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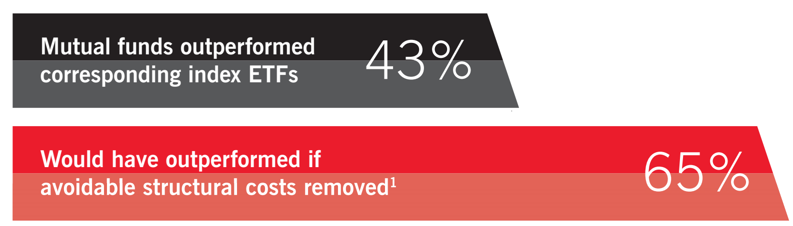

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[1] Amounts indicated are the percentage of assets invested in actively managed U.S. equity mutual funds offered to retail investors and benchmarked to the S&P 500, S&P MidCap 400 or Russell 2000 that outperformed the asset-weighted average of corresponding index ETFs over the 2007–2013 study period, before and after adjusting the performance of active funds to remove 12b-1 fees, transfer agency fees and estimated flow-related trading costs and cash drag.

[2] Navigate Fund Solutions LLC, "Avoidable Structural Costs of Actively Managed Mutual Funds," November 2014. Available for download at NextShares.com/whitepaper.

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Summer reading

IN surveyed 13 industry leaders to ask what books are on their reading lists this time of year.
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Finra takes teeth out of transparency rules

By Mark Schoeff Jr.

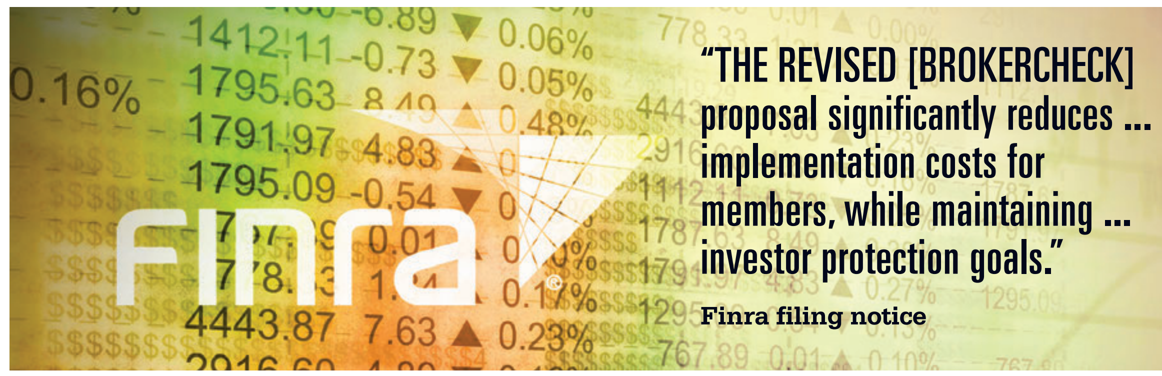
Finra advanced two rules last week that the broker regulator hopes will increase the transparency of recruiting incentives and encourage more investors to examine their brokers' backgrounds. But in meaningful ways, both rules lost a lot of their bite as Finra decided to pare them back following industry criticism.

The Financial Industry Regulatory Authority Inc. on Wednesday released a revised proposal for a rule designed to help investors understand the financial incentives their brokers receive when switching to a new firm.

Under the rule, brokerages would have to send an "educational communication" to investors working with a broker who is moving to their firm. The document customers receive would suggest questions they should ask their broker about the compensation and other inducements received for transferring to the new firm.

IDENTIFYING CONFLICTS

If investors pursue with their brokers the topics outlined in the communication, Finra asserts they would be better able to determine whether the broker's financial incentives created a conflict of interest and whether the client would incur costs by following the broker to the new firm.



But the broker-compensation proposal is a less stringent version of one Finra filed with the Securities and Exchange Commission in March 2014 and later withdrew amid industry resistance.

The original rule would have required brokers to disclose to investors recruiting incentives above $100,000 they received for switching to a new firm. It also would have required firms to report to Finra significant compensation increases for

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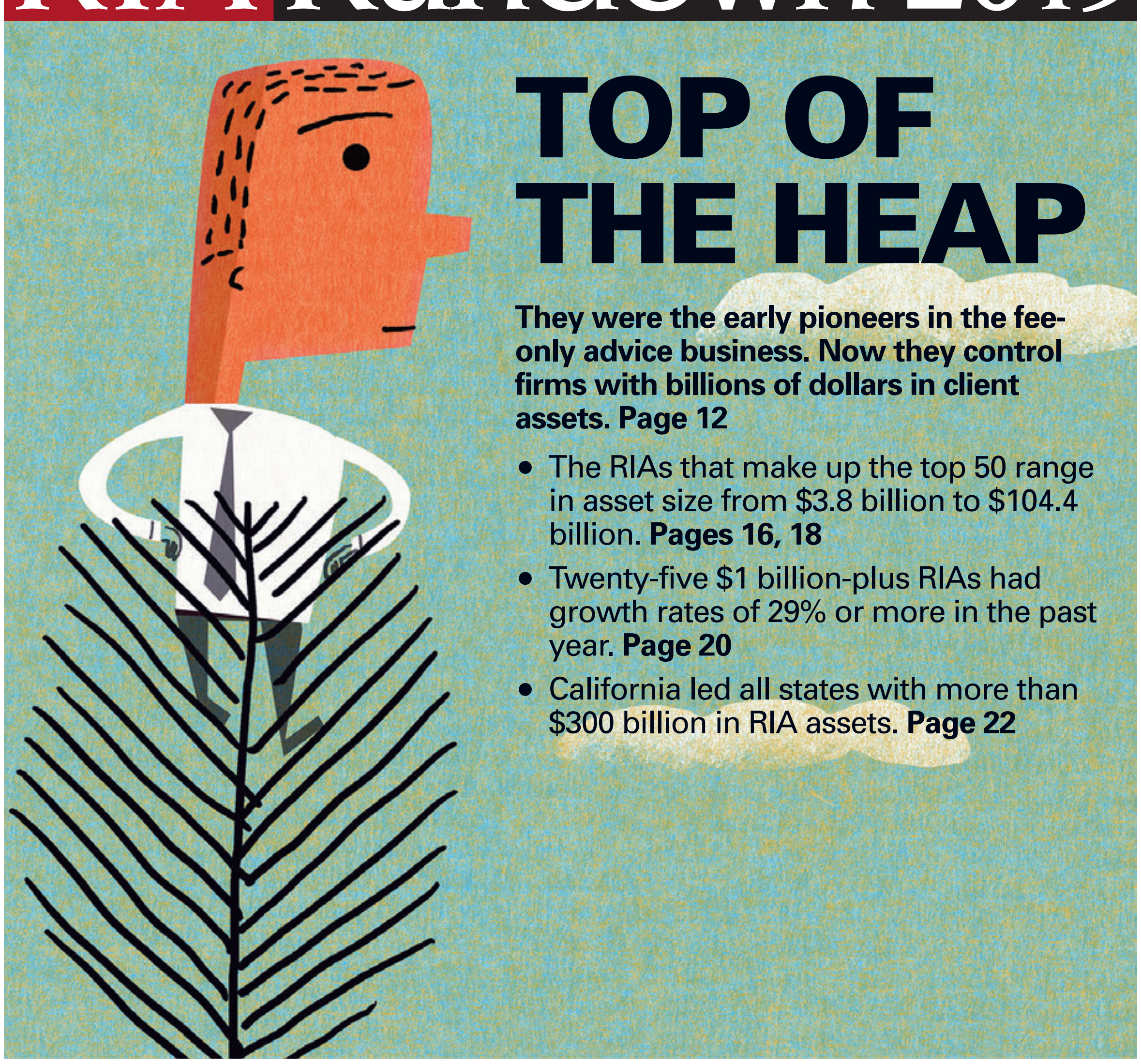
RIA Rundown 2015



JAMES YANG

Ketchum takes aim at DOL fiduciary rule

By Mark Schoeff Jr.

