoman Christine Jockle declined to comment.

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Virtus drops F-Squared as fund manager

Once-popular firm struggles after admitting it misled investors on performance

By Trevor Hunnicutt

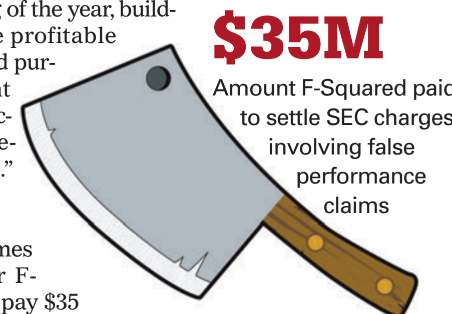
Virtus Investment Partners Inc. said last Monday it had cut ties with F-Squared Investments Inc., the troubled investment adviser whose once-popular strategies were undermined by an admission it misled clients about its performance.

Virtus said it replaced F-Squared as a subadviser on five AlphaSector mutual funds, including Virtus Premium AlphaSector (VAPAX), which has some $5.7 billion in assets.

"F-Squared Investments, an unaffiliated former subadviser, no longer provides services to the funds," Virtus said in a statement.

Virtus' stock lost 13% last Monday as the firm also reported first-quarter results damaged by outflows, primarily from AlphaSector, which lost $2.9 billion to outflows. The stock is off about 31% this year, as of last Thursday.

"While Virtus' decision is disappointing, it is not unexpected and does allow us to pursue new opportunities in the mutual fund space," F-Squared said in a statement. "We have been making contingencies since the beginning of the year, building a leaner, more profitable business model and pursuing new client opportunities particularly in the retirement savings space."



$35M
Amount F-Squared paid to settle SEC charges involving false performance claims

ISTOCK

SEC CHARGES

The change comes five months after F-Squared agreed to pay $35 million to settle SEC charges it made false claims about the performance of its flagship investment product, an index of exchange-traded funds that predated AlphaSector.

In addition, its chief executive and co-founder, Howard B. Present, resigned. Mr. Present is currently fighting the Securities and Exchange Commission in federal court. The regulatory agency indicated it wants to claw back some of the millions Mr. Present earned and bar him from the securities industry.

In the federal court complaint against Mr. Present, lawyers for the SEC imply the firm was on its last legs when it won a contract to manage, or sub-advise, mutual funds for Virtus in late 2009.

Virtus lent credibility to the firm. The money manager was the linchpin to F-Squared's adoption by the largest adviser-serving firms, *InvestmentNews* reported in March.

F-Squared cut a quarter of its staff that month, and reportedly is exploring a sale.

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GOP senators join push to stretch fiduciary timetable

GERARDO TABONES

By Mark Schoeff Jr.

Leading Senate Republicans have added their voices to the chorus calling on the Labor Department to slow down consideration of a rule designed to reduce conflicts of interest for brokers working with retirement accounts.

Three dozen GOP senators, including the party's leader in the chamber, sent a letter last Tuesday to Labor Secretary Thomas Perez asking that he extend the comment deadline for the rule to 120 days from the current 75. Comments on the proposal are due July 6.

The senators said the rule, which runs for hundreds of pages, is too complex to comment on by the middle of summer. Their concerns echo those of House and Senate Democrats, who sent similar letters to Mr. Perez last week.

'SIGNIFICANT EFFECT'

"This is not an appropriate amount of time," Sen. Lamar Alexander, R-Tenn., chairman of the Senate Health Education Labor and Pensions Committee, wrote in the letter signed by 35 of his Senate colleagues. "The proposed rule and exemptions will have a significant effect on countless working and middle-income Americans who have worked and saved so diligently to ensure a secure retirement."

Mr. Alexander's committee provides oversight of the DOL.

Others signing the letter included Senate Majority Leader Mitch McConnell, R-Ky., Sen. Orrin Hatch, R-Utah, who chairs the Senate

Continued on Page 35

SEC commissioner Gallagher to resign

Bloomberg News

Daniel Gallagher is resigning his post as a Republican member of the Securities and Exchange Commission after four years, a time marked by partisan battles over the regulatory response to the 2008 financial crisis, according to three people familiar with the matter.

The White House now will need to replace Mr. Gallagher as well as Luis Aguilar, the Democratic commissioner whose term expires next month. The departures herald a transformation at the agency, which has struggled to write dozens of new regulations arising from the 2010 Dodd-Frank Act.

Mr. Gallagher, 42, plans to remain on the five-member commission until a successor is confirmed, a process that could take several months, the people said. The White House has already identified candidates to fill both his and Mr. Aguilar's seats.

A securities lawyer and ex-agency staff member, Mr. Gallagher has been a critic of many of the rules required by Dodd-Frank. Known for his forceful dissents and speeches, he frequently rapped the Federal Reserve for trying to impose its oversight on firms traditionally regulated by the SEC.

While Mr. Gallagher clashed with former Chairwoman Mary Schapiro on policy matters, he has a less-strained relationship with current SEC chief Mary Jo White. He was instrumental in negotiating a compromise overhauling rules for money market mutual funds in July 2014, passed during Ms. White's tenure.

REVIEW OF EXCHANGE RULES

Mr. Gallagher, who joined the commission in 2011, pushed to make it easier for small companies to raise capital and advocated for the agency to undertake a major review of the rules governing stock exchanges.

Mr. Aguilar, 61, has been on the commission for almost seven years. A former general counsel of money manager Invesco Ltd., Mr. Aguilar largely supported the Dodd-Frank regulatory expansion and often advocated for stiffer penalties for wrongdoing by Wall Street firms.

Mr. Aguilar declined to comment. An aide to Mr. Gallagher didn't

BLOOMBERG

Daniel Gallagher

return a phone message seeking comment.

It's unclear when Mr. Aguilar will leave the agency. While his term expires in June, he could remain until his successor is confirmed by the Senate.

Candidates being reviewed by the White House to replace Mr. Aguilar include former SEC attorneys Keir Gumbs and Philip Khinda, according to people who asked not to be named because the matter wasn't public.

Mr. Gumbs is a partner at Covington & Burling in Washington, and Mr. Khinda is co-head of the securities enforcement practice at Steptoe & Johnson. Mr. Gumbs declined to comment. Mr. Khinda didn't reply to messages seeking comment.

Affluent Medicare users face higher costs

Katy Votava
On Medicare

Higher-income Medicare beneficiaries have been paying more for their Medicare Parts B and D coverage for several years in the form of income-related monthly adjustment amounts (IRMAAs). As a result of a new bill that sailed through Congress with bipartisan support and was signed into law by President Barack Obama in mid-April, costs for upper-income Medicare beneficiaries will increase soon.

The legislation is officially called the Medicare Access and CHIP Reauthorization Act of 2015, otherwise known as the "Doc Fix" law. The major focus of this law is to permanently repair the long-broken method of paying doctors under Medicare, secure permanent funding for low-income Medicare recipients and ensure that children will be able to get access to health coverage.

Buried in the law are other provisions that will adversely affect some folks on Medicare. One of those provisions is that the scale for setting the Medicare B and D IRMAAs will change dramatically in the near future, resulting in more high-income individuals paying sizable IRMAA amounts.

This recent law changes that scale in the near future, resulting in more beneficiaries paying the top IRMAA levels sooner than is currently the case. Keep in mind that the modified adjusted gross income determination by the Social Security Administration in any year is drawn from the tax return two years prior. Case in point, while the law stipulates that new MAGI tier definitions go into effect in 2018, the 2016 tax return will be used to set those 2018 IRMAA payments.

TOP MAGI TIERS

There have been dramatic changes in the top three MAGI tiers. The current structure sets $160,000 for single filers and $320,000 for

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InvestmentNews **Retirement Income Summit**

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InvestmentNews.com/roth

3 changes poised to shake up retirement income management
Advisers need to pay careful attention to issues surrounding longevity, market risks and taxes when managing their clients' retirement income, according to **Robert DeChellis**, president and CEO of Allianz Life Financial Services.
InvestmentNews.com/shakeup

WealthTrack
Lessons learned by today's central bankers
The Federal Reserve became a prisoner of its own rules during the Great Depression, whereas during the 2008 financial crisis it went to the absolute limit and almost broke its own rules, according **Liaquat Ahamed**, Pulitzer Prize-winning author of "Lords of Finance."

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Needs of aging boomers will transform the advice industry

Clients' demands will shift from retirement income to elder care

If you're like most financial advisers, you are focused on how to capture a piece of the lucrative IRA rollover market as baby boomers transition into retirement. But fast forward 10 or 20 years and those same clients may be less interested in golf and travel and more concerned about assisted living and estate planning. Will you be ready to address their evolving needs?

Mary Beth Franklin
On Retirement

Dennis Gallant, president of GDC Research, a consulting firm that provides market research and analysis for the financial services industry, has discussed how aging clients and end-of-life issues will affect advisers' practices over the next few decades. As clients age and their needs grow, advisers will face both enormous challenges and business development opportunities, Mr. Gallant said during a recent webcast sponsored by the Retirement Income Industry Association.

It's easy to ignore the long-term implications of the aging baby boomers — for now. Advisers are busy helping their clients figure out when to retire, creating a vision for that retirement, identifying their income needs and wants, and managing an income portfolio for a retirement that could last a very long time. And with 43 million Americans age 65 or older, it's a huge and growing market.

But as those clients enter their late 70s and early 80s, their needs and focus likely will shift away from managing assets to passing them on to heirs. At the same time, their demand for nontraditional support services, such as referrals for elder care, housing assistance and estate planning, will grow.

CIRCLE OF EXPERTS

Today, advisers may see the value of teaming with CPAs and tax attorneys to serve their clients' needs more fully — a popular discussion topic during the *InvestmentNews* Retirement Income Summit in Chicago earlier this month. But in the future, financial advisers may need to expand their circle of experts to include an elder care attorney, family counselor, and senior housing and home-care experts.

And with the number of Americans age 65 and older projected to top 80 million by 2050, the number of people who are likely to require long-term care is expected to more than double from today's 12 million to 27 million, according to the U.S. Census Bureau.

Up until now, financial planners have merely tiptoed around the issue of long-term care, recommend-

Continued on Page 35

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

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SEC takes aim at life frauds

By Darla Mercado

The Securities and Exchange Commission last Monday filed charges against two men who purported to be retirement planners and sold allegedly fraudulent life settlement interests to investors.

Defendants named in the SEC's complaint include Christopher A. Novinger, Brady J. Speers and their firm, NFS Group of Mansfield, Texas.

The commission alleged that Mr. Novinger and Mr. Speers, along with their company, told investors that the life settlement interests were "safe, guaranteed investments with annualized return average of 7% to 11%," that they were "risk free" and "safe as CDs," and that they were "federally insured."

The men sold more than $4.3 million in life settlement interests to 26 investors, racking up about $515,000 in commissions. At least three of the investors were not accredited.

Life settlements permit investors to buy an unwanted life insurance policy from another individual. The seller gets cash up front — generally less than the death benefit of the policy — and the buyer becomes responsible for paying the premiums. The buyer collects on the death benefit when the insured person dies.

Life settlements have encountered their own share of difficulties, including the fact that the insureds don't always die on time. Insureds who live longer than forecasted cost investors more money in premiums.

INFLATED ASSETS

The SEC says that because the life settlement interests weren't registered as securities, the life settlement providers working with Mr. Speers and Mr. Novinger required the investors to be accredited. That is, they needed to have had a net worth of at least $1 million, excluding the value of their primary home, or their individual income must have exceeded $200,000 in each of the past two years, or their joint income with their spouse must have exceeded $300,000 in each of the past two years.

In order to get the investors to

Continued on Page 38

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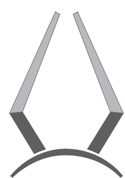

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VIEWPOINT

EDITORIALS

From elder planning to implementation

NOT TO BEAT a dead horse, but the population in the United States is getting older and older. Most everyone has heard the statistic that 10,000 baby boomers turn 65 every day. Couple that with the fact that life expectancies continue to grow. According to the Social Security Administration, a 65-year-old woman today can expect to live to nearly 87, and a 65-year-old man can expect to live to 84.

The picture is clear: Advisers have a big job not only helping clients reach a secure retirement but also helping them live through that retirement without becoming indigent.

Now, any adviser worth his or her salt knows all the investment products available to meet those goals and how to structure a portfolio in a way that allows clients to sleep at night. Where it becomes a little squishy is in the area of Social Security and long-term care.

Social Security as a concept is pretty straightforward, but when the time arrives for clients to file to claim their benefits, it can get complicated. File and suspend, restricted claims, and on and on. It behooves all advisers working with clients anywhere near retirement to bone up on all the claiming options so they can present the best ones to those clients. Plenty of online tools, advice books and sophisticated software are available to help advisers do just that.

Long-term care, however, is another animal.

Long-term-care insurance has been a popular supplement to help with expenses generally not covered by health insurance, Medicare or Medicaid. Over the last several years, however, LTC policies, as they are known, have become scarce as insurers struggle with low interest rates, which hurt the returns carriers earn on their bond portfolios, and longer life expectancy among the insured.

This one-two punch of low rates and longer lives has led insurers to raise premiums on existing clients and dream up ways to help clients handle them.

POLICY IN ACTION

Advisers can certainly help clients to be able to pay higher premiums, but where they are falling short is when clients have to put those policies into play.

When long-term-care issues arise for clients, emotions can quickly take over and sound decision-making can go out the window.

At *InvestmentNews'* recent Retirement Income Summit, Thomas West, an adviser with Signature Estate & Investment Advisors, told such a story, drawn from his own experience. When his in-laws suffered a long-term-care event, they wanted him to pull their investments from the stock market at just the wrong time. Mr. West was more focused on being a supportive husband and son-in-law than a financial adviser, and so he allowed the withdrawal. It wasn't the right move.

WHEN LTC ISSUES ARISE, sound decision-making can go out the window.

"When people are under a lot of emotional stress, the different parts of your brain that are responsible for objective arm's-length analytical decisions aren't firing the same way," Mr. West said.

Advisers need to know the ins and outs of LTC insurance, he said, with all the concomitant issues of funding and financial needs, tax consequences and additional planning.

For instance, did you know that there are different degrees of long-term care? There's coverage for rehabilitation, stabilization and to help manage a dignified death. Each type has different financial requirements and different outcomes.

Other LTC-related issues include: making sure clients have enough cash for unexpected events not covered by regular health care coverage, knowing which LTC expenses are tax deductible, figuring out whether clients should accelerate IRA distributions and realize gains and, finally, writing down the plan of action for the post-LTC crisis period.

As Mr. West put it: "We are telling people to plan ahead, but we're absent when something like that actually happens, and we're unable to help in the moment. That's a shortcoming."

Indeed.

A chance for change at the SEC

In the two years that Mary Jo White has been chairwoman of the Securities and Exchange Commission, she has built a record as a deal-maker willing to reach out to Republicans to get things done — even if it means disappointing the Democrats.

"Even though you are a political appointee, either in my job or my fellow commissioners' jobs, politics really doesn't come with you," Ms. White told Bloomberg News on her one-year anniversary as chairwoman.

LOST SIGHT OF MISSION

Unfortunately, that sentiment doesn't appear to have filtered down to her fellow commissioners, as evidenced by both the high number of 3-2 votes she has weathered and the ear-splitting rhetoric from some commissioners who have lost sight of the fact that the agency exists to serve investors, not their political party or agenda.

So the news last week that Daniel Gallagher, one of the two Republicans on the commission, plans to resign this year, coupled with the fact that Luis Aguilar, one of the two Democratic commissioners, will be replaced when his term expires next month, brings with it the prospect of transformation at the agency.

To be sure, the SEC always has two Republican and two Democratic commissioners, with the chair most often from the same party as the president who nominated him or her. But until recently, the poisonous and progress-killing partisanship that has infected Washington had not seeped into the SEC.

So it is with hope of a new era that we anticipate two new SEC commissioners.

Letter

Time is needed to weigh DOL fiduciary rule

Your editorial, "Killing the clock on fiduciary proposal," dismisses the wisdom of 16 industry associations who uniformly agree that time is needed to consider and provide helpful commentary to the proposed rule as requested by the Department of Labor. There are many aspects of the proposal we believe the industry will support and other aspects of the proposal for which it will suggest improvements.

The assertion in the headline that someone is "Killing the clock" is counter to the purpose of a comment period. There is nothing extraordinary about the additional time requested. It is a common request that demonstrates prudence, particularly when considering this is the single biggest rule change affecting retirees in over four decades, since the Employee Retirement Income Security Act was enacted (1974).

Kevin M. Hogan
President and CEO
Investment Program Association
Ellicott City, Md.

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VIEWPOINT

JANET ATKINSON

The industry needs real leaders

Leadership researchers from around the world — in every industry sector and domain — have seen a dramatic shift in the attributes society prefers to see in a leader. The top-down, hierarchical command-and-control style is no longer favored for every leadership situation. Character is now more important than charisma.

The financial services industry needs to take note of this phenomenon.

Consider that our industry is suffering from a severe deficit in ethical leadership. When you examine the Chartered Financial Analyst Institute's 2015 Global Market Sentiment Survey, two statistics stand out: 96% of respondents indicated there is a lack of trust in financial services, and 63% believe a deficit in ethical culture is the leading cause.

Mission and vision statements, codes of ethics, and rules and regulations have failed to serve as effective road maps for ethical discernment. Attempts to define higher professional standards in terms of "fiduciary" also will likely fail.

Recently, we came across a new term in the Urban Dictionary — ethotic — defined as an adjective relating to ethos.