Finra chief executive Richard Ketchum last Wednesday criticized a Labor Department proposal to raise investment advice standards for brokers, arguing that it could cause a number of problems for the brokerage industry.

Mr. Ketchum said the DOL proposal, which would impose a fiduciary responsibility on brokers, would create a bias against financial products with higher fees, even if they're the best option for a client. He said that it might force firms to move to a fee-based rather than brokerage business model, and could cause brokerages to curtail — or even discontinue — sales of individual retirement accounts.

Mr. Ketchum said it's not a good idea to regulate retirement products, such as 401(k)s and IRAs, differently than other investments. The DOL proposal would specifically apply to advisers and brokers when giving advice about retirement investments.

SEC SHOULD TAKE THE LEAD

The Securities and Exchange Commission should take the lead in drafting a fiduciary-duty rule "across all securities products," Mr. Ketchum told reporters on the sidelines of the Financial Industry Regulatory Authority Inc.'s annual conference in Washington. SEC Chairwoman Mary Jo White favors such a rule, but has acknowledged it's not clear whether she has enough support on the five-member panel to make a proposal.

LANDOV

Richard Ketchum: Brokers might curtail or discontinue IRA sales.

Although Mr. Ketchum said Finra exams consistently show instances of unsuitable sales and improper disclosures, he defended the current broker-dealer oversight conducted by his organization. He criticized rhetoric surrounding the DOL proposal that portrays brokers preying on clients.

"Depictions of the present environment as providing 'caveat emptor' freedom to broker-dealers to place

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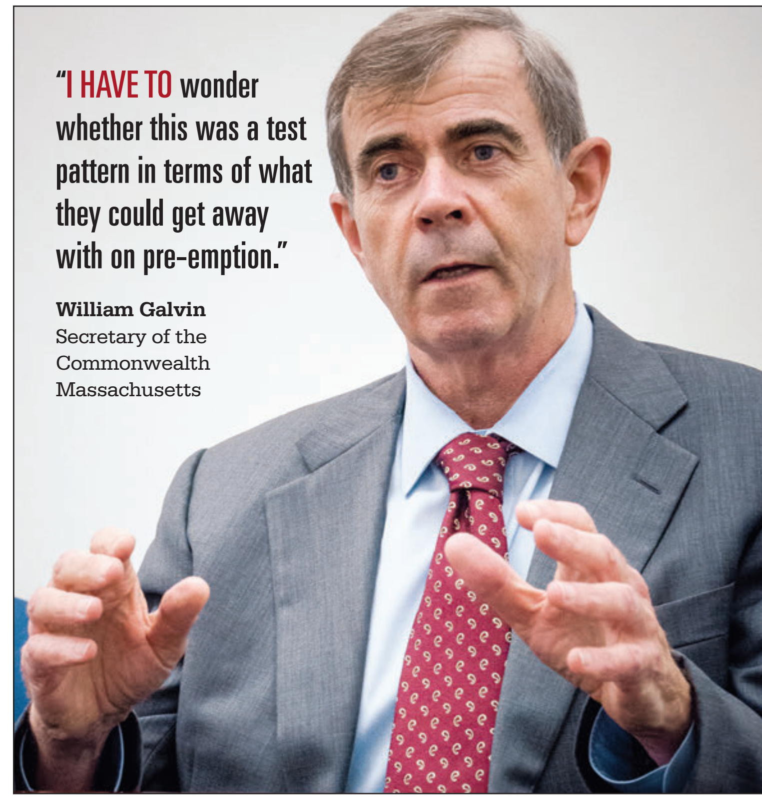
Massachusetts' Galvin sues SEC over small-biz offerings



"I HAVE TO wonder whether this was a test pattern in terms of what they could get away with on pre-emption."

William Galvin
Secretary of the Commonwealth Massachusetts

STEVE MARSEL STUDIO

By Mark Schoeff Jr.

The top securities regulator in Massachusetts filed a lawsuit against the Securities and Exchange Commission to stop a recently adopted rule he claims curtails state oversight of stock offerings by small and emerging companies.

In his suit in the U.S. Court of Appeals for the District of Columbia, Massachusetts Secretary of the Commonwealth William Galvin asserted that the SEC regulation is "arbitrary, capricious and otherwise not in accordance with" securities laws.

Under the rule, small companies making stock offerings of up to $50 million could avoid state registration.

State regulators strongly resisted the rule, arguing it pre-empted their oversight of a portion of the market they are best situated to oversee.

The SEC declined to comment on Mr. Galvin's suit.

The SEC rule was vague in its definition of the kind of investor who qualifies to purchase the small offerings, Mr. Galvin said in an interview. It did not place net worth or salary restrictions, which means that local businesses could target retail investors in the area.

"It's essentially saying everyone is a qualified purchaser," Mr. Galvin said. "That's where the states should definitely be involved."

The state of Montana also has filed a suit against the rule.

REGULATION A+

In April, the SEC adopted a regulation, known as Regulation A+, that would ease registration requirements for startup companies seeking to raise up to $50 million.

The rule implements part of the Jumpstart Our Business Startups Act that is designed to help entrepreneurs raise money for their ventures. But Mr. Galvin argued that Congress did not mean to block states from regulating the process.

"Congress, when drafting the JOBS Act legislation, had considered but rejected pre-emption of state review of these offerings," Mr. Galvin's office said in a statement.

The North American Securities Administrators Association had been touting a coordinated review initiative for Regulation A+ that has been adopted by 46 states, including Massachusetts.

The program established one-stop shopping for firms seeking an OK for their stock offerings in multiple states and guaranteed a 21-day review, as long as there were no deficiencies. The initiative was a way for states to maintain their jurisdiction over Regulation A offerings, which had been capped at $5 million before the new rule.

"The program has been lauded for effectively streamlining the state review process that promotes efficiency by providing centralized filing, unified comments and a definitive timeline for review," NASAA president and Washington securities director William Beatty said in a March 25 statement.

Mr. Galvin said that NASAA had made its opposition to Regulation A+ well known to the SEC through comment letters.

"I have to wonder whether this was a test pattern in terms of what they could get away with on pre-emption," he said.

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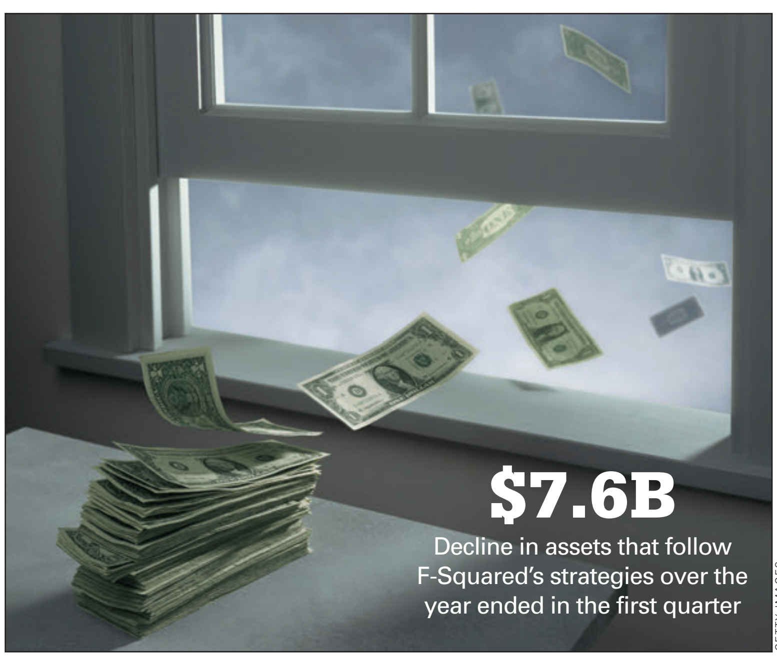
Manager loses top standing

F-Squared sees 33% asset drop in ETF managed portfolios



$7.6B
Decline in assets that follow F-Squared's strategies over the year ended in the first quarter

GETTY IMAGES

By Trevor Hunnicutt

F-Squared Investments Inc. lost its position as the top ETF portfolio strategist last quarter as the boutique money manager's settlement of fraud charges failed to stanch nearly $8 billion in asset declines in the last year, according to Morningstar Inc.

F-Squared said that its 20 exchange-traded-fund managed-portfolio strategies now administer $15 billion in assets, down $7.6 billion or 33% from the end of the first quarter in 2014. The company's indexes generate signals telling investment firms when to buy and sell ETFs that track market sectors.

Charles Schwab Corp.-owned Windhaven Investment Management now ranks No. 1 among those strategists, despite losing $3 billion in managed-portfolio assets since the departure of its founder, Stephen J. Cucchiaro, last year.

The new asset data on the portfolios of ETFs, released May 20, come after mutual fund distributor Virtus Investment Partners Inc. said May 11 that it was dropping F-Squared as a manager on five of its products

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Planners now espousing ETFs over mutual funds

By Jeff Benjamin

Whether it's the liquidity, transparency, low cost or something else, financial advisers increasingly are favoring exchange-traded funds over mutual funds.

The results of a Financial Planning Association survey of advisers showed that 81% are now using or recommending ETFs, compared with 78% for mutual funds.

The findings, compiled from a March survey of 303 financial advisers, are almost the exact opposite of a year ago, when mutual funds were favored by 82% of respondents and ETFs were favored by 78%.

"This is an extremely important turning point, but it surprises me that it took this long," said Theodore Feight, owner of Creative Financial Design.

Mr. Feight, who transitioned to ETFs from mutual funds in 2003, said he has been preaching the virtues of ETFs ever since to both clients and fellow advisers.

"After 2001 and 2002, I decided we needed to find something that would work better in our clients' portfolios," he said. "With ETFs, you know if they are doing exactly what they're supposed to be doing, and you can put stop-loss orders on them."

INCREASING ALLOCATIONS

The survey also found that ETFs led all other categories in terms of where advisers expect to increase asset allocations over the next 12 months, with 51% of respondents selecting ETFs. That was up from 39% last year.

The second most popular category for increasing allocations over the next year was mutual fund wrap programs, at 23%.

Todd Rosenbluth, director of mutual fund and ETF research at S&P Capital IQ, attributed the grow-

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Financial Engines deal could rev up Wells rollovers

401(k) plan reps would be protected from potential conflict

By Darla Mercado

A reported alliance between Wells Fargo and retirement plan robo-adviser Financial Engines Advisors may make it easier for Wells to harvest rollovers — at least for the time being.

Reuters reported May 21 that Financial Engines is nearing a deal to provide web-based investment advice to the 3.8 million participants in 401(k) plans to which Wells Fargo & Co. provides record-keeping services.

Spokesmen for Wells Fargo and Financial Engines declined to comment on the report.

Such an arrangement would put a little more distance between Wells Fargo representatives who work with 401(k) plans on the firm's platform and the capture of rollovers from employees who leave their employers.

At least that's the case under the Labor Department's current regulatory regime.

'NOT A FIDUCIARY ACT'

"If a nonfiduciary financial adviser with a broker-dealer makes a recommendation to a participant to take a distribution and roll to an IRA — that would not be a fiduciary act and would not be subject to the fiduciary prohibited-transaction rules under current law," according to Fred Reish, a partner at Drinker Biddle & Reath's employee benefits and executive compensation practice group.

"One way to do that is for the affiliated record keeper to use third-party investment advisers for the selection of plan investments and for giving investment advice to participants," he added.

That guidance goes back to a 2005 advisory opinion from the DOL, which spells out the responsibility of plan fiduciaries.

Most notably, it also addresses the issue of whether a nonfiduciary rep is engaging in a prohibited transaction if he or she collects fees for recommending that the partici-

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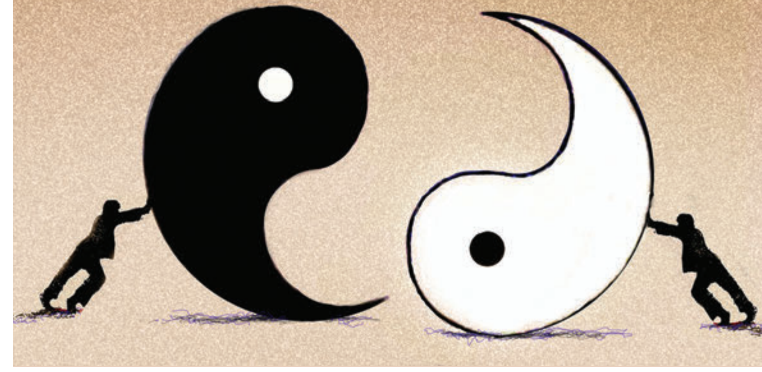

"ANYBODY WHO can solve that [how to retain assets and not run afoul of the prohibited-transaction rule] has found the Holy Grail."

Marcia Wagner, managing director, The Wagner Law Group

GETTY IMAGES

Many rich millennials disdain financial help

Only 47% of the moneyed young have advisers

By Trevor Hunnicutt

More than half the wealthiest young Americans do not use financial advisers, according to a survey released last Thursday, and wealth managers may be missing opportunities to discuss health, family and financial values with those and other potential clients.

Just 47% of multimillionaires 18 to 34 reported using the services of a wealth manager, broker, financial planner or private banker.

The results came from an online survey of 640 U.S. adults with more than $3 million in investible assets, excluding their primary residence. It was commissioned by U.S. Trust, a wealth management unit of Bank of America Corp.

The preference of some well-heeled millennials not to do business with a financial adviser comes even as they look to invest in more esoteric investment strategies and as many of their families say they haven't had transparent discussions about money.

NOT PREPARED

Two-thirds of moneyed baby boomers, 51 to 69, and about the same number of millennials reported that they made little or no disclosure to their children about their wealth. At the same time, little more than a fifth of all the investors described their children as well-prepared to handle the wealth they stand to inherit.

The survey also found a potential opportunity for advisers to reach out to younger investors: 43% of the youngest age cohort expressed an interest in social, impact or corporate-governance investment strategies, far higher than their older counterparts.

And between 37% and 55% of millennials said they would consider adding some kind of alternative investments to their portfolios,

ISTOCK

depending on the particular asset.

At least a tenth of wealthy investors overall said they do not discuss with their advisers — but would like to discuss — issues, such as philanthropy, credit, moral values and how they relate to wealth and their family, elder care, plans for increased longevity and the low-interest rate environment.