If you're not familiar with the word ethos, the ancient Greeks used it to define the link or continuum between three elements: behavior, core values and decision-making. The modern expression of ethos is the continuum between leadership, stewardship and governance.

Now we can say that great individuals and organizations that demonstrate a well-defined ethos are considered to be ethotic. And that ethotic leadership is the ability to inspire and the capacity to serve others by having a well-defined framework that integrates leadership, stewardship and governance.

We believe ethotic leadership describes the style of leadership that can best serve the financial services industry. In turn, we have identified an inventory of 10 attributes that can be used to measure an ethotic leader.

OTHER VOICES

Don Trone, Mary Lou Wattman and Steve Branham

We would encourage the industry to consider these attributes when making key leadership assignments by choosing leaders who are:

1 Aligned: Have character, competence and courage. They are passionate and disciplined about protecting the long-term interests of others.

2 Attentive: Are active listeners and observant. They can promote inclusiveness and gather information about a particular situation and use it to engage others and to foster shared reflections.

3 Agile: Are not afraid to be vulnerable and recognize that they don't have to win every argument to be in control. They are able to absorb more risk and be more resilient.

4 Adaptive: Have the capacity to evolve. They are able to pivot as new ideas and challenges are presented.

5 Accepting: Can break down stereotypes, be inclusive of others and be more transparent about their feelings. They can accept uncertainty with fortitude and calm.

6 Articulate: Are genuine in both their written and spoken words and are able to adapt and customize their communications to their audience. They can be inclusive of contentious points, yet also be affable and capable of demonstrating a sense of humor.

7 Ardent: Are able to keep a sense of perspective in the face of adversity. They can see optimistic outcomes despite known risks.

8 Action-oriented: Are comfortable being a champion of others' initiatives. They may be the smartest people in the room, but won't have to prove it. They have a sense of vision and feel confident moving forward when others want to gather more facts.

9 Accountable: Can generate a greater return on investment because they are able to do more with less and collaborate with team members who have diverse talents and ideas. They focus on issues that can be controlled and won't get hung up on missed opportunities.

10 Authentic: Perhaps most importantly, we need leaders who are connected with their sense of purpose, who are passionate about their life's work and who have a well-defined process for managing key decisions.

We can better address the ethical decision-making deficiencies of our industry by focusing on the attributes of ethotic leadership. Whether we're talking about the senior-most management positions at a money management firm, bank or wirehouse, or the role of an individual broker or financial adviser, we need to develop and recognize leaders who have the ability to be the point of inspiration for moral and ethical decision making.

Don Trone, Mary Lou Wattman and Steve Branham are co-founders of 3ethos. The company conducts original research, assessments, training and coaching. Mr. Trone and Ms. Wattman recently released a book, "LeaderMetrics: What Key Decision-Makers Need to Know When Serving in a Critical Leadership Role."

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Broker industry lobbying dollars dwarf advisers'

By Mark Schoeff Jr.

Interest groups that represent the brokerage side of the financial advice industry once again have spent by far the most money lobbying for their policy agenda this year.

The Securities Industry and Financial Markets Association spent $1.98 million on lobbying in the first quarter, according to a report filed with the Office of the Clerk of the House of Representatives.

That number has held relatively steady over the last year. SIFMA, whose members span the financial services industry, spent $1.88 million on lobbying in the last quarter of 2014 and $1.86 million in the first quarter of last year.

The National Association of Insurance and Financial Advisors tallied $721,220 on lobbying during the first three months of this year, compared with $708,090 in the last quarter of 2014 and $694,328 in the first quarter last year.

The Financial Services Institute Inc., which comprises independent broker-dealers and financial advisers, spent $213,524 lobbying in 1Q, up from $177,649 in the previous quarter and $168,125 at the beginning of 2014.

The numbers are a proxy for the clout of the brokerage industry, said Duane Thompson, senior policy adviser for fi360, a fiduciary-duty consulting firm.

'BOOTS ON THE GROUND'

"They have more boots on the ground and a lot of voice in the halls of Congress," Mr. Thompson said. "You can't always go by lobbying expenditures [to determine effectiveness], but it is a strong indicator."

A proposal by the Labor Department to raise investment advice standards for brokers serving retirement accounts has been a primary focus of lobbying this year.

The fact that Democrats are now asking the agency for more time in the comment period is an indication of the lobbying muscle of brokers, Mr. Thompson said. (Republican senators last week joined the effort.)

Investment adviser groups' expenditures are a pittance by comparison.

The Investment Adviser Association spent $40,000 on lobbying in the first quarter — the same amount it spent during the first quarter of 2014, according to the House clerk's office.

The Financial Planning Coalition — made up of the Certified Financial Planner Board of Standards Inc., Financial Planning Association and National Association of Personal Financial Advisors — spent $10,000 on lobbying during the first three months of this year, and $50,000 in all of 2014, according to the Center for Responsive Politics.

> "YOU CAN'T always go by lobbying expenditures, but it is a strong indicator."
>
> **Duane Thompson**
> Senior policy adviser
> fi360

But lobbying expenditures don't capture the amount of time and effort spent plying regulators, such as the DOL or the Securities and Exchange Commission, Mr. Thompson said.

"It really doesn't show the amount of regulatory activity," he said.

The industry-funded broker-dealer regulator, the Financial Industry Regulatory Authority Inc., also lobbied during the first quarter, spending a total of $210,000, according to the Center for Responsive Politics. For all of 2014, Finra spent $870,000.

Another, bigger spender was the Investment Company Institute, mostly representing mutual fund firms. It spent $1.275 million on lobbying during the first quarter — the same amount it spent in the year-earlier period.

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ISTOCK COMPOSITE

All atwitter in social media strategy

New index analyzes what people are saying about stocks on Twitter

By Jeff Benjamin

Investing based on the sentiment gleaned from 500 million daily tweets on Twitter Inc. might sound crazy, but the numbers appear to add up.

Market Prophit, a market-sentiment research firm, has launched an index constructed and managed based on daily analysis of what people are saying about various stocks on Twitter.

The Market Prophit Social Media Sentiment Index went live last Monday, and the ultimate goal is to license it to an ETF provider, according to company founder and chief executive Igor Gonta.

"It's a crowd-sourced index," he said. "We know that people get emotional and that fear and greed fuel the market, but that sentiment has never been able to be captured as its own risk factor."

The index is constructed by measuring sentiment on Twitter, which has 302 million active monthly users, over a three-month basis. From there, the 25 most-talked-about stocks from the S&P 500 are selected to represent the index for the next 90 days.

Once the index is established on a market-capitalization-weighted basis, Mr. Gonta said an algorithm is applied to daily sentiment for each stock in the index to determine long- or short-biased adjustments at the end of each trading day.

> **302M**
> Number of active monthly Twitter users

"It works because it's based on a concept called the wisdom of the crowd," he said. "It doesn't even have to be a large group providing the chatter, as long as it's a diverse group providing the chatter."

On a back-tested basis, from July 2013 through May 8, the index generated a gross cumulative return of 52%, which compares to a 36% gain for the S&P over the same period.

INSIDER SENTIMENT

Todd Rosenbluth, director of mutual fund and ETF research at S&P Capital IQ, said the closest thing he can think of to the Market Prophit index is the $157 million Guggenheim Insider Sentiment ETF (NFO), which invests based on the insider buying and selling activity of corporate executives.

The 9-year-old ETF is up 3.7% since the start of the year, but it has had some very strong performance years, including a 36.1% gain in 2013 when the S&P gained 32.4%, a 26.8% gain in 2010 when the S&P gained 15%, and a 51% gain in 2009 when the S&P gained 26.5%.

"Sentiment is not a widely used way of putting together an index, and thus an ETF would be a novel approach," Mr. Rosenbluth said.

The index is being promoted as a smart beta strategy, which fits a broad definition of mostly index strategies that are constructed or managed in ways other than just traditional market-cap weightings.

While there isn't yet a licensing agreement in place to package the index as an ETF, Mr. Rosenbluth pointed out that all the moving parts could result in an expensive product.

"It sounds like it will be a lot more to run than a traditional index," he said. "The daily turnover, presumably, would be high, because sentiment can change rapidly."

Asked about whether the strategy could be easily manipulated by people trying to promote or degrade a specific security, Mr. Gonta said there are safeguards in place to look out for things such as multiple retweets or automated tweets.

"Twitter is a public platform, and anybody can post what they want, but we have systems in place to prevent any gaming," he said. "But Twitter is also a self-correcting platform, where the crowd does a lot of self-policing."

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Online Find out why some experts say the brokerage model isn't going anywhere. Watch the video at InvestmentNews.com/wirehouses.

WIREHOUSES WITHER

Attrition and breakaways have shrunk head counts at Big Four

By Mason Braswell

BILL BUTCHER

WHEN MORGAN STANLEY bought Smith Barney from Citigroup Inc. in 2009, it created the largest brokerage force in the industry with more than 20,000 of what the company referred to in a press release as "high-quality" financial advisers. The long-term target, the firm said at the time, was to maintain a workforce of between 18,500 and 19,000 advisers.

But in six years, that number has dropped steadily, leaving the firm with about three-quarters of those advisers, or 15,915 as of March 31.

While Morgan Stanley may be an extreme example, the wirehouses, which include Wells Fargo Advisors, Bank of America Merrill Lynch, and UBS Wealth Management Americas, have seen aggregate head count slip to 52,215 advisers as of the beginning of this year. That represents an 11% decline from 58,905 in the first quarter of 2009 following the Wachovia, Merrill Lynch and Smith Barney mergers, according to a review of company filings. Although the rate of attrition is slowing, the most recent quarterly reports show that head count at the "Big Four," aside from Bank of America Merrill Lynch, continues to tick down slightly at a rate of 1% to 3% a year.

> *"How are we going to gain market share with fewer people?"*
>
> **John Thiel**
> Head of U.S. Wealth Management
> Bank of America Merrill Lynch

While the erosion can be attributed to factors as varied as breakaways and retiring brokers, the dwindling head count presents one of the biggest threats to the wirehouses as they look to keep pace with the nation's growing ranks of millionaires, according to John Thiel, who oversees Merrill Lynch's roughly 14,200 brokers.

"The point today that is so critical is that the addressable wealth in the $1 million-plus segment is growing in every region in this country at about 8%," he said. "Would Apple have fewer stores if its addressable market was growing? Our store is an adviser, so how are we going to gain market share with fewer people?"

At the same time, advisers' capacity to build assets and boost productivity is shrinking as new standards of customer care will likely require advisers to spend more time on existing accounts, Mr. Thiel said.

"An adviser — especially as we talk about a consistent, higher standard [of advice] — reaches capacity," he explained. "There are only so many clients you can reach in this way. You're going to have to have more advisers."

Merrill Lynch's head count had been declining steadily since 2012 from more than 16,000 to just over 13,800 last year. The total recently crossed back over the 14,000 mark after the firm hired more than 1,000 trainees for its practice management development training program.

REASONS FOR DECLINE

Industry consultants and recruiters said the decline in wirehouse advisers is likely the result of a combination of factors including consolidation, breakaways and an intentional effort to expunge low producers.

An aging demographic and increased competition are two of the main factors likely to take a more serious toll

Continued on Page 16

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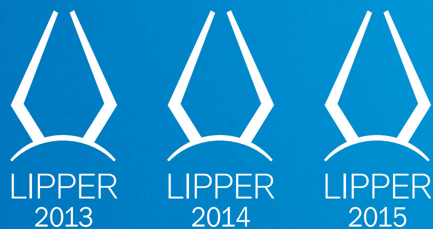

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Wirehouses

John Thiel: Learn from the past or lose out in the future

He's taking Merrill away from its traditions and moving toward goals-based management

By Mason Braswell

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ON THE WALL just inside the door of John Thiel's corner office in downtown Manhattan's World Financial Center hangs a framed handwritten note of encouragement from Daniel P. Tully, Merrill Lynch & Co.'s chairman until 1997. It is written on a printout of one of Mr. Thiel's first major memos to his brokers after he became head of the firm in April 2011.

"The past is prologue," Mr. Tully wrote, quoting William Shakespeare. "Thanks for remembering."

For Mr. Thiel, the quote, which is from a scene in "The Tempest," has come to mean that the problems from the past are destined to repeat themselves unless he can take things in a different direction.

"What he's saying is, history repeats itself in our business," Mr. Thiel reflected. "All the crises, all the excesses and all the opportunities. And it's going to keep doing that if we don't learn from it."

Mr. Thiel, who started his career in 1989 making cold calls for Merrill Lynch in a Tampa, Fla., branch, is trying to write a new chapter in the firm's history. Taking over as head of Merrill Lynch Wealth Management following the merger with Bank of America Corp. in 2009, he has pushed forward on a mission to marry bank and brokerage, overseen the investment of close to $1 billion in new financial planning software and stepped out as the first wirehouse executive to support a fiduciary standard.

"The business today is not the business that [it was]," said Mr. Thiel, 55.

25% PROFIT MARGIN

The moves have helped make Merrill Lynch into the most profitable firm compared with its wirehouse peers with a profit margin around 25%, compared to 22% at Morgan Stanley Wealth Management. Merrill Lynch also has a greater share of fee-based business and securities-backed loans and mortgages on its book, growth that Morgan Stanley and others have worked to emulate.

Mr. Thiel has made changes under the banner of goals-based wealth management and asked advisers to reflect on their "noble purpose" — why they got into the business, ostensibly to help people reach those goals.

"I was asked when I thought goals-based would be considered a success," Mr. Thiel said. "I said, 'When 100% of our clients know whether their goals are feasible or not.'"

But the moves haven't been an immediate success, particularly at a firm where many advisers take pride in Merrill's tradition or began in commission-based sales roles and differentiated themselves by their investment knowledge more than holistic planning.

The firm saw a number of departures last year of longtime Merrill Lynch veterans, some of whom managed a half-billion or more dollars in assets and cried foul at the effort to cross-sell Bank of America products — advisers can be penalized if they don't make one referral per year to Bank of America. There also were complaints that some clients had higher fees than before on the Merrill One platform, which was rolled out in 2013.

"I think it's a vocal minority that is driving this," he said of the bank's increasing role in wealth management. "There's no client who thinks this is a bad idea."

> *"I like the 'thank you' from advisers and clients."*
>
> **John Thiel**
> Head of wealth management
> Bank of America Merrill Lynch

In another controversial shift in tone, the firm has also been cleaning house under Mr. Thiel's leadership. In a couple of high-profile instances, Merrill Lynch let go longtime veterans and $1 billion-plus advisers for conduct that may have been overlooked in the past. The termination of the firm's top adviser in Indiana by assets, Thomas Buck, was for reasons that included failing to discuss "pricing alternatives" with clients.

Mr. Thiel declined to discuss specifics of personnel moves.

Asked, however, why the firm, under his leadership, is deciding just now to stand behind a higher standard of advice and focus more intensely on goals-based planning, Mr. Thiel countered that most advisers are already acting according to the higher fiduciary standard.

"[Although] clients sometimes don't want to engage you that way," he said. "It's not just us."

NOT CUT FROM SAME MOLD

Mr. Thiel said he hasn't modeled his leadership style on any previous executive's. His background bears little resemblance to the generation before him at Merrill, most of which is scattered at competitor firms. He also was never really part of the old guard, which included Greg Fleming, James Gorman and Robert McCann, who were close colleagues and executives at Merrill Lynch in the run-up to 2008 and now run Morgan Stanley and UBS Wealth Management Americas.

"I never really had a relationship with Greg Fleming," Mr. Thiel recalled. "He was president of Merrill Lynch and I was running the private banking division, so I spent a bit of time with him, but at that time he had way bigger issues to worry about."

They usually speak only when they see each other at conferences.

Mr. Thiel now is also the only head of wealth management at the wirehouses, for example, who started his career as a financial adviser. Mr. Gorman got into the industry having been a consultant to Merrill Lynch with McKinsey & Co. Mr. Thiel, by comparison, was recruited to Merrill Lynch, thanks to a recommendation from a fraternity brother.

Mr. Thiel, who stopped working with clients in 1995, aside from his mother, whom he still counsels, decided he wanted to get into management because he felt he could make a "big impact," and still has the same sense for his own "noble purpose," he said.

"I want to help people," he said. "I like the 'thank you' from advisers and clients. I think it's wonderful. It makes me feel good."

Mr. Thiel said he thinks past Merrill executives had their own version of a noble purpose, although he says "they would probably say it differently."

To keep his experiences in perspective, and gain what he calls "mature" advice, he tries to meet at least once a year with former Merrill executives, such as John "Launny" Steffans, who led the private client group for 15 years until his retirement in 2001.

"They're reevaluating their impact but from a very different perch in terms of 'what did I leave?'" he said. "I'm still thinking about what can I leave."