The survey has a margin of sampling error of plus or minus 3.9%. It was conducted in January by Phoenix Marketing International, a market research firm, as stock prices fell amid surging volatility.

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Advisers, time to stop scaring pre-retirees

Mary Beth Franklin
On Retirement

Typically, meetings with new clients — or even existing ones — to discuss their retirement goals are fraught with tough questions that can overwhelm them, preventing them from making decisions and taking action.

"When you talk about asset accumulation, people are more willing to give up control because it is something in the distant future," said Peter Geismar, head of Confident Choice, a firm that helps financial services companies bridge the gap between what consumers want from retirement income and what providers are offering.

But as retirement approaches, the distant future becomes an impending reality. Clients' fear and uncertainty increases as their time horizon shrinks, said Mr. Geismar, who has more than 20 years of experience in financial services, designing ways to make complex products, ideas and services more relevant to consumers.

Throw in the need for crucial decisions on some complex issues and you have a recipe for analysis paralysis, he said during a recent webinar where he discussed the behavioral perspective of pre-retirees.

The standard industry approach to an initial conversation about retirement is to ask clients about their assets, their assumptions (such as when they plan to retire) and their goals.

But what may seem like straightforward questions to an adviser can be overwhelming to consumers. When people start a financial conversation with decreased confidence and a perceived loss of control, they often resist suggested solutions or

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New push for laws on digital assets of the dead

Two groups touting versions of uniform rule for estate purposes

By Alessandra Malito

Two groups are battling it out in the hopes of creating a uniform national rule giving fiduciaries access to digital assets such as emails and online accounts once the owner of those properties dies.

Digital assets, a somewhat new piece to the puzzle of estate planning, can be anything from photos on a website and social media profiles to accounts with money and files in them, like PayPal and iTunes.

Financial advisers are bound to come across challenges when working with clients' estates, as more and more information is being stored electronically. Because there is no uniform legislation, technology companies abide by their own terms of services, which may leave an adviser or personal representative barred from a decedent's accounts until legally appointed. Delays could take weeks, even months.

While technology companies are beginning to recognize these issues — Facebook, for example, has started a legacy feature, which turns the decedent's profile into a memorial page and locks down access from outsiders trying to enter the account — it still leaves advisers and their clients in the dark.

ONLY A FEW STATES

Only a handful of states have any sort of provision for handling digital assets; Connecticut, Idaho, Indiana, Nevada, Oklahoma and Rhode Island's legislation refers only to a decedent's email, text messages, social media and blogging accounts.

The Uniform Fiduciary Access to Digital Assets Act and the Privacy Expectation Afterlife and Choices Act each is looking to address the gap. In each, someone appointed by the original accountholder would be able to work with technology companies to close accounts and transfer funds smoothly.

Legislatures in 26 states have voted on the UFADAA, which would enable accountholders to designate fiduciaries to have authority over their digital property upon their death or incapacitation.

The main issue — and what caused UFADAA to be shot down in

Continued on Page 44

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Number of state legislatures that have considered the Uniform Fiduciary Access to Digital Assets Act. Only Delaware enacted the law.

Compliance boss faces fraud charges

By Alessandra Malito

The former chief compliance officer of a brokerage firm was charged with fraud and money laundering for allegedly diverting money from overseas investors to family members in the Philippines.

William Michael Quigley, 47, of Seaford, N.Y., faces both criminal and civil charges for allegedly funneling $500,000 of the $800,000 he scammed from investors to his two brothers in the Philippines, according to authorities.

Mr. Quigley was indicted last week on charges of conspiracy to commit wire fraud and money-laundering conspiracy in connection with the investment scheme. He faces a maximum of 20 years in prison.

Mr. Quigley, who was the compliance director for the brokerage firm Trident Partners Ltd. in Westbury, N.Y., convinced foreign investors to invest in well-known U.S. companies such as Dell Inc., Berkshire Hathaway Inc. and BlackRock Inc., as well as in startups on the verge of going public, according to the Securities and Exchange Commission, which charged Mr. Quigley with fraud.

THE SCHEME

Instead of investing the funds, Mr. Quigley diverted them for his personal use and those of his brothers, Michael and Brian Quigley, according to authorities. They allegedly participated in the scheme by sending investors fake account statements. The scheme went on for more than a decade, the SEC alleged.

"We allege a classic situation of the fox guarding the henhouse as William Quigley subverted his position of trust as compliance director and stole money from investors and his own firm," said SEC New York office director Andrew M. Calamari.

Mr. Quigley could not be reached for comment.

Trident Partners was not aware of his fraudulent activity, according to information on Mr. Quigley's BrokerCheck report.

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VIEWPOINT

EDITORIALS

Is JPMorgan too big to manage?

THE GUILTY PLEA by JPMorgan Chase & Co. to criminal charges of manipulating foreign exchange prices poses a dilemma for the Department of Labor, financial advisers and individual investors.

With $938 billion of assets under management, the giant bank is the seventh largest manager of institutional assets worldwide. Of that total, $329 billion is for U.S. retirement plans, endowments and foundations, according to *InvestmentNews'* sister publication Pensions & Investments. JPMorgan is also one of the largest managers of central bank assets, sovereign wealth funds and insurance company assets. It also manages mutual fund assets and the accounts of wealthy individuals.

But JPMorgan broke the law and breached the trust of all of those clients, as did four other banks that also pleaded guilty, though they are not as significant in asset management, and particularly U.S. tax-exempt assets.

The Securities and Exchange Commission could have sent JPMorgan's asset management unit to the penalty box for a time after its guilty plea, but instead the agency granted JPMorgan and the other banks waivers to continue offering their services. In doing so, it likely considered the disruption that such action would cause not only U.S. clients, but also international heavyweights such as central banks, sovereign wealth funds and mutual funds, and through them the capital markets.

The banks also need exemptions from the Labor Department to continue managing assets for U. S. pension funds. In the case of JPMorgan, because of its size, that presents a particular dilemma for the DOL. The DOL has to decide whether to grant an exemption to allow JPMorgan to continue managing billions of dollars of U.S. retirement assets or to refuse to grant the exemption for a time, in effect placing the huge bank into the penalty box at least temporarily and causing its retirement plan clients to find new managers.

Clearly, JPMorgan should suffer some penalty other than the almost $1 billion fine it has agreed to pay. Any additional penalty must ensure the bank has taken steps to fix the behavioral and management problems that have become evident in the past decade, from apparently ignoring signs that Bernie Madoff's operation was a scam, to robo-signing of mortgage-related documents, to the "London Whale" transactions in credit default swaps that led to an $8 billion loss.

JPMORGAN should suffer some penalty other than the $1 billion fine it agreed to pay.

Given the difficulties a refusal to grant the exemption would cause thousands of institutional clients, the DOL likely will grant it on condition of closer supervision by the agency, but it also could forbid JPMorgan to add clients for a specified period.

DILEMMA FOR ADVISERS

The dilemma for financial advisers is whether they should encourage clients who have relationships with JPMorgan Chase to consider ending those relationships because of the bad behavior of so many bank employees and the apparently lax supervision from the top of the organization on down.

The answer should depend on the depth and strength of the relationship between the clients and the bank, and on how much confidence the clients have lost in bank management. Advisers can't make the decision for clients, but they can raise the issue: Is there a better place for their accounts?

Likewise, individual investors who own JPMorgan stock must consider whether the accumulation of missteps by the bank has so eroded its reputation that its stock price will suffer over the long run compared with other financial institutions in which they might invest.

The stream of scandals involving JPMorgan, most suggesting failure of oversight by its management, raises the issue of whether the bank has become too big to manage. If that is the case, perhaps bank regulators will take a fresh look at breaking it up. That would raise additional issues for clients and financial advisers.

Until the past decade, it was said that no one ever got fired for hiring JPMorgan for financial services. That might no longer be true.

Sometimes life happens

If Marco Rubio proved nothing else recently when he told a TV interviewer that he had cashed out a $68,000 401(k) account, it's that he's (a) not very wealthy, (b) not very bright, or (c) not unlike most middle-class Americans.

While a case could be made for (a) or (b), the correct answer is (c). Here's why.

RETIREMENT ACCOUNT RAID

In explaining that he raided his 401(k) plan to buy a refrigerator and an air conditioner, as well as to cover some college costs for his children and pay campaign expenses, the U.S. senator from Florida and GOP presidential candidate acknowledged an unpleasant fact: Despite the best efforts of middle-class Americans to save for retirement, life gets in the way.


ISTOCK

Unfortunately, many middle-class Americans aren't saving enough for retirement and some, like Mr. Rubio, even pull money out of their retirement plan prematurely. Advisers are quick to point out the error of their ways: Taxes have to be paid on the amount withdrawn early from a 401(k) account, probably at a rate higher than what the taxpayer would pay at the time of retirement. Along with the taxes, a 10% penalty is incurred.

NO. 1 GOAL

In last week's issue of *InvestmentNews*, the same one that carried the story of Mr. Rubio, another article appeared about a professor of finance at the University of Pennsylvania's Wharton School urging advisers to reinforce to their clients that retirement must be their No. 1 savings priority, ahead of college, recreation or any other goal.

Of course, that's fine if your clients are wealthy, but most Americans have finite financial resources and are forced to make difficult decisions when it comes to saving money. Not everyone can fully fund 529 college plans, 401(k) plans, health savings accounts and long-term care insurance policies all at the same time. In many cases, a child's education or an aging parent's health needs are going to trump a retirement fund. Is that so wrong?

What we are urging is a little perspective. Yes, retirement is important, but so are other financial goals. After all, finding out what's truly important to a client is part of an adviser's job. Advisers need to strike a balance. Give your clients the benefit of your counsel. Outline their options. But ultimately, try to support their decisions, even if you don't always agree with them.

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VIEWPOINT

Most financial advice tainted by advisers' self-interest

Honesty starts with calling things by their right name. Brokers of old were mostly salespeople. The "suitability" standard applied to them and others who managed money for third parties. This standard is akin to the "implied warranty of fitness," which applies to all salespeople. Car salesmen and insurance agents are not fiduciaries.

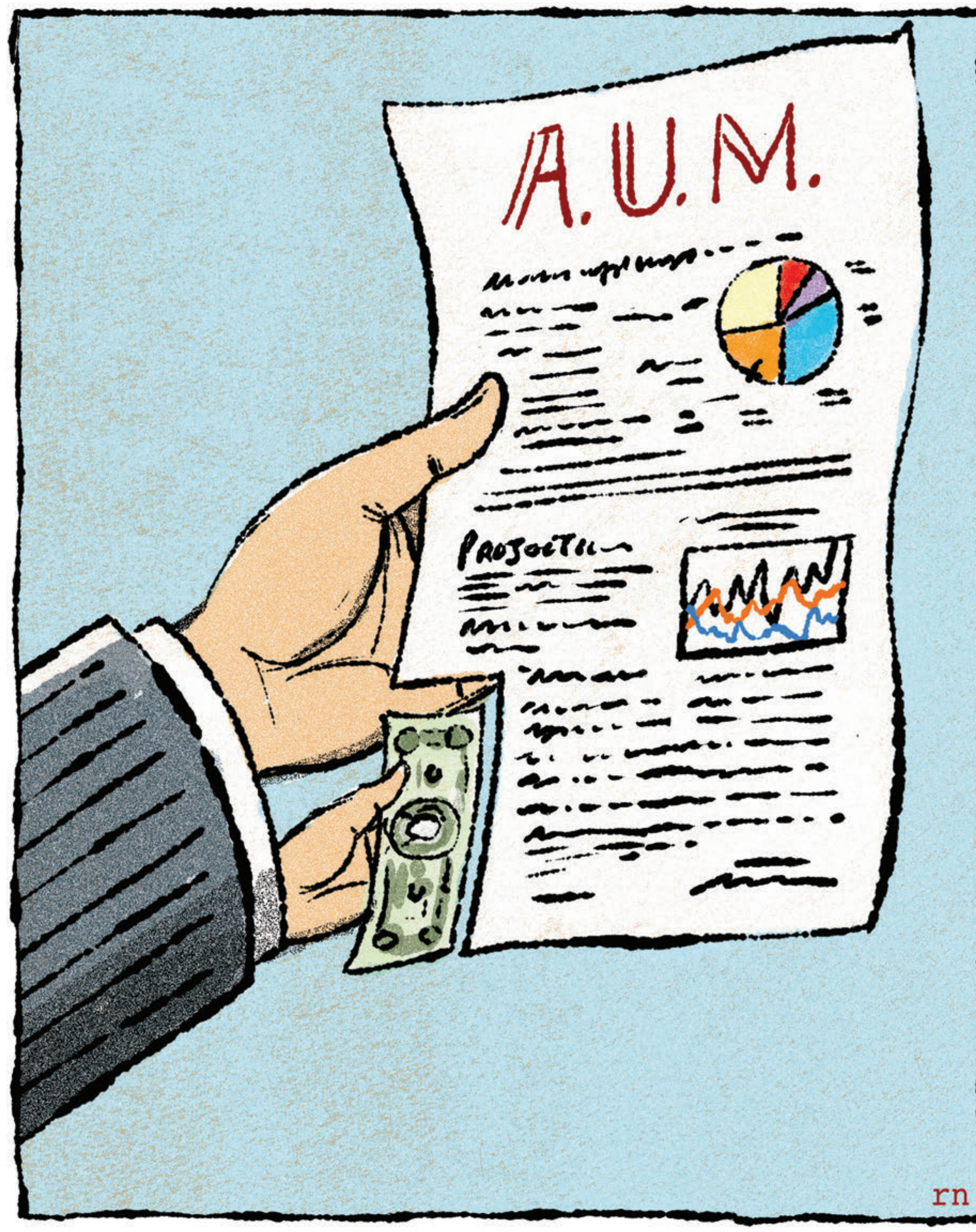
Investment advisers offer investment products for a commission, which may be a front-end load, a back-end load or a continuing load for assets under management. All are commissions contingent on a sale, so they are salespeople. "Gathering assets" is a sale.

OTHER VOICES
Bert Whitehead

A financial planner offers advice for a fee that is clearly stipulated and based on hours or a flat rate, but is not tied to the sale of a product and addresses all facets of a client's finances. So financial planners are fiduciaries.

When I was starting out as a family financial planner 43 years ago, I learned from my attorney that if I encouraged clients to invest in my then-profitable real estate syndication, it would be a breach of my fiduciary obligation. He told me that I must recuse myself from advising clients on this investment because it was a conflict of interest: I could not pit my investment against other investment opportunities objectively, as they had hired me to do. I took his advice and never syndicated projects again.

Most asset managers are in fact money managers, who are indistinguishable from the brokers of the past. They prefer to characterize themselves as objective "financial advisers" since they claim to provide a comprehensive approach, including tax planning, estate planning and insurance advice, most of which are contracted out to other firms receiving a split of the fee.