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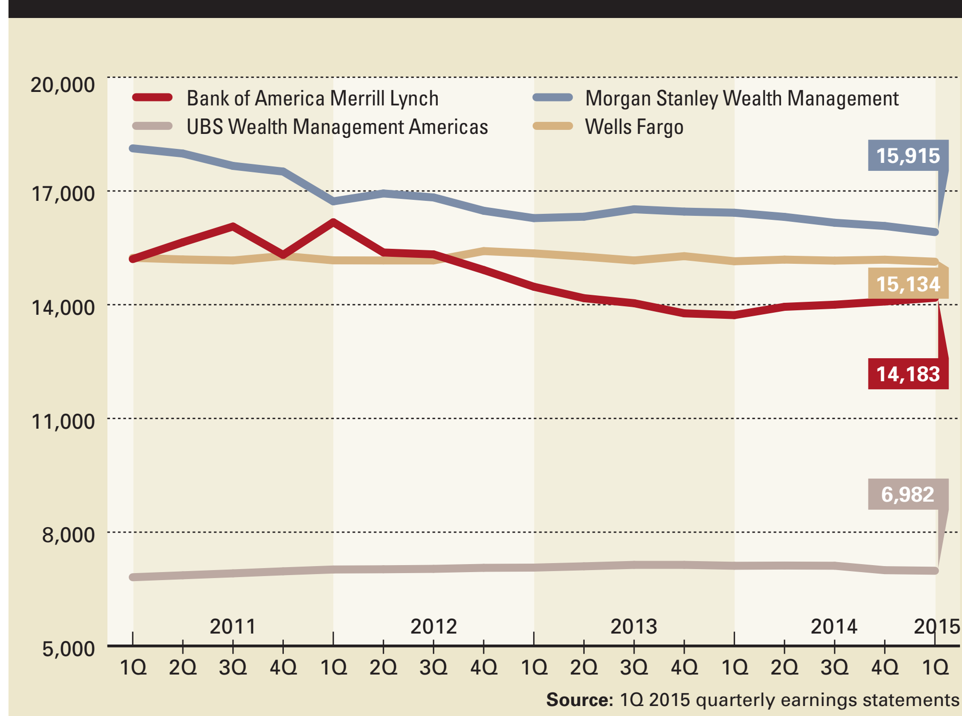
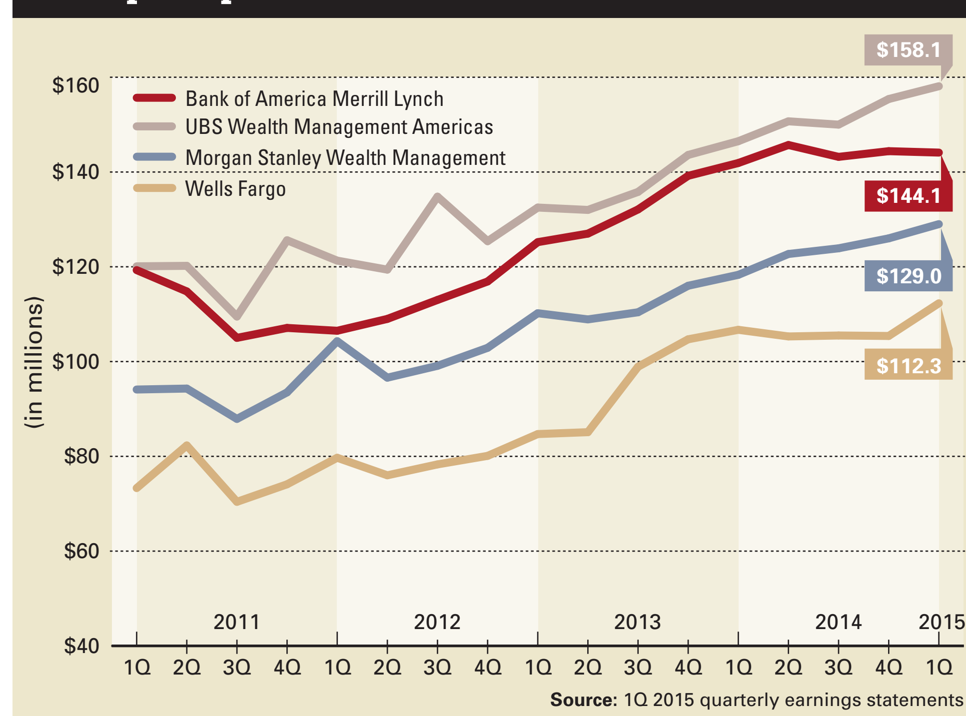
Wirehouses

How Big Four stack up

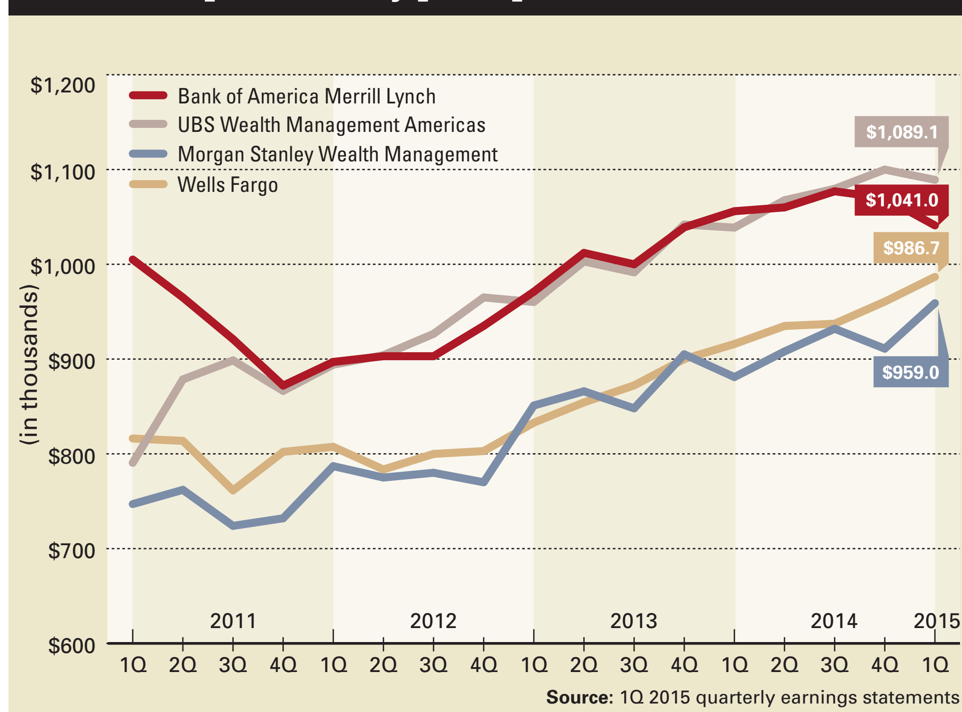
Adviser head count



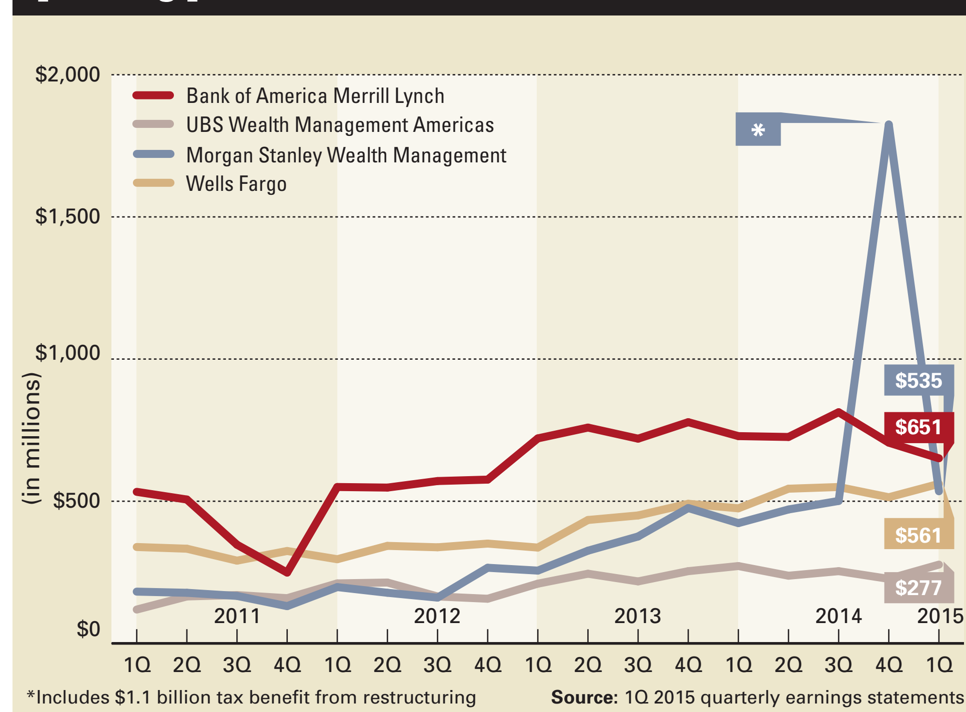
Assets per rep



Annualized productivity per rep



Operating profit / net income



GERARDO TABONES

Head count drops at wirehouses

Continued from Page 12

on head count going forward. More than 41% of advisers at the wirehouses are over 55, according to research from Cerulli Associates Inc.

"Declining [head count] is inevitable because there's no way they can replace people with recruiting as quickly as they are leaving," said Danny Sarch, founder of third-party recruiting firm Leitner Sarch Consultants. "That terrifies firms, as it should."

HISTORIC LOWS

Representatives of Wells Fargo, Morgan Stanley and UBS all declined to make officials available to discuss the issue. But a common refrain during quarterly conference calls is that head count of veteran advisers remains at historic lows.

UBS, for example, lost about 2% of its advisers over the past year, reporting 6,982 as of March 31, although company spokesman Gregg Rosenberg called the decline "consistent with our stated strategy of retaining and attracting the top producers in U.S. wealth management and keeping our adviser force at approximately 7,000."

To be sure, wirehouses have increased assets in spite of the decline in adviser head count. Morgan Stanley, which had $1.4 trillion in assets after it bought Smith Barney, has now crested $2 trillion, as has Merrill Lynch, which had $1.1 trillion in 2009.

"They're focusing on the most productive teams and not worrying too much about the overall head count," said Scott Smith, an analyst at Cerulli.

> *The wirehouses "can't train a $1 billion team."*
>
> **Scott Smith**
> Analyst
> Cerulli Associates

That outlook, however, eventually will work against firms, he added.

"Most of the firms are being forced to focus on recruiting efforts [for veteran advisers] so as not to lose market share," Mr. Smith said. "It's a slow way to hold on. Building market share is tough through training."

Training is time-consuming for firms that are investing in it, and the fact that head count isn't growing shows that firms have to do more to figure it out, Mr. Smith said.

Some firms are looking into hiring career changers while others try to target insurance agents or advisers in regional or banking channels.

Offering incentives and forming teams are other means firms have tried to fight the demographic trend.

SOME DON'T SURVIVE

Change is slow, however, and failed trainees who were unable to make it are likely part of the departures each quarter.

"You can't train a $1 billion team," Mr. Smith said.

Still, he said he wouldn't put his money on wirehouse detractors who say the declining head count is a sign the wirehouse model at its core isn't working.

"Everyone is going to try something different and have varying levels of success," he said. "But wirehouses are dominant and well-funded, and I'm not going to bet against them in this market."

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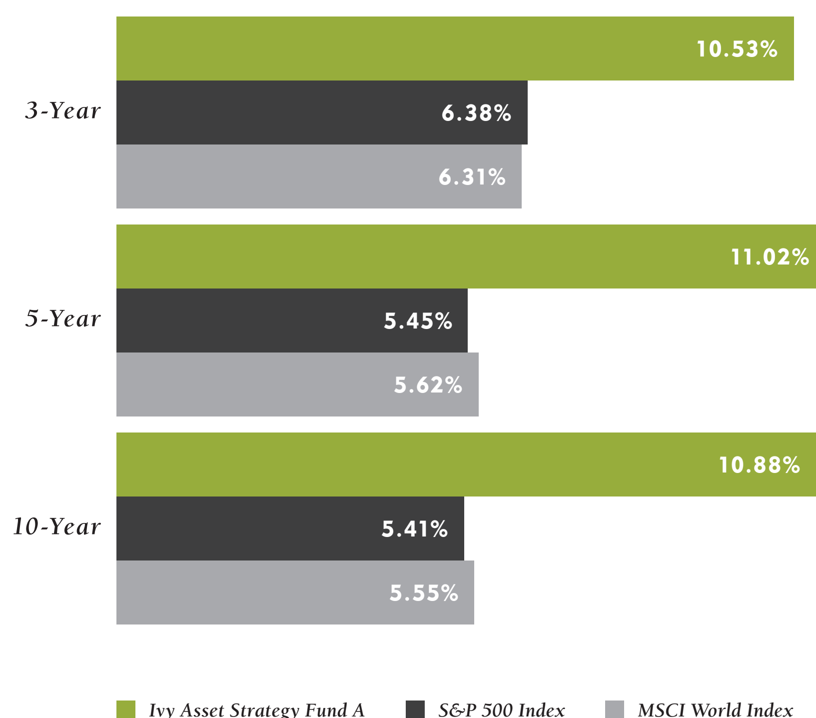
Measure Strength in Years, Not Quarters.

MONTHLY ROLLING AVERAGE RETURNS (8/1/2000–3/31/2015)
Source: Morningstar



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AVG. ANNUAL TOTAL RETURNS AS OF 3/31/2015

	1-Year	5-Year	10-Year	Net/Gross Expenses
IVY ASSET STRATEGY FUND A (NAV)	-2.28%	7.58%	10.41%	0.96%
IVY ASSET STRATEGY FUND A (Load)	-7.90%	6.32%	9.75%	0.96%

Data quoted is past performance and current performance may be lower or higher. Past performance is no guarantee of future results. Investment return and principal value of an investment will fluctuate and shares, when redeemed, may be worth more or less than their original cost. Please visit www.ivyfunds.com for the Fund's most recent month-end performance. Performance at net asset value (NAV) does not include the effect of the maximum applicable front-end sales load of 5.75%, as does the performance shown at load.

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Regulators warn public on robos

Investor alert about automated platforms also puts advisers on notice

By Alessandra Malito

The Securities and Exchange Commission and the Financial Industry Regulatory Authority Inc. jointly issued an alert to investors to be wary of automated online investment platforms, putting advisers on notice that the Wild West of robo-advice is not going unnoticed.

The regulators' alert, which was issued May 8, mainly focused on investor protection issues, particularly security.

While the alert was for investors, there was a message for advisers, many of whom have been arming themselves with their own versions of online automated platforms in an attempt to thwart potential threats from robo-advisers such as Wealthfront and Betterment.

"The number of tools out there these days for financial advisers as well as individual investors is increasing," said Sid Yenamandra, chief executive of Entreda, a cybersecurity and risk management company. "The biggest issue is security in the space."

In their alert, the two regulators listed tips for investors using or thinking of using online investment platforms, such as:

• Understand any terms and conditions, and ask the "automated investment tool sponsor whether it receives any form of compensation for offering, recommending or selling certain services or investments."

> "IT'S DEFINITELY a wake-up call. A lot of advisers are using these tools to improve productivity."
>
> **Sid Yenamandra**
> Chief executive
> Entreda

• Consider the tool's limitations, including any key assumptions — automated investment tools may only consider investments offered by an affiliated firm.

• Recognize that the automated tool's output directly depends on what information it seeks and what information is provided.

• Be aware that an automated tool's output may not be right for every individual's financial needs or goals.

• Safeguard personal information and be on the lookout for phishing or other scams designed to trick an investor into providing personal financial data.

Todd Cipperman, principal of Cipperman Compliance Services, which works with registered funds and money managers, said savvy advisers could use the investor alert to their benefit.

"I think an investor alert like that, you can think on one side it's fairly critical of online advisers," he said. "But on the other hand ... it gives you an idea of what the SEC is thinking and what they're concerned about."

COMPLIANCE GUIDELINES

As such, advisers can take advantage of this kind of alert, he said, by shaping their own compliance guidelines in response, which will allow them to stay aligned with the SEC and Finra.

"If they leverage this information properly, they can use it to communicate their value better," added Robert Sofia, co-founder of Platinum Advisor Strategies, a marketing and practice management consulting firm. "I think that has to be their message — you get the platform, but you get us too."

Also, by having a conversation with clients about the online tools and other services they can offer, advisers can better differentiate themselves from the purely automated investment platforms.

Mr. Yenamandra suggested that advisers using any third-party tools vet the services themselves and create a cybersecurity policy if they don't have one already.

"It's definitely a wake-up call," he said. "A lot of advisers are using these tools to improve productivity, but they cannot forget the security ramifications that come with that."

In the end, advisers can take the hint from the SEC and Finra to ensure the technology they're using is also working in their clients' best interests, a hot topic in the financial services industry today.

"It's an evolving technology. When websites came out in the mid-90s, I remember the SEC was very cautious and had alerts about using websites, but then it became a part of life," Mr. Cipperman said. "I don't think this is a fad. I think this is the way the world is going."

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SEC rationale for ALJ cases seen lacking

By Mark Schoeff Jr.

The Securities and Exchange Commission Division of Enforcement released guidance May 8 that outlines how it selects venues for trying enforcement claims. But the explanation of how it decides to bring cases before in-house judges rather than try them in federal court falls short of making the process more transparent and fair, lawyers said last Monday.

Among the factors considered are the nature of the case, forms of relief sought and how quickly the case can be decided. The guidance, which runs a little more than three pages, also said certain investment adviser and broker actions can only be tried in front of the SEC's own administrative law judges.

"The division recommends the forum that will best utilize the commission's limited resources to carry out its mission," the guidance states. "There is no rigid formula dictating the choice of forum."

> **90%**
> Portion of cases the SEC won in administrative proceedings from October 2010 through March 2015

Critics say the in-house procedures give the SEC a home-court advantage in enforcement cases. A Wall Street Journal study published May 6 found that the SEC won 90% of the cases it brought through administrative proceedings from October 2010 through March 2015.

Richard Marshall, a partner at Ropes & Gray, said the biggest concern about using ALJs is whether it's fair to defendants.

"The guidance is fairly vague," Mr. Marshall said. "I don't think that the standard fully addresses the fairness point. There's still a substantial element of discretion that these guidelines give staff."

DIFFERENT STANDARDS?

The guidelines don't detail whether the agency has to prove in the administrative venue that a defendant is likely to commit violations again, a standard that must be met in federal court, said Dennis Stubblefield, a partner at Shustak & Partners. In the administrative arena, a finding that the enforcement is in the public interest is sufficient, he said.

"I'm disappointed," said Mr. Stubblefield, a former SEC branch chief enforcement officer in Miami. "They have more work to do ... They're not addressing the core process by which they might make the administrative process more fair and transparent."

Thomas Gorman, a partner at Dorsey and Whitney, agrees.

"It offers virtually no insight into what can only be viewed as a 'black box' process," he wrote in his blog.

An SEC representative could not be reached for comment.

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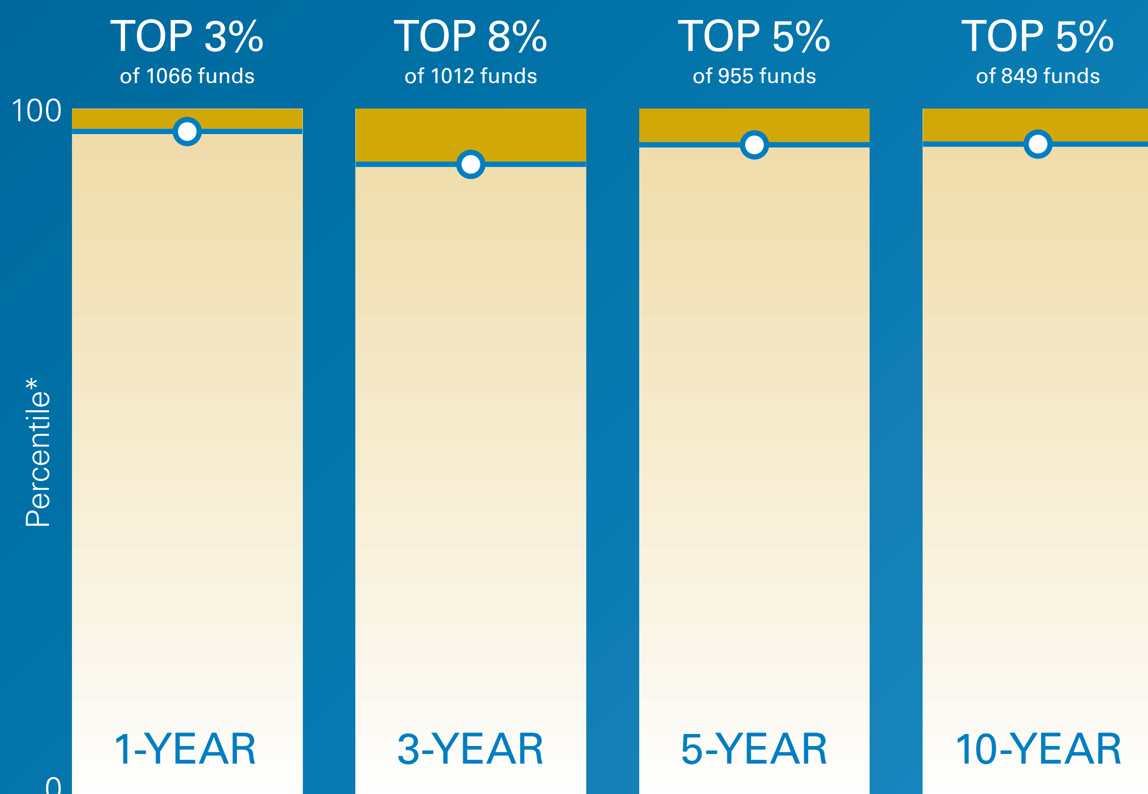
Morningstar Intermediate-Term Bond Fund Category as of March 31, 2015 — based on total returns.[2]



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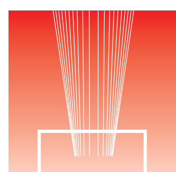

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[1] Morningstar ratings are as of March 31, 2015 and are subject to change every month. A 4- or 5-star rating does not necessarily imply that a fund achieved positive results for the period. For funds with at least a 3-year history, Morningstar calculates a Morningstar Rating based on a Morningstar Risk-Adjusted Return measure that accounts for variation in a fund's monthly performance (including the effects of sales charges, loads and redemption fees), placing more emphasis on downward variations and rewarding consistent performance. The top 10% of funds in each category receive 5 stars, the next 22.5% receive 4 stars, the next 35% receive 3 stars, the next 22.5% receive 2 stars, and the bottom 10% receive 1 star. (Each share class is counted as a fraction of one fund within this scale and rated separately, which may cause slight variations in the distribution percentages.) Class IS shares of the Western Asset Core Plus Bond Fund were rated against 905, 803 and N/A Intermediate-Term Bond Funds over the 3-, 5- and 10-year periods, respectively. With respect to these Intermediate-Term Bond Funds, Class IS shares of the Fund received Morningstar Ratings of 5, 5 and N/A stars for the 3-, 5- and 10-year periods, respectively. Other classes may have different performance characteristics. Classes have a common portfolio.

[2] Morningstar percentile ranks are based on a fund's total returns (including the effects of sales charges, loads and redemption fees) for the specified time period relative to all funds in the same category. The highest (or most favorable) percentile rank is 1 and the lowest (or least favorable) percentile rank is 100. The top-performing fund in a category will always receive a rank of 1. Ranks shown are for Share-class IS. Percentile ranks were 3% (23 out of 1,066 funds) for the 1-year period, 8% (81 out of 1,012 funds) for the 3-year period, 5% (49 out of 955 funds) for the 5-year period and 5% (40 out of 849 funds) for the 10-year period.

Once-enemy Vanguard out to win advisers' respect

Adviser unit a key leg in growth strategy for $3T manager

By Trevor Hunnicutt

When F. William McNabb III asked the Vanguard Group Inc.'s institutional-sales chief to develop a strategy to sell Vanguard funds to financial advisers in 2002, Thomas M. Rampulla said he knew it wasn't going to be easy.

"Some of the advisers, for years, had seen Vanguard as a competitor: We were a 'direct' business, and they thought we were stealing their business," Mr. Rampulla said. "We stopped paying commissions back in 1977. There's actually some old-timers who didn't forget that."

Yet in the six years that followed, Vanguard's then-adviser-unit chief, Martha G. King, Mr. Rampulla and their colleagues transformed their firm from an insurgent challenging the traditions of retail wealth management into one of the industry's greatest patrons.

It wasn't the first time Mr. McNabb, now the company's CEO, had asked Mr. Rampulla to go out on a limb. And it wouldn't be the last.

He asked the former portfolio manager to cross over into sales in the first place. And just as those efforts were starting to bear fruit, in 2008, Mr. McNabb asked Mr. Rampulla — married, with young kids — to move from Vanguard headquarters in Valley Forge, Pa., to London to build a business for Vanguard in Europe.

HOME AGAIN

Last Monday, Mr. Rampulla returned to Valley Forge to become head of Vanguard Financial Advisor Services. The once-tiny unit within the firm now accounts for half of the company's new cash, a third of its total assets and is a key leg in a business strategy that has allowed Vanguard to bring in more than half of the Morningstar Inc.-estimated $536 billion that moved into "open-end" mutual funds and exchange-traded funds over the last year.

In the process of building that business, the $3 trillion money manager transformed many of its biggest critics — financial advisers and the powerful Wall Street banks that back them — into its best customers.

Today, a fifth of Vanguard's $1.1 trillion in adviser-sold funds come from the brokerage channel. An additional quarter apiece come from the bank and registered investment adviser channels, Vanguard said.

In a feat that seemed out of reach a decade ago, when Vanguard managed just a handful of ETFs and maintained what some describe as strained relations with the top retail brokerages, 54% of advisers at the wirehouses put some client money into a Vanguard ETF last year, according to Meredith Rice, senior director at Cogent Reports, an industry research service by Market Strategies International.

In his first interview since taking the new role, Mr. Rampulla, 49, told *InvestmentNews* the firm made "a pretty good call" on positioning itself early for a wealth management industry more driven by fees paid by investors than commissions paid by product firms.

And he said the firm has successfully rebuilt its relationships with advisers across the industry as those changes have happened.

"In the early days, when we started proactively calling on the broker-dealer channel, there wasn't a lot of love for Vanguard," he said. "Over the years we've been able to show them that we can support them, that we think advice is important, and we've earned their trust."

HURDLE OVERCOME

Kelly Kuennen, a financial adviser affiliated with Stratos Wealth Partners, said Vanguard's association with passive investing was an important hurdle to overcome with advisers who don't see index-based investing as the "end-all, be-all."

(Vanguard also offers active funds and says they can be used effectively if they charge low fees. The firm's ETFs are often used by advisers who actively trade them to provide what's commonly called tactical asset allocation.)

Mr. Kuennen, who uses some Vanguard funds, also said the sense of the firm being anti-adviser also came from their approach to selling funds, which doesn't include a commission structure for advisers. The firm also avoids revenue-sharing arrangements common between fund companies and the advice firms that distribute their products.

54%
Portion of advisers at wirehouses who put some client money into a Vanguard ETF in 2014

"It definitely compressed margins for advisers," said Mr. Kuennen, who previously worked for Morgan Stanley Wealth Management, the largest U.S. wealth manager by adviser head count. "It's forced the brokerage firms to change their pricing, and that's been a bit of a negative."

In Europe, Vanguard faced a tougher challenge. The continent is a patchwork quilt of regulations, with a market historically dominated by massive banks and commission-collecting advisers promoting a limited menu of investment products, according to people with experience in both the U.S. and European fund markets.

There, too, the portfolio manager-turned-salesman was able to produce results. The firm pressed its

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low-cost message, while, in the United Kingdom, regulators banned commissions for retail advisers as of 2012. The firm went from ranking 48th among European mutual fund and ETF brands in 2008 to 23rd in March, according to Morningstar.

'IMPRESSIVE' ACHIEVEMENT

"It's impressive to see what they've achieved," said Deborah Fuhr, a partner at ETFGI, a London-based consultant who knows Mr. Rampulla. "Many of the platforms have experienced financial advisers asking for Vanguard to be on the platform."

She said the experience of working abroad also likely gave Mr. Rampulla a new appreciation for the dynamics of the industry.

"There's a benefit to seeing more of the world," she said. "They are in their own little world in Valley Forge."

"WE'RE KNOWN as the low-cost index provider, but boy, do we do a lot more than that."

Thomas M. Rampulla
Head of Financial Advisor Services
Vanguard

Now back in the States, Mr. Rampulla — an amateur cyclist who relishes difficult trails like the punishing Alto de L'Angliru in Spain — faces a market that's still competitive. As the firm unveils its partially automated investing platform, it will no doubt again fight claims it's competing with its clients.

Vanguard also remains second, to BlackRock Inc.'s iShares in U.S. ETFs.

Mr. Rampulla also feels the firm has more work to do to promote the work it does beyond what it's famous for, including in the defined-contribution business.

"There's more we can do everywhere, honestly," he said. "We're known as the low-cost index provider, but boy, do we do a lot more than that."

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ISTOCK

Global trends trip up hedge-like funds

Managed futures, hot in 1Q, slide on bonds, oil, currency markets

Bloomberg News

Clifford Asness' trend-following mutual fund was on a hot streak until a rally in European bonds and the U.S. dollar took a turn last month.

The $8.3 billion managed futures fund run by Mr. Asness' AQR Capital Management, the largest of its kind, had rallied 8.6% in the first quarter, benefiting from stable trends in the bond, commodity and currency markets. Then, in mid-April, markets turned and the AQR Managed Futures Strategy Fund slumped 6% in less than one month.

The fund isn't the only one being caught off guard. Similar strategies from Pacific Investment Management Co. and Natixis Global Asset Management, which mostly use mathematical models to wager on rising assets and falling assets, have slumped as European stocks and bonds have sold off, the U.S. dollar weakened and oil prices rebounded from a six-year low. That's interrupted the best run for these hedge-fund-like offerings in more than five years and threatens to diminish their popularity with investors.

"Several of the trends that have been driving recent results — in particular a strong dollar and declining oil prices — reversed course," said Josh Charlson, director of manager research for alternative strategies at Morningstar Inc.

2014 COMEBACK

Managed-futures funds, known for charging some of the highest fees in the industry for complex strategies usually reserved for sophisticated investors, posted lackluster returns since 2009 even as the stock market rallied for six straight years.

They made a comeback in the past year, with managed futures mutual funds in the U.S. gaining 9.1% on average in 2014, and 5.6% in the first quarter of this year, according to Morningstar. That performance helped attract $1.4 billion in the first two months of the year, including a single-month record of $800 million in January, before their streak ended.

The strategy has benefited in part from trends arising from the actions of central bankers. The ECB's purchase of sovereign debt to stimulate the eurozone drove a rally in European bonds that contributed to returns in the first quarter. The U.S. dollar's strength also continued to be a sure bet, while the Federal Reserve indicated it plans to increase interest rates.

Adviser adopts doc's methods

Discovery interviews are conducted similarly to medical history-taking

By Liz Skinner

A California advisory firm that's testing an approach adapted from medical procedures to conduct information discovery with prospective clients has found the interview technique to be effective at closing prospects and determining those who will be ideal clients.

Long Beach, Calif.-based Halbert Hargrove tested a four-step questioning process that physician Jeff Belkora developed to encourage patients to relay their health concerns to medical professionals and reveal underlying problems that may need to be addressed.

"For the longest time, we knew the right way to interview and bring clients on board was to conduct a discovery process, but we were inconsistent and got very different results between advisers," said John C. Abusaid, Halbert Hargrove's president. "This has been eye-opening for the advisers who are using it."

Halbert Hargrove has found that by getting the prospect to disclose specific, deep-seated financial concerns or issues, its advisers can more effectively tell the individual what they would do to meet those needs.

Dr. Belkora, associate professor of surgery and health policy at the University of California, San Francisco, adapted his discovery protocol to meet the needs of financial advisers as a consultant to Russell Investments, which approached Halbert Hargrove about trying out the process dubbed "SLCT," pronounced select.

FOUR-STEP PROCESS

The first of Dr. Belkora's four steps is "scribing," or allowing the prospect to talk without interruption, where the professional just writes down what is being said. The next is "laddering," where prospects are asked to elaborate and give details on issues they brought up.

The final steps including "checking," where an adviser uses his or her expertise and brings up other issues the prospect might not have thought of, and "triage," where the professional prioritizes what issues need attention.

"The most imminent items may not be the first or second things that the client discussed," Dr. Belkora said.

Medical professionals have found that doctors' appointments are stressful for patients and they tend to forget to divulge certain information that can be important to providing them with the best care, he said.

While Halbert Hargrove doesn't have hard data to offer on its close ratios, Mr. Abusaid said they are up, and that the firm is attracting more of the type of clients who fit best with the firm's approach. It is eliminating prospects who are looking for short-term results. The firm has about $4 billion in assets under management.

Initial results show clients talked more during the telephone discussions using the technique: 68% of the dialogue versus 57% of the time with the old discovery process, according to Halbert Hargrove.

A review of the study Dr. Belkora conducted with Halbert Hargrove is in the summer 2015 edition of The Journal of Wealth Management.

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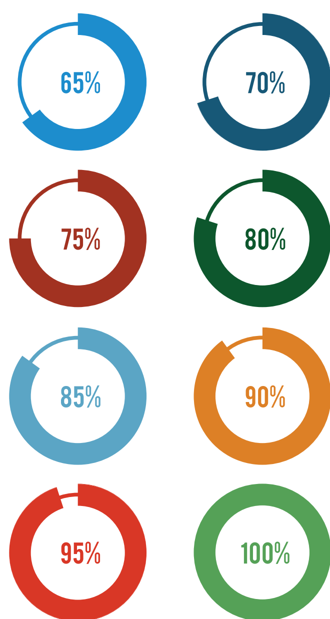

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ISTOCK

Forfeiting 401(k) match leaves $24B on the table

By Mary Beth Franklin

American workers forfeit an estimated $24 billion a year by not contributing enough money to their company 401(k) plans to capture their employer's full matching contribution, according to a newly released research report.

For the typical employee, failing to receive the full company 401(k) match leaves $1,336 of potential free money on the table each year, according to Financial Engines, the largest independent investment adviser in the country. That equates to an extra 2.4% of annual income not received. Assuming a 4.4% annual rate of return, the forfeited matching funds could amount to nearly $43,000 over 20 years.

Financial Engines examined the saving records of 4.4 million retirement plan participants at 553 companies and found that 25% of employees miss out on receiving the full company 401(k) match by not saving enough.

The vast majority of employers that offer 401(k) plans — 92% — match employee contributions, according to Aon Hewitt. The most common matching formula is dollar-for-dollar up to the first 6% of the employees' annual salary.

'GUARANTEED RETURN'

"The 401(k) match is one of the best deals going for employees, providing an immediate guaranteed return per dollar invested," said Greg Stein, director of financial technology at Financial Engines. "Maximizing your available 401(k) match is a key way for millions of American employees to improve their retirement security."

Not surprisingly, lower-income and younger employees were much more likely than others to miss out on at least part of their employer matching contribution, according to the report. For example, 42% of plan participants earning less than $40,000 per year do not take full advantage of the employer match compared to just 10% of employees earning more than $100,000 annually. Likewise, employees under 30 are nearly twice as likely to miss out on the full employer match compared to employees over 60.