ROBERT NEUBECKER

CANONS OF ETHICS

Professions that are respected for upholding fiduciary obligations — doctors, lawyers and CPAs — address these issues in their respective canons of ethics. For example, it is considered an ethical breath for doctors to refer patients to labs they own. Accountants are held to a higher standard to prevent unseemly "independent" audits of firms that are their clients. Attorneys must refuse new clients when conflicts could arise with other current clients.

It is time for the profession to recognize that most financial advisers give advice tainted by their own self-interest. Indeed, the financial industry gives their producers an incentive to sell clients whatever is most advantageous to the employee's firm.

Advisers who charge clients based on the amount of AUM inevitably confront many conflicts of interest.

President Barack Obama mentioned the need for a fiduciary standard, especially when competing to manage retirees' 401(k)s and other investments. While promising tax-efficient investing, most of these advisers are not qualified tax advisers. Money managers are prone to recommend high-cost money management or even annuities without reviewing prior tax returns or preparing detailed tax planning projections. Less expensive investments aren't offered, as they provide less compensation for the adviser.

> **ADVISERS** who charge clients based on AUM confront many conflicts of interest.

AUM compensation taints other areas of advice, too. For example, should a client sell her old home or rent it? Should she remortgage and withdraw more money for investment? Borrow for children's college? Use donor-advised funds? Should a lower AUM rate be charged on cash and bonds, which have a lower yield than other asset classes? These decisions all affect the adviser's AUM income.

Typically, AUM full disclosure addresses an annual fee but does nothing to address the above issues. While the full disclosure standard is endorsed by the leading financial planning organizations (including the National Association of Personal Financial Advisors, the Certified Financial Planner Board of Standards Inc., etc.), it is a weak palliative that does little to address the potential abuses the public faces with an adviser. When confronted by conflicts, investment advisers often see the opportunity to gather more assets.

For years I have used the following Alliance of Comprehensive Advisors model as my gold standard: A financial planner's compensation cannot depend on the outcome of any transaction regarding which the client is relying on their counsel.

This strict fiduciary standard prevents the appearance of a conflict of interest, and safeguards the professional relationship from being used as a marketing tool. The model uses a fee calculation formula that takes into account not only assets but also income, complexity of the situation, responsibility undertaken, estimated time and value added.

Our industry is still dominated by structures that support salespeople, not fiduciary advisers. Leaders of the financial industry must step up and adopt standards recognized by other professions if we are to be held in the same high regard.

Bert Whitehead is president of Cambridge Connection Inc., a national RIA with over $500 million under management, and has been a fee-only planner since 1972. In 1995, he founded the non-profit Alliance of Comprehensive Advisors, which has trained over 300 financial planners.

Gross admits bet on bunds fell short

Wager was right, but execution was wrong, he acknowledges

Bloomberg News

Bill Gross acknowledges doing a poor job of implementing his recommendation to bet against German government bonds.

"My famous (infamous?) 'short of a lifetime' trade on the German bund market was well-timed but not necessarily well-executed," Mr. Gross wrote in his June investment outlook for Janus Capital Group Inc. "Still, it was a prime example of opportunities hatched by the excess of global monetary policy."

Mr. Gross, who runs the $1.52 billion Janus Global Unconstrained Bond Fund, advised selling short the 10-year German bund on April 21, when it yielded about 10 basis points, or 0.1%. Over the next month, yields climbed to 64 basis points as prices fell, vindicating Mr. Gross's prediction. Yet his unconstrained fund lost 2.5% in that period as he wagered German bunds would trade in a narrow range instead of betting all-out against the debt, data posted on Janus's website show.

GOOD WAY TO MAKE MONEY

The billionaire mutual fund manager is sticking to the idea that exploiting the differences in bond yields internationally is a good way for fixed-income investors to make money in a low-return environment with few opportunities. Mr. Gross suggested there could be opportunities in favoring Treasuries over British and Spanish debt.

Bill Gross: Should have bet all-out against bunds.

"Investors should want to choose the least overvalued asset to hold and the most overvalued asset to sell," he said.

The price disparity between bunds and Treasuries also offers opportunities for arbitrage, according to Mr. Gross. Ten-year Treasuries recently traded at about a 175 basis point premium to 10-year bunds, far above the historical norm of 25 basis points, Mr. Gross wrote.

"A purchase of Treasuries and a sale of bunds allows for not only a potential capital gain if the spread narrows, but a yield pickup while the Rip Van Winkle investor potentially waits for a probable outcome," he wrote.

Mr. Gross, 71, was the chief investment officer at Pacific Investment Management Co. until his sudden departure in September, when he joined Janus. The unconstrained fund he manages was down 0.2% this year as of May 22, trailing 91% of comparable funds, according to data from research firm Morningstar Inc. Since he took over on Oct. 6, the fund has declined 0.7%, lagging behind 77% of peers.

It's back to basics for advice on retirement plan rollovers

By Darla Mercado

It's unclear how rollover opportunities will be treated in the finalized version of the Labor Department's fiduciary reproposal, but that doesn't mean plan advisers can't provide some basic education on distribution options.

Industry observers were less than thrilled to find a provision in the Labor Department's conflict of interest rule that permits investment education for participants but prohibits advice or recommendations on specific investment products, managers, "or the value of particular securities or other property."

"They have proposed to take away the ability to say in an enrollment meeting, 'Here's an example of a conservative portfolio,'" Brian H. Graff, chief executive of the American Retirement Association, said during a May 14 virtual conference organized by the American Society of Pension Professionals & Actuaries.

"If you name specific investments that the participants have access to, by naming them, they're saying that that's a fiduciary act," he added.

BASIC EDUCATION

Advisers who want to improve their services to plan participants might want to educate them about rollovers at a basic level.

"We suggest a three-pronged strategy," said Matt Sommer, vice president and director of retirement strategy at Janus Capital Group Inc. "Regardless of how this proposed regulation ultimately ends up, these are some best practices that advisers can adopt today that can put them in a good position to service participants."

• Net unrealized appreciation. Employees might own highly appreciated shares of the company they work for, and they may have a low cost basis — meaning they acquired those shares cheaply. When the time comes to leave a job, an employee has a choice: take the shares in an "in-kind" distribution or roll everything over into an IRA.

If the employee goes with an "in-kind" distribution and deposits the shares in a taxable account, he or she will owe ordinary income tax only on the cost basis of the stock and a 10% penalty if under age 59½. If the employee were to sell the shares at some point in the future,

Continued on Page 44

"IT'S NOT a new rule. This is just an example of where advisers can separate themselves."

Matt Sommer
Vice president
Janus Capital Group

Maturity is what matters in bonds

Bloomberg News

It's been a roller-coaster ride for long-term U.S. bonds this year.

If you played it correctly at every turn, you could've made a killing, given the unprecedented 8.9% return in January alone. If you played it wrong, which was easy to do, you probably lost a good deal of cash, with the debt plunging 10% since the start of February.

Here's some advice on how to proceed from an investor who's played it well: Hang onto your 30-year Treasuries. Think of buying more.

GLOBAL BACKUP

"Given the backup that we've seen globally in the past four to five weeks, our attitude is we want to be longer" with respect to the maturities of the firm's debt holdings, said Mark Lindbloom, a money manager at Western Asset Management Co. who helps oversee the $15 billion Western Asset Core Plus Bond Fund, which has outperformed 96% of its peers over the past year. "We are more aggressively longer duration than we have been in some time."

The firm has boosted its holdings of longer-dated U.S. government bonds to levels last seen at the end of 2014, Mr. Lindbloom said. Not only do the yields look relatively attractive, he said, but the debt provides an effective hedge against a sell-off in riskier assets, such as junk bonds and stocks.