However, for many employees, middle age poses additional savings challenges. Financial Engines found that the steady improvement in percentage of employees capturing more of their employer match is often interrupted between the ages of 35 and 45 and plateaus after that. While the report did not look at why the savings dip occurs, the costs of raising a family, buying a home or saving for college could make it more difficult for employees to devote as much of their savings to retirement at this stage of their lives.

"While many people might feel like they can't afford to save more, we hope that this study helps them realize that they can't afford not to," Mr. Stein said.

> "THE 401(k) match is one of the best deals going for employees."
>
> **Greg Stein**
> Director of financial technology
> Financial Engines

The report found that employees of all ages and incomes who used advisory services captured more of their employer match compared to those who did not receive advice by a margin of 26% to 15%. Although the report was based on at-work advice provided by Financial Engines, Mr. Stein noted that the company "does not have a monopoly on personal financial advice." All financial advisers can play a crucial role in helping their clients improve their chances of attaining a secure retirement, he said.

In addition to offering independent advisory services to employees, plan sponsors can improve employees' saving rates and the percentage of workers who receive the full match by automatically enrolling employees in the plan at the full match rate or automatically escalating savings rates over time until employees receive the full match, the report suggested.

Mr. Stein conceded that only a few companies currently enroll employees at the full match rate, but that could change in the future. Built-in escalation clauses to ensure employees contribute enough to capture the full employer match over time are much more common.

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More people delay claiming Social Security past 62

Among factors is advisers' advocating wait for bigger benefit

By Darla Mercado

Advisers rejoice: Retirees are finally getting the message about the benefits of waiting to claim Social Security.

A recent report from the Center for Retirement Research at Boston College shows that a declining number of people are taking Social Security retirement benefits in the year they turn 62. In 1985, 51.9% of men and 63.6% of women who turned 62 decided to claim Social Security retirement benefits. In 1996, those numbers changed to 56% of men and 62.8% of women.

But by 2013, both numbers experienced drastic declines: Only 35.6% of men and 39.5% of women celebrated their 62nd birthday and claimed Social Security in that year.

WHY WAIT?

The report's author, Alicia Munnell, who is director of the research center, pointed out that there are a variety of reasons for the shift in claiming trends. For instance, there's the increases in full retirement age from 65 to 66, effective for people born between 1943 and 1954, and age 67 for those born after 1960. Ms. Munnell also mentioned the shift from defined-benefit pension plans to defined-contribution plans as a reason why people are waiting longer to retire. "Defined-benefit plans have incentives to encourage people to retire earlier," she said. "There's a point at which the [DB] plan will pay full benefits under the full retirement age under the plan, and the benefits aren't any higher if you wait past that age."

> "IF SOMEONE says 'I don't know what to do,' then tell them to wait."
>
> **Stephen Lovell**
> Adviser
> Lovell Wealth Legacy

Reduced availability of retiree health care is another factor motivating people to stay at their desks for a few more years. "We've had rapidly rising health care costs, and a decline in retiree health insurance, which makes waiting for Medicare all the more attractive," Ms. Munnell said.

INDIVIDUAL FACTORS

Claim behavior will differ based on the circumstances of a client: An employee who participates in physically demanding labor may be reluctant or unable to keep doing that work until full retirement age.

But advisers are saying that more clients are asking when might be the best time to start claiming benefits, and increasingly, the best answer is to wait. Those who hold off until full retirement age receive full benefits, and those who wait until age 70 receive an 8% boost in income for each year they defer after full retirement age.

Meanwhile, not understanding all claiming options, such as for widows, can be costly for clients, as *InvestmentNews* columnist Mary Beth Franklin explained in a recent blog post.

When clients ask Stephen Lovell, an adviser with Lovell Wealth Legacy, he has a question for them in response: "Do you think you're lucky?"

"If so, and you live longer than the life expectancy, then if you claim later you get more in net present value dollars," Mr. Lovell said. "If someone says, 'I don't know what to do,' then tell them to wait. You're insuring against the unknown."

ISTOCK

It's easier to tell clients to wait to claim if they're married, too. "There are other factors that come into play, and then it's highly advantageous, usually, for the spouse with the higher salary to wait until 70," Mr. Lovell said.

At the very least, the shift in claiming trends suggests that many workers are getting the message about the benefits of waiting. "We're always exhorting people to work longer and claim later," Ms. Munnell said. "It seems like people are doing that. It's nice to see that progress."

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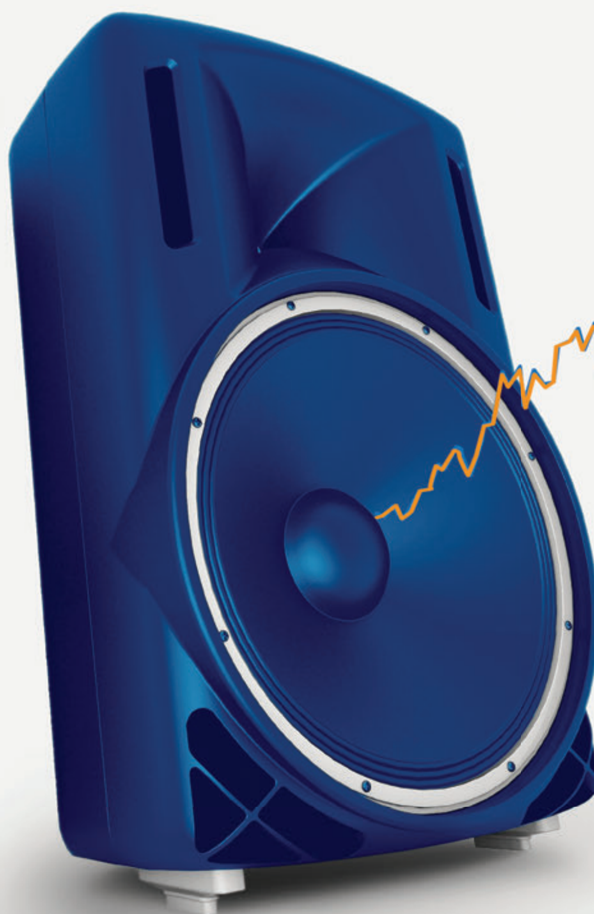

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FIGGE PHOTOGRAPHY

Bill Gross: Is pledging to donate his entire fortune to charity.

Gross' greatest project: Giving it all away

Bond King has donated $700 million to charity so far, $2B left to go

Bloomberg News

Count Bill Gross among the world's biggest philanthropists.

The bond investor has already given away as much as $700 million and eventually will donate his remaining $2 billion fortune, a figure that's "staggering, even to me," he said in an interview on Bloomberg Television.

"I define success differently now than five or 10 years ago," Mr. Gross said in the interview recorded April 29 at his office in Newport Beach, Calif. "Success in the early years was business-related, and asset growth-related, and of course, with family was related to how well your son or daughter was doing on the soccer field." Today, "success becomes a function of what we can do with the rest of the world, to help others," he said.

Mr. Gross, 71, amassed his wealth as co-founder of Pacific Investment Management Co. and built his reputation as the "Bond King" by generating years of industry-leading returns as manager of the Pimco Total Return Fund. In 2013, when the firm's assets approached $2 trillion, Pimco paid him a bonus of $290 million.

The same year, activist investor Carl Icahn, in a taunt on Twitter, challenged Mr. Gross to join other billionaires in leaving the bulk of his wealth to charity. Two days later, Mr. Gross said he and his wife, Sue, would give it all away.

Until now, Mr. Gross hadn't discussed his total giving to date.

"Sue and I try and keep it quiet," he said. "We're not the type to attend functions and parties and galas. We like to work underneath, so to speak."

STAMP GALLERY

While Mr. Gross may donate with less fanfare than other billionaires, he's hardly anonymous. There's a William H. Gross Stamp Gallery at the National Postal Museum in Washington; a Sue & Bill Gross Stem Cell Research Center at the University of California, Irvine; and a Sue and Bill Gross Skywalk at the Cedars-Sinai Medical Center's Advanced Health Sciences Pavilion in Los Angeles.

The couple, who live in Laguna Beach, Calif., do most of their giving out of a family foundation that mainly supports health care, medical research and education. They've also made personal gifts to needy American families. More recently, Mr. Gross said he's taken an interest in GiveDirectly, an organization that makes targeted donations via mobile payments to the extremely poor in Africa.

> "WE'RE NOT the type to attend functions and parties and galas. We like to work underneath."
>
> **Bill Gross**
> Portfolio manager
> Janus Capital Group

"Most Africans have cell phones, which is hard to believe," Mr. Gross said in the interview. "So if you can do that and contribute $25 or $50 to someone in Uganda that of course you haven't met, that's almost as good as outperforming the market."

GIFTS IN THE PAST

In 2005, Bill and Sue Gross gave $23.5 million to Duke University, his alma mater. Other major gifts include $20 million to Hoag Memorial Hospital Presbyterian in Newport Beach, also in 2005; $10 million to the University of California, Irvine, in 2006; $20 million in 2012 to Cedars-Sinai in Los Angeles; $20 million in 2013 to the medical charity Mercy Ships to fund the construction of a floating hospital; and $10 million to Mission Hospital in Laguna Beach in 2014.

These days, Mr. Gross isn't accumulating wealth like he once did; he now runs a $1.5 billion fund for Janus Capital Group Inc., tiny compared with the $293 billion flagship he once oversaw at Pimco.

Some of the couple's fortune is invested in that vehicle, the Janus Global Unconstrained Bond Fund. Mr. Gross detailed some of his other investments, personally and on behalf of the foundation. They include closed-end municipal bond funds and stocks such as Procter & Gamble Co. and Johnson & Johnson.

Mr. Gross said he and his wife don't expect to live long enough to give away everything and so his three children will have to finish the job.

Reflecting on mortality in his most recent monthly investment outlook for Janus, Mr. Gross wrote: "The 'responsibility' for a life's work grows heavier as we age and the 'unrest' less restful by the year."

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Having kids late puts a tangle in financial plans

Bloomberg News

There's more and more gray hair at parent-teacher night. In the past 20 years, fewer Americans have been having kids in their teens and 20s and far more are becoming parents in their late 30s and 40s.

Since 1995, the birth rate for mothers in their late 30s is up 45%, and moms are 58% more likely to give birth in their early 40s.

There are great reasons to wait to have kids. Older parents are often wealthier, more mature and further along in their careers. But becoming a parent late in life can also really complicate your clients' finances.

Bloomberg Business asked financial planners what issues parents should prepare for when they're caring for children well into their 40s, 50s and 60s. Here's their advice.

Not gonna live forever

All parents need to think about what happens after they're gone. But for older parents, wills, estate planning and life insurance become crucial. The 55- to 64-year-old parent of a college student is almost five times as likely to die in a given year as one in his or her late 30s or early 40s.

Bryan Beatty is a 47-year-old financial planner who welcomed his first child in March. When babies are born, the parents are focused on feeding schedules and fighting sleep deprivation, not on wills and trusts. Still, "they should do it right away," said Mr. Beatty, a partner at Egan Berger & Weiner.

Particularly important is choosing a guardian in case anything happens to you. Many young couples choose the baby's grandparents, but that might not be an option for those whose own parents are in their 70s or 80s.

ISTOCK

Buy enough insurance

The older your clients are, the more expensive life insurance is. And they may need more coverage than they expect, says Jane Nowak of Wealth & Pension Services Group. Her rough guideline for how much a client might need: Start with five years of current living expenses — enough to replace one's income for a while, though not forever — then add up all the expenses the client would like to cover for their children after that, from private school and college to weddings.

Employees often can buy some insurance through their jobs. Qualification is usually automatic, but healthy employees may find better prices elsewhere, planners say. Another advantage of life insurance outside work is that it can follow your client from job to job. Ms. Nowak suggests locking in a 30-year term life insurance policy.

Keep updating paperwork

The will and the insurance policies for a 40-year-old mother of a baby aren't going to work when she becomes the 58-year-old mother of three teenagers. Planners notice their clients have a scary tendency not to update paperwork.

For example, the beneficiaries on insurance policies and investment accounts need to be kept current. One of Ms. Nowak's clients forgot to add a second son to the life insurance policy. It wasn't noticed until he was 15. If his parents had died in the meantime, his older brother would have gotten the entire death benefit. Guardians also need updating; they get older or die. Wills may need to be rewritten if your client moves to a new state.

Put retirement savings ahead of college

It's tough under the best of circumstances for people to max out contributions to their 401(k)s and individual retirement accounts. It gets a lot tougher if they're also raising kids and saving for college, said Mitchell Kraus of Capital Intelligence Associates.

Younger parents may not be able to save as much for retirement in their 20s and 30s, when savings would have had decades to compound. But these parents can make up for lost time after the kids are out of the house, a period that often corresponds with the parents' peak earning years.

Older parents, meanwhile, have no room for error. Their children may be heading for college just as they're readying for retirement. Unless they saved a lot when they were younger, they may need to make tough choices between tuition and catch-up contributions to IRAs and 401(k)s. Working further into your 60s is one strategy for older parents, but it's not a reliable one. Many end up retiring before they'd planned.

They aren't without options for saving for college, though.

For example, the child of a parent receiving Social Security benefits may also be able to collect a check, if the child is under 18 and the parent is above the full retirement age.

Older parents can also use the tax advantages of 401(k)s and IRAs for college expenses, though the strategy has risks. All parents can use 529 college savings plans, which offer tax benefits as long as the money is used for education. Some parents may be old enough to tap 401(k)s and IRAs penalty-free while their kids are in school. Retirement accounts have flexibility that 529s don't have. They're also rarely counted in financial aid decisions, while 529 plans sometimes are.

But strategies that blur the distinction between college savings and retirement are dangerous, planners said. Retirement needs should always come first.

"There are a lot of ways your child can go to college," Mr. Beatty said. "There are not a lot of ways you can retire."

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PRACTICE MANAGEMENT
Joni Youngwirth

Megatrends facing younger advisers

To maintain profitable practices, they'll have to embrace robos, delegate tasks and merge firms

Every day, we read about how our industry is shrinking, as older advisers retire and fewer younger advisers take their places. Simultaneously, offerings in the robo-space continue to evolve, while existing advisory practices — particularly solo practitioners and smaller ensembles — face mounting obstacles to maintaining scale and profitability. How will these developments affect younger boomer advisers, as well as those from Gen X and Y, in the future? Let's take a closer look.

RISE OF THE ROBOS

Though the concept of robo-advice is relatively new, it has already gone through many permutations. What is emerging is a human-machine interface that will be increasingly embraced, if for no other reason than necessity.

With fewer advisers doing more work for a greater number of clients, advisers will have to use technology to help manage the more-commoditized aspects of fulfilling clients' needs. As time goes on, investment management may become one of those services, especially given the adoption rate of exchange-traded funds and other passively managed funds.

Likewise, robo-based services will become more acceptable to clients of all ages (not just millennials) and will likely become sufficiently advanced to meet a wider range of needs. Until artificial intelligence becomes mainstream, though, I don't expect robo-advisers to supplant advisers in providing comprehensive wealth management or relationship-based services to clients.

DEFINED CLIENT SEGMENTS

To be sure, some clients will receive all the financial advice they need from a robo-adviser. As a result, advisers will need to ensure that they have precisely defined client segments so they know which services and which clients can be delegated to a robo. Even certain A- and B-level clients may receive at least some components of their service via a technology-based platform. But where robos today are separate offerings, I see the robo of the future as a technology platform integrated with and overseen by the adviser's business.

This will essentially eliminate the controversial concept of pruning clients, as the adviser will "insource" services for certain clients to his or her own technology platform, thereby freeing up time to spend with the clients who want or need more intensive work.

INCREASED DELEGATION

Of all the changes that advisers will need to make in the future, increased delegation may be the most essential. First, advisers will need to delegate the delivery of financial advice by tapping customer service personnel and paraplanners to a greater extent than they do today. This will require a firm to employ more financial planners with varying levels of sophistication and skill to align appropriately with different client segments.

Advisers who have undertaken administrative tasks also will need to delegate or create new roles to handle those functions. Furthermore, more advisers will look to share the responsibilities related to being a business owner. They will not have the time to be CEO, CFO, the HR department, the technology department, the marketing department and the plant manager — a common scenario we see with many small businesses today. And this is what will fuel the last shift.

MERGED PRACTICES

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More advisers in the future will choose to merge their practices with others so they can focus on meeting the needs of a larger number of clients, while delegating or sharing resources for managing the business. With this shift, we will see larger and more complex firms emerge. Individual managers of HR, technology and marketing will support advisers, but everyone will be overseen by a CEO. Managing partners will become more the norm and less the exception.

Throughout this evolution, advisers will need to stay focused. Although the number of clients served may increase, there obviously can be no commensurate change in the amount of time available to work with them.

To not merely survive but to thrive in this industry of the future, advisers should be prepared to be good team players and managers and not necessarily the top dog who calls all the shots. And they need to be ready to embrace technology as the platform that can help get them there.

Joni Youngwirth is managing principal of practice management at Commonwealth Financial Network.

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Look in the mirror, say ‘You’re fired!’ and start over

Changing of the guard is reinvigorating, even if it’s only symbolic

I was intrigued when Elliot Weissbluth, founder and CEO of fast-growing RIA HighTower Advisors, shared this idea on my recent podcast.

“I really go through the process of terminating myself and then I rehire myself. I write in my journal what are the things I did that led to my termination and then what are the things that I, as the new CEO, will do differently,” he said.