"WE ARE more aggressively longer duration than we have been in some time."

Matt Lindbloom
Money manager
Western Asset Management

At first glance, it may seem odd to buy U.S. government bonds now.

The Federal Reserve is moving closer to raising benchmark interest rates for the first time since 2006 as the world's biggest economy appears to be gaining steam. Inflation expectations, while still well below average, have crept up a bit in the past few months as oil prices stabilize.

On the other hand, the data hardly point to gangbuster growth anywhere in the world, even in the U.S. The stimulus programs of central banks from Europe to Japan are suppressing yields in those regions, sending yields negative on trillions of dollars of debt and prodding investors to search for better value.

That's brought many global investors to the U.S., where long-term yields of 2.9% look like a steal compared with the 1.2% yield on similar-maturity German bonds. That's kept a lid on how much yields could rise at this point.

Clearly, Mr. Lindbloom isn't the only investor who sees value in longer-term Treasuries right now. Yields on the 30-year securities have fallen from 3.1% on May 13. After losing 12.4% from the end of January through that day, longer-term U.S. debt has since gained 2.8%, according to Bank of America Merrill Lynch index data.

If yields keep shrinking, there will be a point at which investors should sell the debt again, Mr. Lindbloom said. Just not quite yet.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InvestmentNews

RIA Rundown 2015

JAMES YANG

TOP RIAs TOOK FEE ROAD

Once nonconformists in a commission-based world, now they sit at the head of their industry

By Mason Braswell

WHEN VERITABLE FOUNDER Michael Stolper was working at Kidder Peabody & Co. in the early 1980s, he found that sometimes the best advice for clients was to do nothing. But that wasn't very lucrative, since his income depended on commissions. So he asked his firm for permission to do something revolutionary at the time: charge a flat fee for financial advice.

"Sometimes the way I was paid as a broker was in conflict with the advice I was giving," Mr. Stolper recalled. "I had a few wealthy clients who were willing to pay a quarterly fee just to get advice, not necessarily to buy and sell things."

Mr. Stolper left Kidder Peabody, which eventually became part of UBS Wealth Management, after a client challenged him to strike out on his own. He opened Veritable in 1986 with 10 clients and $60 million under management. Thanks largely to referrals from that core group, the firm now has 300 ultrawealthy clients and more than $13 billion in AUM.

The top of *InvestmentNews'* annual ranking of fee-only registered investment advisers reflects a hodgepodge of different business models. The largest, Financial Engines Advisors ($104.4 billion in AUM), relies exclusively on providing advice to employer-sponsored retirement plans. Two others among the top 10, Fisher Investments ($60.8 billion in AUM) and Edelman Financial Services ($14.4 billion in AUM), have attracted thousands of clients through mass marketing.

WEB EXCLUSIVE
For critical, up-to-the-minute information on more than 1,600 fee-only RIAs, go to InvestmentNews.com/riareport

COMPETITION FOR ULTRAWEALTHY

But the bulk of the top RIAs are traditional firms that collectively pose some of the strongest competition to the largest brokerages when it comes to ultrawealthy clients. As a group, the 10 largest firms account for $300 billion in AUM, and none has less than $11 billion under management.

Despite their size, these traditional RIAs are somewhat old-fashioned, relatively quiet businesses that are operating as large family-office-style practices focused on clients with $5 million or more. The average account at many of the firms is in excess of $10 million. They don't make a lot of noise with acquisitions. They grow organically through referrals, and aren't concerned about robo-advisers or jumping on the latest industry trends.

"This is a pretty simple business," said Mark Hurley, chief executive of Fiduciary Network, which provides consultation and financing for advisory firms. "There is no silver bullet. It's all about execution."

"It's a matter of the maturity of our business and success in executing," said Richard R. Hough III, chief executive and founder of fifth-ranked Silvercrest Asset Management Group. "Success in many ways begets success."

One key for many of the firms has been getting clients to go all in. Usually wealthy clients split their assets up among several advisory firms, but Veritable, for example, makes it mandatory that clients keep 100% of their assets at the firm.

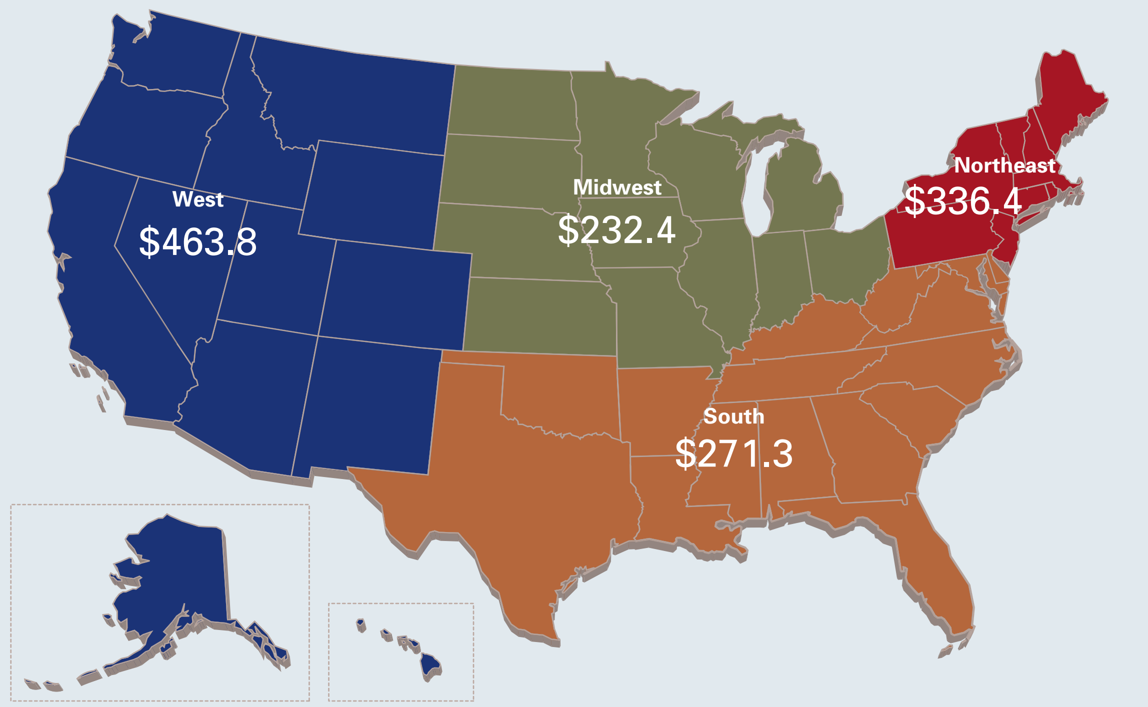
"Sometimes we don't win clients because of that," Mr.