The process works because the “psychological freedom” you gain by distancing yourself from the guy who made last year’s decisions is “quite liberating.”

A SOLOMON-LIKE DECISION

The genesis of this “fire yourself” idea goes back to a 1985 conversation between Andrew Grove and Gordon Moore of Intel Corp.

At the time, Intel was losing millions of dollars on its flagship memory chip business and it had to make a big decision. Should the firm gut it out in the fiercely competitive memory chip business or bet the company on the relatively new microprocessor business?

To make this Solomon-like decision, senior executive Mr. Grove turned to co-founder Mr. Moore and asked, “If we got kicked out and the board brought in a new CEO, what do you think he would do?”

Mr. Moore answered without hesitation, “He would get us out of memories.” Mr. Grove responded, “Why shouldn’t you and I walk out the door, come back and do it ourselves?”

The rest is history. Intel went on to become one of the greatest success stories and Mr. Grove ranks as one of the all-time best CEOs.

PUSH THE RESET BUTTON

Mr. Weissbluth took this “fire yourself” idea to heart.

Things change so quickly in a fast-moving company that “you have to push the big reset button in your brain and say, ‘look, the CEO the company needed last year is not the CEO the company needs next year and certainly not the CEO the company needs in two years,’” he said.

When you peel the onion back a bit on this idea, you realize the genius of Mr. Grove’s question and the wisdom of Mr. Weissbluth in adapting it to his business.

Inertia is a powerful force. Most of us prefer the status quo. Most of us don’t change until we’re forced to, or worse, until it’s too late.

This is why when companies get in trouble, they often fire the top dog and turn to the outside for new blood. The thought is the old boss is too emotionally invested in the “old way” of doing things to adapt to the company’s “new” reality.

Firing yourself each year enables you to reexamine, retool, and restart in a deliberate way.

Mr. Weissbluth engages his management team in this exercise, too.

“I also do this same exercise with the management team. In the middle of the summer, we go up to our CFO’s house in Michigan and we fire ourselves. Then we hire ourselves back and discuss the things we’re going to do differently. The process of being clear of what you did the last year and then being able to have a blank slate is really powerful.”

In fact, you could have every employee in your company complete this exercise each year.

As Mr. Grove wrote in his book, “Only the Paranoid Survive,” “If existing management want to keep their jobs when the basics of the business are undergoing profound change, they must adopt an outsider’s intellectual objectivity.”

With the objectivity of an outsider, you lose your emotional attachment to the “sequence of events that led to the present mess” and free yourself to make decisions from a fresh perspective, Mr. Grove wrote.

THE PROCESS of ... being able to have a blank slate is really powerful.

ACTION STEP

Implementing this idea is simple.

1. Write down, “You’re fired,” on a piece of paper.

2. Then list several reasons why your services are no longer needed.

3. Lay out a new plan to build your business unencumbered by existing strategies.

I just completed this exercise myself and the bad news is, it’s easy to see why I was “fired” from my executive coaching and business strategy company, Belay Advisor.

The good news is, the path required to get my business where I want it to be are clear and this exercise was a simple but powerful way to force me to confront reality.

MORE GEMS

Mr. Weissbluth shared several more gems in the podcast interview, including:

2. The one business metric all RIAs should track.

3. The three keys to building a thriving RIA in the years ahead.

4. Who will be disrupted by robo technology.

There’s reasons why people like Mr. Weissbluth can build a $30 billion RIA firm in less than 10 years:

1. They see big secular shifts and opportunities and they go for it.

2. They assemble a team of experienced pros.

3. They develop detailed plans yet have the flexibility to “fire” themself and adjust as reality warrants.

Steve Sanduski is an executive coach, business strategist and founder of Belay Advisor. Follow him on Twitter @SteveSanduski.

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ON SOCIAL MEDIA

Kristin Andree

How to make the most of Facebook

With 936 million daily active users, it can be a critical tool in your marketing arsenal

Of all the major social media platforms, Facebook seems to be the one most often questioned as to its value for financial advisers. While there are certainly pros and cons to the site, the fact remains that with 936 million daily active users as of March 31 (and 1.44 billion monthly active users), Facebook is not to be ignored. With this audience, it is hard to argue against its place in your marketing arsenal.

So, the question remains: How do you effectively manage this tool? While it is relatively safe to assume people are not using Facebook as their primary source for financial advice, they are using the site, which presents a great opportunity for advisers in the areas of branding, marketing and engagement.

Establishing your presence on the site is the first step in making the platform work for you and your practice. Many of our clients question whether they should have a personal profile, a business page or both (with some advisory firms making that decision for you by outlining which type of pages are allowed).

Personal Profiles

With a "personal" page, an adviser has the opportunity to allow "friends" a glimpse into their life and to showcase family, hobbies, interests and even professional happenings. With personal pages, however, you will want to decide who you are comfortable connecting with (e.g., staying away from total strangers) and what type of content you are comfortable sharing.

Business Pages

Facebook "business" pages offer advisers another opportunity to brand their business and get their names out there. Recent changes to Facebook seem to make it harder and harder for a business' posts to be seen by its audience (as preference is given to those who pay for ads and sponsored content). But with smart, strategic marketing, you can still make your mark.

Personal vs. Business

I vote for both! You can best leverage the power of Facebook by building a solid personal page, where you can engage with friends and associates and establish a robust business page to share information with a broader audience. This will create a larger digital footprint for you and your practice.

Once your pages are set up, how do you make the most of your efforts?

Building Your Audience

Start by building your followers:

- Invite your Facebook friends to like your business page.
- Send out an e-blast asking clients and prospects to join your Facebook community.
- Add a Facebook icon with a hyperlink to your email auto signature.
- Ensure your website has a link to your Facebook page (along with your other social media profiles).
- Make sure each of your social media channels contains links to each other.

Status Updates

As your audience starts to grow, make regular status updates to your page. As viewers aren't typically visiting your page seeking advice, not all of your posts need to be about financial topics. Include articles relevant to your target market, motivational quotes and pictures from client appreciation events or charitable events. Share information on speaking engagements or networking events in which you will be participating. Include pictures or video to give your post greater reach.

Facebook analytics can also give you great insight into which of your status updates are garnering the most engagement so you can craft similar posts.

Engagement

For archived columns, go to InvestmentNews.com/onsocialmedia

Pay attention to what your Facebook friends and followers are talking about and participate in those conversations. This can be a tremendous way to build or to strengthen relationships with those you are connected to. After all, people do business with those they like and trust, and sometimes the commonalities we learn online (such as a love for animals, or a passion for a particular cause) might be just the thing to steer someone in your direction.

As a personal example, I met a gentleman at a speaking engagement I gave some months ago, who I later connected with online (as happens with many of the advisers I meet at various events and conferences). After we connected, we learned that we, along with our children, were all competitive in the sport of tae kwon do. That commonality created an instant talking point, and after engaging in a few fun discussions around the topic, we moved on to talking business and are currently working to schedule a workshop for his firm. You never know what opportunities your online connections may present.

Kristin Andree (kristin@andreemedia.com) is president of Andree Media & Consulting.

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Generating income with ETFs: An adviser's guide

Demand for these products isn't going away anytime soon

With nearly 10,000 baby boomers retiring every day, it is no surprise that income has become a quest for advisers and their clients. The demand isn't going away anytime soon, a realization that many exchange-traded-fund providers have embraced. In fact, of the top 15 ETF providers in the U.S., every single one offers at least one product that is focused on providing current income.

There are over 500 ETFs that yield better than the 10-year U.S. Treasury.

Given the large universe of income-focused ETFs, there are many factors to consider when analyzing the choices. For instance, there are various categories of income, each with different returns, risks and taxation. Here is a look at three groups: equity income, fixed income and alternatives.

Equity income

Dividends have long been a crucial element of returns in the stock market. There are several ETFs that focus on dividend payers or growers that allocate across the globe. While equity yields have historically been lower than fixed income, the longer-term potential for capital appreciation is higher and, while these ETFs generally carry more volatility than bonds or alternatives, they can have less volatility than the overall stock market.

Keep an eye on the concentrations of sectors or countries inside ETFs in this category, as they might hold a few surprises.

Generating income with equity ETFs will, of course, have tax consequences. Dividends (both qualified and ordinary) are passed through to ETF investors. Qualified dividends will be taxed at the lower dividend and capital gains tax rate (15% for most taxpayers) and ordinary dividends will be taxed as ordinary income. To be classified as a qualified dividend is a matter of time — both for the investor and the ETF's holdings.

The investor must own the shares 60 days prior to the ex-dividend date, and a further 60 days following (121-day window including the ex-date). On top of this, the ETF itself must own each underlying dividend-paying stock for the same 121-day window. ETF providers manage this within their funds and publish the percentage of dividends paid that were qualified at the end of the year.

Tax-sensitive investors looking for dividend income should investigate the rebalance frequency of the ETF; semi-annual or annual rebalancing will lower the chances of the ETF's paying out dividends that are not qualified.

Fixed income

There are over 250 U.S.-listed ETFs dedicated to fixed income, including short, intermediate, long, Treasury, corporate, municipal, emerging, inflation-linked, high-yield, floating-rate and others. Given the breadth of available choices, the pros and cons of each type are beyond the scope of this discussion; however, keep this in mind: If something seems too good to be true, it probably is. Higher interest rates and/or credit risk demands a higher yield and vice versa. If one of those

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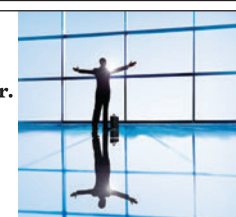
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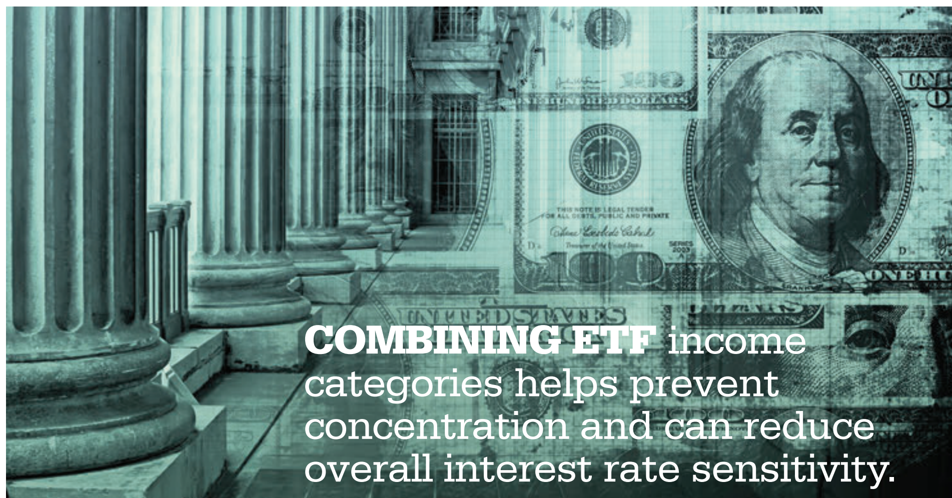
risks cannot be identified, then something is likely being overlooked.

Fixed-income ETFs pay shareholders' interest payments passed through from the ETFs' underlying bonds and there are a few different ways these are taxed. Corporate bond interest is taxed as ordinary income; this may also include mortgage-backed and most agency bond interest. Outside of corporate bonds, both Treasury and municipal bonds enjoy some tax benefits. Interest on U.S. Treasury obligations and some federal agencies is taxed only at the federal level. The opposite is true for municipal bonds where interest is exempt from federal taxation. Finally, if an investor owns municipal bonds (or municipal bond ETFs) and lives in the state of issuance, interest is exempt from both federal and state taxes.



Alternatives

Preferred stocks, real estate investment trusts, master limited partnerships and some more-esoteric vehicles that can fit into the ETF structure are extremely popular tools for generating income. These type of vehicles can be quite interest-rate-sensitive and can have other risks as well. Many preferred stocks are issued by banks and can be affected by bank earnings and regulatory changes. REITs are sensitive to changes in the real estate market, and MLPs can be affected by large swings in commodity prices.

To complicate things further, there is little consistency to how these income alternatives are taxed. Preferred-stock dividends are generally qualified, while REIT dividends are usually not qualified and thus taxed at the ordinary income rate. MLP ETFs have complex tax treatments that range from qualified dividends to return of capital, depending on the amount of pure MLPs the ETF holds. Other potentially high-yielding alternatives may have unfavorable tax treatments, so it is important to keep those in mind before investing.

Finally, there is another source of income that comes with almost all traded securities: capital appreciation. It is a very basic yet often forgotten method to support clients' needs. In this age of zero rates, capital appreciation is as important as ever, and potentially more efficient as current U.S. tax policy allows for taking long-term gains at the same reduced tax rate as qualified dividends.

Many advisers and clients focus on only one of these aforementioned sources of income or fail to diversify within them. Combining them in a risk-managed asset allocation helps prevent concentration and can reduce overall interest rate sensitivity inherent to many income-oriented investments.

Grant Engelbart is a portfolio manager at CLS Investments.

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SEC's whistleblower program is a game changer

The following is an edited transcript of an April 30 speech by Securities and Exchange Commission Chairwoman Mary Jo White before the Ray Garrett Jr. Corporate and Securities Law Institute at Northwestern University School of Law in Chicago.

What I have chosen to talk to you about today is the SEC's whistleblower awards program, established by the Dodd-Frank Act in 2010. The program, while clearly still developing, has proven to be a game changer.

Whistleblowers and awards for their information were, of course, around long before Dodd-Frank. The IRS and [Occupational Safety and Health Administration] have had whistleblower programs for many years; the False Claims Act has had a whistleblower provision dating back to 1861; and the Dutch enacted a law in 1610 that banned naked short selling — defined then as selling more shares than were owned in a registered account — and provided for whistleblower awards. Offenders could have their sales canceled and be assessed a penalty amounting to one-fifth of the value of the transaction, a third of which could be awarded to a whistleblower, with another third going to relief for the poor. The remaining third went to the officer who imposed the fine — I am glad I do not have to oversee that particular aspect of the incentive structure.

There have always been mixed feelings about whistleblowers and many companies tolerate, at best, their existence because the law requires it. I would urge that, especially in the post-financial-crisis era, in which regulators and right-minded companies are searching for new, more aggressive ways to improve corporate culture and compliance, it is past time to stop wringing our hands about whistleblowers. They provide an invaluable public service, and they should be supported. And, we at the SEC increasingly see ourselves as the whistleblower's advocate.

PROGRAM A SUCCESS

It has been nearly four years since the SEC implemented its whistleblower program. While still evolving and improving, we have enough experience now to take a hard look at how the program is working and what we have learned. Overall, I am here to say that the program is a success — and we will work hard at the SEC to build on that success.

BLOOMBERG

> *"It is past time to stop wringing our hands about whistleblowers. They provide an invaluable public service."*
>
> **Mary Jo White**
> Chairwoman
> SEC

The volume of tips has been greater and of higher quality than expected when the program was first adopted. We have seen enough to know that whistleblowers increase our efficiency and conserve our scarce resources. Importantly, internal compliance programs at companies also remain vibrant and effective ways to detect and report wrongdoing. But despite the success of our program, the decision to come forward, especially in the face of internal pressure, is not an easy one.

The ambivalence about whistleblowers can indeed sometimes manifest itself in an unlawful response by a corporate employer, and we are very focused at the SEC on cracking down on such misconduct. We want whistleblowers — and their employers — to know that employees are free to come forward without fear of reprisals. In 2014, we brought our first retaliation case and, this month, our first case involving the use of a confidentiality agreement that can impede whistleblowers from communicating with us. This latter case has generated some controversy, which I will address shortly. But, first, let's look a bit closer at the four-year track record of the program.

OFFICE'S HISTORY

Our whistleblower office was fully operational by mid-2011. In fiscal year 2014, the SEC received over 3,600 tips (about 10 a day), which is up from about 3,200 tips in [fiscal] 2013. In the first quarter of this year, we have seen the numbers increase again — by more than 20% over the same quarter last year. And tips have come from whistleblowers from all 50 states and 60 foreign countries.

The tips span the full spectrum of federal securities law violations. Most commonly, they relate to corporate disclosures and financial statements offering fraud and market manipulation, but we have also received important tips about, for example, investment adviser fraud and broker-dealer rule compliance.

As the program has grown, not only have we received more tips, but we also continue to receive higher-quality tips that are of tremendous help to the commission in stopping ongoing and imminent fraud, and lead to significant enforcement actions on a much-faster timetable than we would be able to achieve without the information and assistance from the whistleblower. The program has also created a powerful incentive for companies to self-report wrongdoing to the SEC — companies now know that if they do not, we may hear about the conduct from someone else.

Whistleblowers have provided us with original information leading to the opening of new investigations, "insider" views as to how a company approaches its disclosures to investors and highly technical analyses of rapidly evolving fraud schemes. Whistleblowers also have testified at temporary restraining order or asset freeze proceedings, enabling our staff to stop fraud schemes before investor losses mount; they have identified additional witnesses and encouraged those witnesses to come forward; and they have explained documents to enhance our understanding of cases.

In order for a whistleblower to receive an award, he or she must voluntarily provide the commission with original information that leads to a successful SEC enforcement action or related action with monetary sanctions exceeding $1 million. If those criteria are met, the whistleblower may apply for an award, which can range between 10% and 30% of the amounts collected in the case. When deciding how much to award in that range, we consider a number of factors. Factors that favor a greater percentage include highly significant information, crucial assistance by the whistleblower, the importance of the law enforcement interest advanced, and the whistleblower's cooperation with the company's internal compliance systems. Factors that weigh against a higher award include the culpability of the whistleblower, delay in reporting, and interference with a company's internal compliance system.

A total of 17 whistleblowers have thus far received awards. Payouts have totaled nearly $50 million and we have made individual awards in excess of $1 million three times. Our

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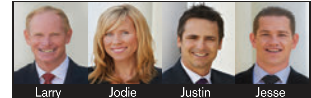

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highest award to date is over $30 million. In the last fiscal year, the commission issued more awards to more people for more money than in any previous year — and that trend is expected to accelerate.

Administering the whistleblower program has presented a number of challenges for us. For example, our whistleblower office must address claims from "serial submitters" who file a claim for virtually every case in which over $1 million in sanctions is awarded, even when there is no connection between their tip and the case. Work by the staff is required to thoroughly assess every claim and make recommendations to the commission even when the award claims have no basis. And, because this is a new program, we have needed to address several issues of first impression. We, of course, have a responsibility to whistleblowers and the investing public to carefully consider the novel issues that will shape the contours of the program for years to come.

MONETARY AWARDS

One of the issues of first impression that the whistleblower office and the commission are addressing relates to the circumstances under which officers and directors — and compliance and internal audit personnel — may be eligible to receive whistleblower awards. These individuals are generally not eligible to receive a whistleblower award, but the rules provide an exception to the general prohibition if the information is reported to the SEC at least 120 days after providing it to the employer's audit committee, chief legal officer, chief compliance officer, or a supervisor. These otherwise excluded personnel can also become eligible to receive an award where they have a reasonable basis to believe that disclosure to the SEC was necessary to prevent imminent misconduct from causing substantial financial harm to the company or investors.

Awards have recently been made under both of these exceptions. In March, the commission announced a payout of approximately $500,000 to a former company officer who reported information about a securities fraud at the company after reporting internally and waiting the specified time. And just this month, we announced an award of more than a million dollars to a compliance professional who provided information that assisted the SEC under the kind of exigent circumstances encompassed by our rules.

Let me say a bit more about company compliance programs. When the commission was considering its whistleblower rules, concerns were raised about undermining companies' internal compliance programs. Some commenters urged that internal reporting be made a precondition to a whistleblower award. That was not done, but the final whistleblower rules established a framework to give employees an incentivie to report internally first. A whistleblower's participation in internal compliance systems is thus a factor that will generally increase an award, whereas interference with those systems will surely decrease an award. And a whistleblower who internally reports will receive credit for any information the company subsequently self-reports to the SEC.

80% WENT IN-HOUSE FIRST

All indications are that internal compliance functions are as strong as ever — if not stronger — and that insiders continue to report possible violations internally first. Although there is no requirement under our rules that the whistleblower be a current or former employee, several of the individuals who have received awards were, in fact, company insiders. Notably, of these, over 80% first raised their concerns internally to their supervisors or compliance personnel before reporting to the commission.

Many in-house lawyers, compliance professionals and law firms representing companies have told us that since the implementation of our program, companies have taken fresh looks at their internal compliance functions and made enhancements to further encourage their employees to view internal reporting as an effective means of addressing potential wrongdoing without fear of reprisal or retaliation. That is a very good thing, and, so far, we believe that the whistleblower program has achieved the right balance between the need of companies to be given an opportunity to address possible violations of law and the SEC's law enforcement interests.

Dodd-Frank expanded the protections and remedies for retaliation against whistleblowers that were first laid out in Sarbanes-Oxley. The scope of the prohibition against retaliation is appropriately broad: Employers cannot "discharge, demote, suspend, threaten, harass, directly or indirectly, or in any other manner discriminate against, a whistleblower in the terms and conditions of employment because of any lawful act done by the whistleblower" to provide information or assistance to the commission. Dodd-Frank establishes both a private right of action for the whistleblower and authority for the commission itself to bring an action against an employer for retaliation.

We at the SEC take these whistleblower

Continued on Page 34

ISTOCK

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InvestmentNews

Whistleblowers change the game

Continued from Page 33

protections very seriously and companies should too. In June 2014, we brought and settled our first action against a company for retaliating against a whistleblower who had reported a possible securities law violation to the commission. In that case, the head trader of a hedge fund advisory firm reported trading activity to the SEC that demonstrated the firm was engaged in prohibited principal transactions. After the trader notified the company of the report to the commission, the company immediately began retaliating, including by removing the whistleblower from the head trader position, stripping the whistleblower of supervisory responsibilities, and, ironically, changing the whistleblower's job function from head trader to a full-time compliance assistant.

CHARGED WITH RETALIATING

The commission charged the firm and its principal with engaging in prohibited principal transactions and making a false filing with the commission, and charged the firm with retaliating against the employee. Among other relief, the hedge fund and its principal paid over $2 million in monetary sanctions. And, I am pleased to report that just this week, we awarded the full 30% — over $600,000 — to the whistleblower who was the victim of that retaliation.

The SEC also has intervened in several private cases to argue that the anti-retaliation protections of Dodd-Frank should apply to individuals who internally report potential securities laws violations as well as to those who make disclosures directly to the commission. Strong enforcement of the anti-retaliation protections is critical to the success of the SEC's whistleblower program and bringing retaliation cases will continue to be a high priority for us.

In addition to protecting whistleblowers from retaliation once they have reported information to the commission, Rule 21F-17 also prevents individuals and entities from taking steps to silence potential whistleblowers before they contact us, including through the threatened enforcement of confidentiality agreements.

The enforcement division has been focused on companies that use agreements or other mechanisms to stifle whistleblowers from coming forward. On April 1, we announced our first enforcement action against a company for using confidentiality agreements that could potentially stifle the whistleblowing process. We charged the company with violating Rule 21F-17 because it required witnesses in certain internal investigations to sign confidentiality statements with language warning that employees could face discipline, including termination, if they discussed the subject matter of the interview with outside parties without prior approval. Under the rule, the commission is not required to establish that the confidentiality agreement actually prevented employees from communicating with the SEC. The potential and significant chilling effect of blanket prohibitions on reporting information is also prohibited by the rule.

The rule is not, however, a sweeping prohibition on the use of confidentiality agreements. Companies conducting internal investigations can still give the standard Upjohn warnings that explain the scope of the attorney-client privilege in that setting. Companies may continue to protect their trade secrets or other confidential information through the use of properly drawn confidentiality and severance agreements.

"Strong enforcement of the anti-retaliation protections is critical to the success" of the SEC's program.

Mary Jo White, chairwoman
SEC

A NEED TO SPEAK CLEARLY

The SEC is not trying to dictate the language of these agreements or warnings — that is the company's responsibility. But a company needs to speak clearly in and about confidentiality provisions, so that employees, most of whom are not lawyers, understand that it is always permissible to report possible securities laws violations to the commission.

In our recent 21F-17 action, the company addressed the issue by changing the violative language to say explicitly that the agreement does not prevent individuals from reporting possible violations of the law to federal law enforcement agencies. And to remedy any potential harm already done, the company also undertook to notify employees who had signed the original agreement that they are not required to seek permission before communicating with any governmental agency concerning possible violations of federal law. Companies would be well-served to review their own agreements and policies to ensure that they are consistent with Rule 21F-17 and all of the whistleblower rules.

As we have intensified our focus in this area, a number of other concerns have come to our attention, including that some companies may be trying to require their employees to sign agreements mandating that they forgo any whistleblower award or represent, as a precondition to obtaining a severance payment, that they have not made a prior report of misconduct to the SEC. You can imagine our enforcement division's view of those and similar provisions under our rules.

ASSESSING THE PROGRAM

To sum up, after nearly four years of experience, what is our assessment of the Dodd-Frank whistleblower program and how should companies be responding?

First, we know that the regime does, in fact, create powerful incentives to come to the commission with real evidence of wrongdoing that harms investors and it meaningfully contributes to the efficiency and effectiveness of our enforcement program. And whether the whistleblowers are reluctant or eager, motivated by a desire to do what's right or by the prospect of financial reward, or both, they have, and will continue to, come forward.

This reality should create at least equally strong incentives for companies to build truly effective compliance programs and to foster atmospheres where internal compliance reporting is not only tolerated, but actively encouraged. To that end, companies should take a hard look at whether their boards and senior management are promoting these priorities. By some accounts, there is more work to be done. In one survey of 2,500 executives worldwide, as few as 7% of companies said whistleblowing is important for their organization and 44% said they do not have whistleblower policies or fail to publicize them. If that is so, it is little wonder that we are still wrestling with troublesome corporate cultures.

We also know that retaliation against whistleblowers occurs, sometime starkly, sometimes more subtly — and that is very troubling. For the SEC's part, we are working hard to foster a safe environment for whistleblowers by investigating and charging those who retaliate as well as those who, whether inadvertently or not, take actions or use agreements that could chill the willingness of employees to report violations of law to the SEC. Companies should be asking themselves if they have created an environment where employees can report internally without fear of retaliation. Are they creating uncertainty through nondisclosure and other confidentiality agreements that could imply that such reporting might not be allowed? Again, there is some indication that management may need to work harder at this — those same 2,500 executives in the survey reported that 40% of their companies discourage whistleblowing.

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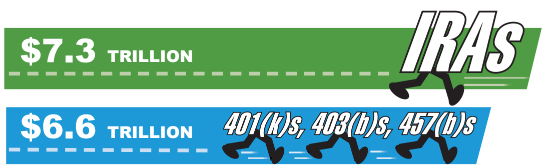

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Needs of boomers will upend advice biz

Continued from Page 4
ing insurance when appropriate or earmarking other assets if the need for custodial care arose. But there are millions of Americans who don't have long-term-care insurance and are forced to pay for care out-of-pocket.

"The need for the elderly population to receive financial planning support for long-term-care expenses beyond the recommendation of long-term-care insurance is exploding," Thomas West, a veteran financial adviser with Signature Estate & Investment Advisors, told attendees at the Retirement Income Summit.

"The general rules on how money works in retirement don't apply," Mr. West said during a panel on how to adapt a financial plan when life delivers a curve ball. For example, he said, large medical expenses can wipe out a client's tax bill, making it an ideal time to take IRA distributions — now tax-free — to pay for care.

TIME-CONSUMING

While ancillary services that complement financial planning add value, they also can be time-consuming and hard to monetize, Mr. Gallant warned during the Retirement Income Industry Association webcast. But the risk of ignoring these looming issues is losing business to other advisers who are willing to tackle them.

Looking for a business opportunity? Mr. Gallant said the financial services industry could desperately use a directory of services ranging from daily money managers who can help clients with routine bill paying to building contractors who can provide renovations that allow clients to age in place.

In the meantime, brush up on the communication skills needed to raise difficult issues such as failing health and to navigate the potential landmines of family dynamics.

If you're up to the challenge, the rewards are enormous. It's an excellent way to differentiate your practice, increase client satisfaction and retain assets by working with the clients' heirs, Mr. Gallant said.

Even if your core practice revolves around middle-age clients

> "THE GENERAL rules on how money works in retirement don't apply."
>
> **Thomas West**
> Adviser
> Signature Estate & Investment Advisors

today, they are probably grappling with health care and elder care issues for their parents. Consequently, sponsoring seminars or client appreciation events on topics such as Social Security, health care, elder care and estate planning can be a big draw, Mr. Gallant added.

As your client base ages, you may want to review whether your office space is accessible to elderly clients. Consider improving the lighting, increasing the font size on paperwork and determining whether your office furniture is compatible with a wheelchair.

Provide extra time for review sessions and be sure to take note of a client's personal situation, including health, family and living arrangements. And a house call could provide insight into your clients' needs.

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

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GOP joins DOL push

Continued from Page 3
Finance Committee, and Sen. Roy Blunt, R-Mo., who chairs the appropriations subcommittee that helps determine DOL funding.

A DOL spokesman was not immediately available for comment.

Last Wednesday, the Financial Services Institute launched a Capitol Hill blitz in which members held 200 meetings with congressional members and staff. The FSI, which represents independent broker-dealers and financial advisers, is among the interest groups pushing for an extension of the DOL comment deadline.

BLOOMBERG

Sen. Lamar Alexander: "This is not an appropriate amount of time."

DEATH BY DELAY

Proponents of the rule say those seeking a deadline extension are trying to delay the measure to death. It's not clear whether the Obama administration will be able to finalize the rule before the president leaves office.

After the 75-day comment period ends, the DOL will hold a public forum within 30 days, publish the transcript and take comments again.

The proposal, which would require brokers to act in the best interests of clients in 401(k) plans and individual retirement accounts, was released April 14 with the strong backing of President Barack Obama. The administration said the rule is needed to protect workers and retirees from conflicted investment advice.

The rule was originally proposed in 2010 but withdrawn in 2011 amid protest from the financial services industry, which argued that it would increase regulatory and liability costs for brokers and force them to abandon clients with modest assets.

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ISTOCK

Brokers back sanctions

Continued from Page 1

he often sees evidence that their portfolios were built on the basis of product sales rather than what is in their best interests.

"Categorically, I think it's good," he said of Finra's changes. "Overall, it's going to elevate the industry."

Philip Swotkewicz, a senior vice president at Merrill Lynch, said Finra should get even tougher on brokers who put their clients in unsuitable investments. He likened the situation to finding out that a doctor was engaging in malpractice.

"I would never want to go to that doctor again," Mr. Swotkewicz said. "It was a good move. I think they should go farther."

Enforcing the suitability rule, however, is not necessarily straightforward, because its application depends on the situation.

> "SOME OF THE investments I might recommend, I'm rethinking because there's so much pushback."
>
> **Jeremy Gottlieb**
> Owner
> Gottlieb Wealth Management

The rule says that recommendations to buy or hold securities must be aligned with a customer's investment profile and take into consideration the client's age, financial situation, investment objectives, tax status, investment experience, time horizon, liquidity and risk tolerance.

The standard allows brokers to sell products with high fees that benefit the broker as long as they also fit a client's needs.

Finra has targeted complex and risky products, such as variable annuities, alternative mutual funds, nontraded real estate investment trusts and structured notes.

Whether these vehicles are good for a customer — or even suitable — often lies in the eye of the beholder.

"Every case is unique," Mr. Gottlieb said. "The suitability for each client can be different."

Paul Tolley, chief compliance officer at Commonwealth Financial Network, agrees there's no formula.

"It's always facts and circumstances," he said. "Suitability is subjective in many respects."

But Mr. Gottlieb is growing wary of putting certain products in client portfolios, even when they fit their needs.

"Some of the investments I might recommend, I'm rethinking because there's so much pushback," he said. "They're penalizing all of us who do it right, as well as those who don't do it right."

And the debate about what products are suitable is a heated one.

"Putting an annuity inside an IRA is not suitable, yet we see it all the time," said John Nowicki, present of LCM Capital Management.

But meeting the suitability standard should not be difficult if robo-advisers can be programmed to do so, said Benjamin Edwards, director of the Investor Advocacy Clinic at the Michigan State University College of Law.

The trick is to find a way to make a profit and still give suitable advice.

"It's quite difficult to both maximize your commissions and stay within the suitability guidelines," Mr. Edwards said.

Some say Finra is not looking to go after middle-of-the-road brokers. In its suitability crackdown, Finra likely will focus on cases in which aggravating factors — such as a broker with a prior disciplinary history, a broker who is deliberately trying to hurt customers or a situation where there is significant customer harm — are at play, said Emily Gordy, a former Finra senior vice president for enforcement.

"It will be clear there is a violation," said Ms. Gordy, a partner at Shulman Rogers. "You won't see the higher sanctions in the cases that might be in the gray area."

The strengthened sanctions reflect Finra's goal of eradicating rogue brokers, Mr. Tolley said.

"It is reinforcing Finra's fundamental message that egregious violations and recidivism must be addressed appropriately," he said.

Another motivation for Finra's action came from Securities and Exchange Commissioner Kara Stein, who last year called for the self-regulator to update its sanctions.

"She was the catalyst," Ms. Gordy said.

NOT ENOUGH

But some say the guideline changes are not enough and others warn of unintended consequences.

Ross Gerber, chief executive of Gerber Kawaski Wealth and Investment Management, said Finra should take a more muscular approach.

"The fact that they're adding a year suspension [for suitability lapses] is just a Band-Aid for a bigger issue."

The sanctions revisions may actually result in some negative consequences, said Bill Singer, an attorney who focuses on cases within the financial services industry.

"Individuals facing two-year sentences will be more apt to fight cases than settle," he said. "If you face a two-year suspension, you may be more apt to cover up misconduct and to try to engage in under-the-counter settlements."

But in the end, the tougher sanctions will stop much wrongdoing, Mr. Edwards said.

"An increased penalty has an increased deterrent effect, even if Finra brings the same number of enforcement cases," he said.

Alessandra Malito contributed to this story.

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United Capital's in-house move

Continued from Page 1

70 basis points that stock fund investors paid last year, according to the Investment Company Institute, a trade group.

In all, about 20% of the firm's $14.2 billion in assets are now deployed in these portfolios instead of traditional mutual funds and separately managed accounts, said Rob Brown, the chief investment officer at United Capital.

Mr. Brown declined to provide returns on the portfolios for compliance reasons. He said, however, the firm's advisers are pleased with the program, now in its second year. While they are encouraged to use it, they are not compensated for putting client assets into it, he said.

UNDERPERFORMANCE

The shift was a response to the challenges that have caused many fund managers to underperform the market, he explained.

"The problem is not lack of opportunity. The problem is not lack of talent. The problem is, not in all cases, but in many cases, the structure of the mutual fund," Mr. Brown said.

In his view, that means costs — management fees, turnover, back-office administration, tax inefficiency and perhaps most importantly, overdiversification — that eat up the value managers can add.

"They've got eight to 10 brilliant ideas, but then they have 320 stocks in their portfolio," Mr. Brown said.

There are still certain investment strategies for which mutual funds work best today, he noted. For example, global fixed-income markets are more complex to navigate than stocks, giving a significant edge to specialist traders employed by fund shops.

Declining to name fund companies that have turned him down, Mr. Brown said it isn't likely he'll be able to convince large asset managers to share their best ideas with him any time soon. The firm is currently working with money managers who are comfortable with the idea and have good ideas. Mr. Brown said one of them is Edinburgh, Scotland-based Dundas Global Investors.

> **20%**
> Approximate amount of client assets in firm's own products

"We have gone to portfolio managers at some of the large-name fund companies in the world, but that's more the exception than the rule for obvious internal business reasons," Mr. Brown said. "If a portfolio manager is running a couple mutual funds with $10 billion, does their parent organization have a separate agreement with us where they're sending us their 10 best ideas? That's going to be a rare circumstance whether they're going to be comfortable with that."

ONE OF MANY

United Capital, a 65-branch wealth manager, is just one of many advisory firms revisiting the choice to invest their retail clients' assets in mutual funds.

Among one of the more well-documented results of that reevaluation has been the rise of exchange-traded funds and the boutique portfolio managers who trade them.

ETFs have also been more widely used in adviser-sold "wrap" accounts to keep overall fees low while maintaining the share that goes to advisers and their firms, according to Christopher Thompson, head of the U.S. retail client group at AllianceBernstein, which manages $474 billion, including mutual funds.

"It's classic fee compression," Mr. Thompson said.

But even providers of low-cost ETFs face a threat, according to Steven D. Lockshin, a wealth adviser and serial entrepreneur who is principal of AdvicePeriod, chairman at Convergent Wealth Advisors and an investor in Betterment.

MORE CONTROL FOR ADVISERS

Speaking at an industry conference last month in Las Vegas, Mr. Lockshin said brokerage services have improved to the degree that more advisory firms will be able to more easily issue fractional shares of a diversified portfolio of stocks while retaining more control over processes, such as tax-loss harvesting used to improve a portfolio's after-tax returns.

Those technologies could allow advisers to achieve better results for clients than mutual funds and ETFs, which hold $33 trillion in wealth.

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Medicare modified adjusted gross income cliff brackets

Based on IRS filing status, tax year and Medicare premium year

MAGI Tier	IRS filing single: ≤ 2015 tax year & ≤ 2017 premium year	IRS filing single: ≤ 2016 tax year & ≤ 2018 premium year	IRS married filing jointly: ≤ 2015 tax year & ≤ 2017 premium year	IRS married filing jointly: ≤ 2016 tax year & ≤ 2018 premium year
1	≤ $85,000	≤ $85,000	≤ $170,000	≤ $170,000
2	≥ $85,001 to ≤ $107,000	≥ $85,001 to ≤ $107,000	≤ $170,001 to ≤ $214,000	≤ $170,001 to ≤ $214,000
3	≤ $107,001 to ≤ $160,000	≤ $107,001 to ≤ $133,500	≤ $214,001 to ≤ $320,000	≤ $214,001 to ≤ $267,000
4	≤ $160,001 to ≤ $214,000	≤ $133,501 to ≤ $160,000	≤ $320,001 to ≤ $428,000	≤ $267,001 to ≤ $320,000
5	> $214,000	> $160,000	> $428,000	> $320,000

Source: Goodcare.com

Medicare's costs rising for the affluent

Continued from Page 3

married couples filing jointly as the upper limit of Tier 3. Effective Jan. 1, 2018, $160,000 and $320,000, respectively, are the beginning of Tier 5, the top tier. The impact is that many more people will be in tiers 4 and 5, resulting in an upswing of Medicare beneficiaries paying the largest possible IRMAA rates in 2018. That can translate into up to $3,621 per person or $7,242 per couple more in Medicare payments annually year over year without receiving any more benefits. Additionally, those costs are after-tax for most people.

The good news is that there are retirement-planning strategies you can employ to blunt the effect of the new MAGI brackets, maximize the opportunity to keep your clients in lower brackets and pay lower Medicare costs. Given that 2016 is just around the corner, it is imperative to make this a priority.

FLOW-THROUGH

The key retirement planning strategy is to evaluate income and cash sources to identify those that will not flow through to the tax return as adjusted gross income or tax-exempt income. That is effective because the MAGI is made up of the AGI and tax-exempt interest income. Distributions from a Roth or a health savings account are two examples of cash sources that are not included of the AGI and flow outside of the MAGI. Other sources of funds that may work as well for your clients are the cash value of life insurance or proceeds from a reverse mortgage.

Remember that while your clients will not face these increased Medicare costs until 2018, the 2016 tax year and those going forward will provide the MAGI information. Your clients will be glad that you are on top of this important retirement planning issue and help them conserve their retirement nest egg.

(Want to get more out of Medicare? Download my ebook at InvestmentNews.com/medicare guide.)

Katy Votava, Ph.D., RN, is president of Goodcare.com, a consulting service that works with financial advisers and consumers concerning health care coverage.

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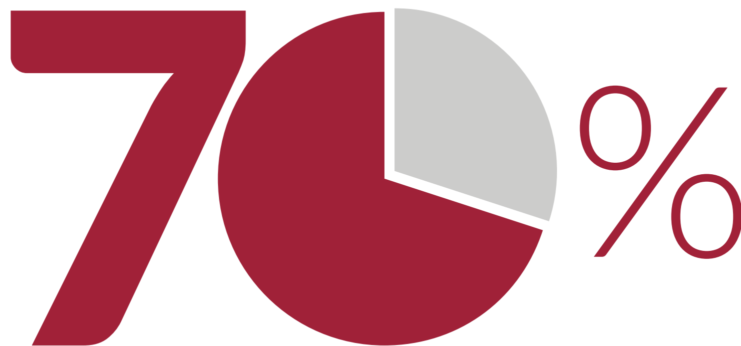

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Planning upended by longer lives

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are forging a path to the treatment, cure and even prevention of diseases and conditions that plague the human body as it ages. In addition, private companies, individuals and research institutes are funding aging and disease research at record levels. (See sidebar.)

The result will be a giant leap in longevity — especially for the wealthy.

Men and women will be living healthy lives of 110 and 120 years in the not-too-distant future. Most aging researchers won't pinpoint a year when these extended lives will be the norm, but some speculate that children born in the most recent decade are likely to face life as supercentenarians (living to 110 or older).

"There's going to be a huge expansion of the population who are over age 100," said Richard Hodes, director of the National Institute on Aging, part of the National Institutes of Health. "It used to be rare and warrant a special mention on the 'Today' show; now there are tens of thousands and it will soon be millions of people at that age level."

Dixon Hemphill: Hopes he lives to 110 or 120, to see grandchildren grow up.

SOCIETAL CONSEQUENCES

Much longer lives have serious societal consequences, including implications for planning that advisers would be wise to start thinking about now.

Extreme longevity would upend the traditional idea of saving for about 40 years to pay for the last 20. At a current average life expectancy of 78.8 years for those born in the United States between 2010 and 2015 (according to the United Nations), this is now the norm.

But it's untenable to think of anyone being able to save for 40 years to support their last 50 years, which isn't far off. Such a shift will require entirely new thinking about the order of events in our lives and financial models that can adapt.

Financial adviser Ric Edelman has thought about the consequences of extreme longevity for years, and he says that within 10 years, traditional planning models will be outdated.

The financial planning industry will need to think differently about life, which today follows a fairly linear series of events, starting with birth, then school, then work, then retirement and death, he said.

Instead, life will become more of a cyclical route that involves people having six, seven, even eight careers in their lifetime, with periods of education, training and recreation in between, he said. Careers will change regularly as technology continues to erase some professions and invent others.

CAREERS PLANNING

All this will require advisers to know a lot more about career planning.

"Financial planners will have to add a new element of service: teaching our clients how to determine whether their current career is about to become obsolete and helping them figure out which new career they should study," Mr. Edelman said.

While having a half-dozen careers during a mostly healthy 120-year life sounds farfetched — not to mention exhausting — consider the pace of change and its impact.

About a million people today are creating iPhone applications for a product that didn't exist eight years ago.

Joe Coughlin, director of the Massachusetts Institute of Technology AgeLab, said advisers already should be thinking about helping clients expect more from themselves in their later years.

He envisions a day when midlife sabbaticals before age 60 will be the norm to refresh oneself and perhaps attain some additional training to take on a new vocation.

"The truly valuable adviser is going to be the one with solutions to navigate old age," Mr. Coughlin said.

Financial adviser Thomas West of Signature Estate and Investment Advisors said advisers will need to expand their knowledge of planning through transitions. The business will require helping clients with financial planning before transitions, or having expertise in the job, health or life transition itself, he said.

That's good news for human advisers, since so-called robo-advisers, or digital advice providers, won't be able to guide families through such periods, he said.

"I don't think anything other than human interaction can play in that space," Mr. West said.

While most advisers aren't ready to create new financial planning models just yet, they see, with trepidation, the day approaching when it will be necessary.

Financial adviser Philip Lubinski of First Financial Strategies said "the math is a little scary" when he thinks about people living such long lives, especially because most pre-retirees "aren't accumulating enough now for a 25-year retirement."

But he admits he's already seeing more clients changing careers at 60 than in the past.

He's also discussed the concept with his 36-year-old son, who adjusted his mindset to the concept quickly. If the son is going to live to 120, he expects to lower his monthly retirement plan contributions because he'll have "a lot longer to save for my 30-year retirement."

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>
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> Director
> National Institute on Aging

Overall, a positive outlook on superlongevity has an uphill battle with public opinion, probably because most know old age as it is today: often fraught with ill health and cognitive decline.

When people were asked whether they would want to use potential medical treatments that would slow aging and extend life, 56% said no thanks, while 38% said they'd want them, according to a Pew Research Center survey of about 2,000 adults in 2013.

But many people dream of a healthier old age and the potential to see future generations of their family grow up before their own eyes.

Dixon Hemphill, a 90-year-old Virginian who still runs 5K races, said he'd like to live long enough to see his nine grandchildren grow up and have careers. He attributes his long life to a good diet, a healthy attitude and a positive outlook on life.

"I seem to have good hardware in me," he said. "I would be happy to live until 110 to 120, provided I remained healthy."

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Companies go long on longevity

A dizzying number of research institutes, wealthy entrepreneurs and companies, including Google Inc., are investing in research and treatments aimed at creating an ostensible fountain of youth.

Google and Arthur Levinson, Genentech's former chief executive, created a private research and development company two years ago called Calico. The biotech is focused on aging research and therapeutics, and it is partnering with pharmaceutical firm AbbVie to develop and market drugs for the diseases most associated with aging.

Most recently Calico said it is pairing with the Buck Institute for Research on Aging to support studies of longevity. The Buck Institute houses 21 independent laboratories that explore ways to lengthen the healthy lifespan of people; what it calls "healthspan."

The institute advocates merging research on age-related diseases with continuing studies on human chronic disease.

'INTEGRATED APPROACH'

"What has come out of our work is a keen understanding that the factors driving aging are highly intertwined, and that in order to extend healthspan we need an integrated approach to health and disease with the understanding that biological systems change with age," said Brian Kennedy, chief executive of the Buck Institute.

In a separate effort, Joon Yun, the president of health care investment firm Palo Alto Investors, is sponsoring a $1 million Palo Alto Longevity Prize, which will reward scientists who can resolve especially tricky challenges of aging in research animals.

Genomics guru Craig Venter and innovation specialist Peter Diamandis founded Human Longevity Inc., a company using genome data and analytics to fight the diseases that shorten and degrade human life.

And venture capitalist Peter Thiel began funding longevity research nearly a decade ago.

His Thiel Foundation backs the SENS Research Foundation, which is headed by Aubrey de Grey, one of the early scientists to say life spans of 120 or more years could be right around the corner.

— Liz Skinner

SEC alleges fraud in life settlements

Continued from Page 4
qualify, the men allegedly inflated the investors' assets using a phony "net worth calculator," according to the complaint. The calculator inflated the assets by counting anticipated Social Security, pension and other payments 20 years into the future, according to the SEC.

In one situation, the calculator inflated a couple's assets, excluding their home, from $263,000 to $1.5 million, according to the SEC, the result of which made them appear to be accredited investors. That same couple invested 20% of their actual net worth in life settlements, according to the complaint.

Further, in order to give themselves a veneer of expertise, Mr. Novinger and Mr. Speers allegedly dubbed themselves "licensed financial consultants" and "licensed financial strategists," titles that are meaningless, according to the complaint.

NO GUARANTEES

The SEC also took issue with the way the men presented the life settlements to clients.

On one hand, the offering materials said there was no annual rate of return, the investment was not liquid, there was uncertainty on the life expectancy of an insured person and it was highly speculative.

Nevertheless, the men told the investors these were "safe investments with extraordinary returns," the SEC alleged. "You cannot lose a dollar" and "not only will this asset class earn 7% to 9% without risk, but it is a short-term investment that is safe as CDs and federally insured."

Those were false statements, the SEC said.

In its complaint, the SEC said it seeks injunctive relief, the return of the allegedly ill-gotten gains with interest and other penalties.

The men, their firm and two other related entities were also charged for acting as unregistered broker-dealers. The SEC says that interests in life settlements are securities, and selling them without the appropriate broker-dealer registration or without being associated with a registered broker-dealer is a violation of securities laws.

A call to the defendants' attorney, David Clouston at Sessions Fishman Nathan & Israel, was not returned.

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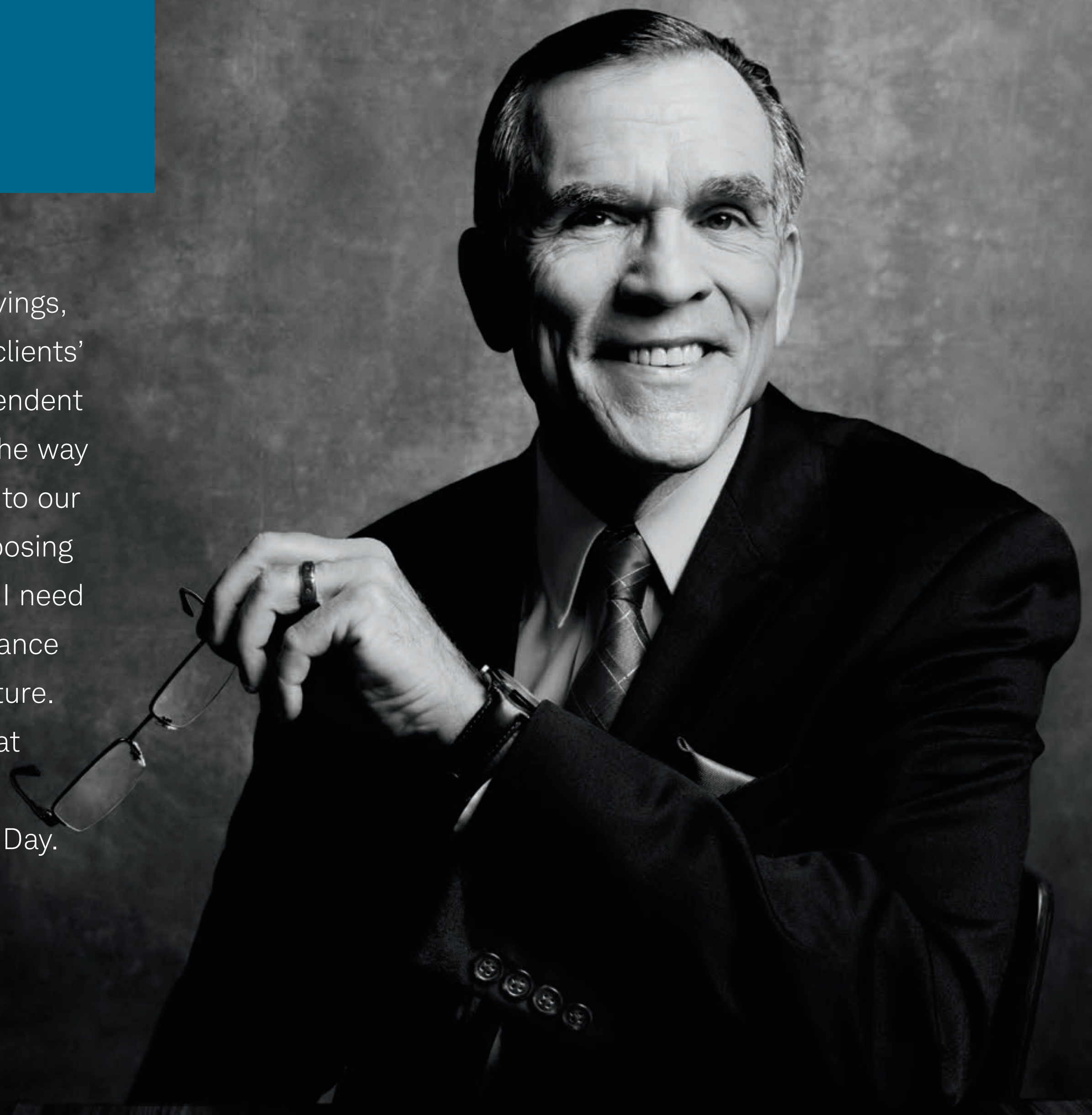

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