Continued on Page 14

INSIDE:

Where the wealth is

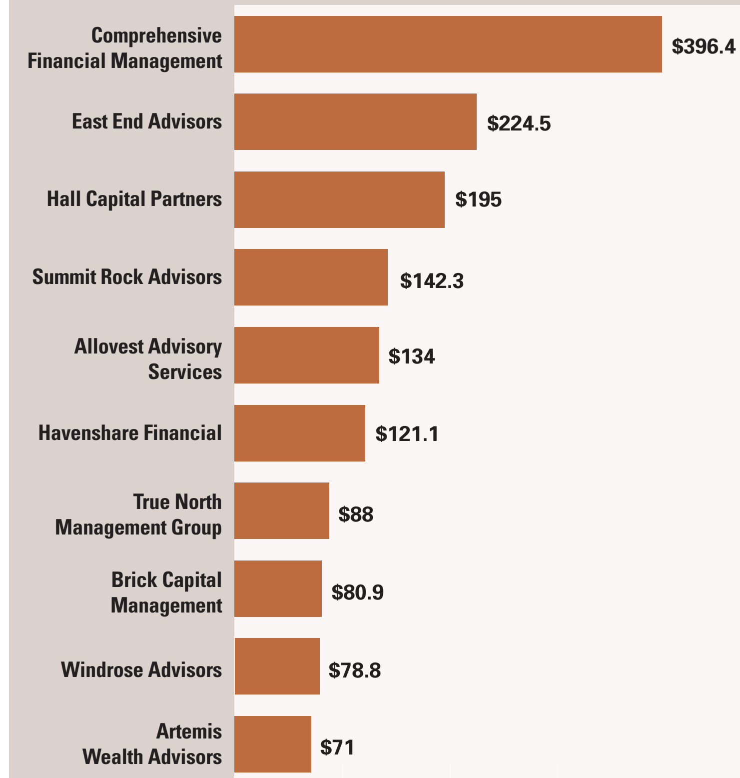
Industrywide total assets by region ($B)



Regions are defined as: Northeast (CT, ME, MA, NH, NJ, NY, PA, RI, VT), Midwest (IL, IN, IA, KS, MI, MN, MO, NE, ND, OH, SD, WI), South (AL, AR, DE, FL, GA, KY, LA, MD (includes D.C.), MS, NC, OK, SC, TN, TX, VA, WV) and West (AK, AZ, CA, CO, HI, ID, MT, NV, NM, OR, UT, WA, WY).

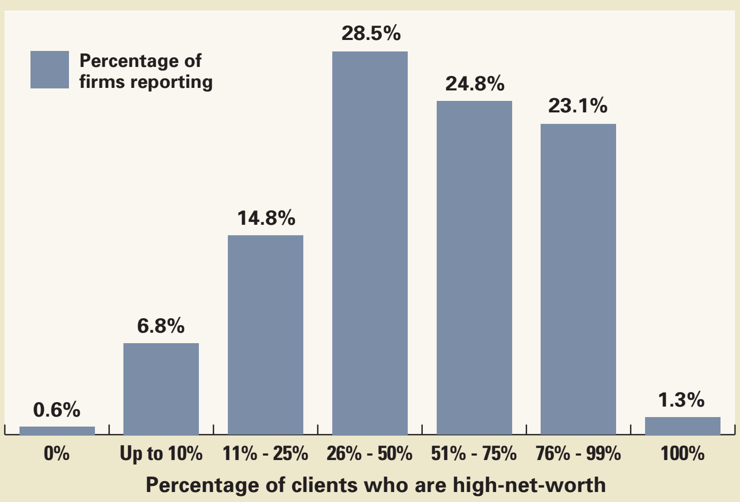
Taking account

Largest fee-only RIAs ranked by average assets per account ($M)



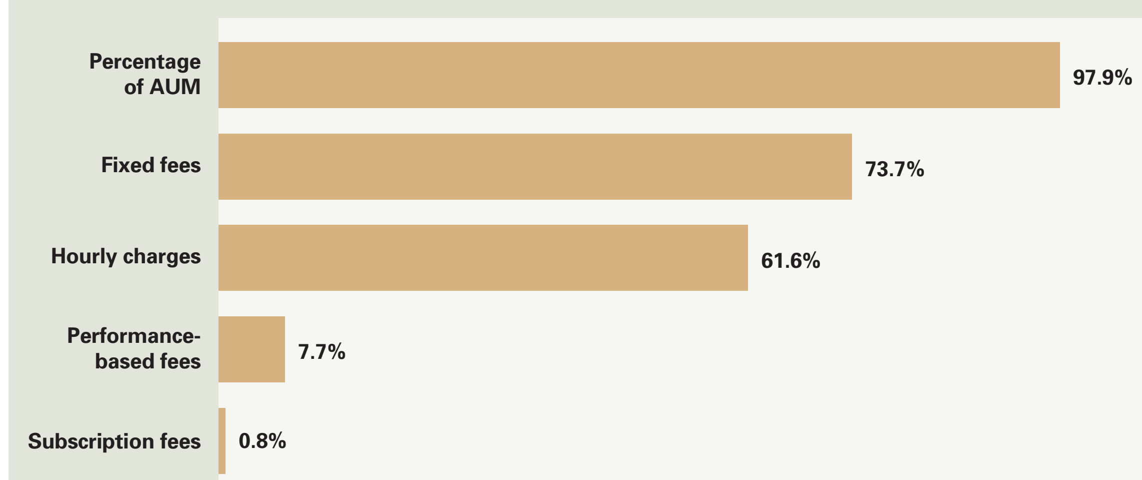
The money spread

How high-net-worth individuals are represented at fee-only RIAs



How fee-only RIAs get paid

Percentage of firms that base compensation on the following:



GERARDO TABONES

Source for all charts: *InvestmentNews* Data

Top RIAs took the fee route

Continued from Page 12

Stolper acknowledged. "But it is an approach that we think is absolutely necessary to avoid ending up in a situation where you don't have complete information and are in a horse race with another consultant or performance-based manager."

Around two-thirds of clients at Chevy Chase Trust Co. also have 100% of their assets at that firm, according to CEO Peter Welber.

Several firms, including Silvercrest, manage all or most of their clients' money in-house, as opposed to outsourcing investment management.

"We brought that capability in-house right away," Mr. Hough said. "It was a clear differentiator for us to have institutional-quality management."

Most of the firms are still privately held, although some have monetized their success by selling their firm or going public.

Silvercrest, which opened its doors in 2002 with $30 million in AUM, is one of two firms on the list to have gone public (Financial Engines is the other), a decision that was made in 2013 when the firm had $12 billion in assets.

In hindsight, the decision may have been made sooner than was ideal, according to Mr. Hough, but he said the move ultimately proved to be a boon for the company.

"We were close to the right time, but it was perhaps a bit harder than expected," Mr. Hough said. "We had to be very clear about our business strategy and how we would execute it. We had to tell a very compelling story."

Oxford Financial Group, which targets clients who have assets between $5 million and $40 million, represents the contingent of privately held firms still led by their founders. Jeffrey H. Thomasson started the firm in 1981, the day after he graduated from college, and began cold-calling local business owners.

"Thomasson is like the Michael Dell of this industry," said Mr. Hurley, referring to the founder of Dell Inc., who at a young age helped revolutionize the distribution of personal computers.

165%
Rate of growth last year at $4 billion fee-only RIA Halbert Hargrove — illustrating how quickly some of the smaller top RIAs are growing

TWO BREAKFASTS

Mr. Thomasson also represents the commitment required to build a firm into the $10 billion-plus range. He spent his first several years making thousands of cold calls and setting up 15 to 20 meetings per week. Most days, he ate two breakfasts, one at 7 a.m. and another at 8 a.m, he said.

"The biggest challenge was making sure the seven o'clock guy was done before eight o'clock," he recalled.

For all their success, few of the top RIAs appear to be resting on their laurels. Many are still growing at a dramatic clip. Chevy Chase Trust, fourth on the list, added $3 billion last year alone, bringing it to $21 billion in AUM. Some smaller fee-only firms are growing even more dramatically, as much as 165% at $4 billion firm Halbert Hargrove, for example.

JIM GRAHAM

Mr. Hurley warned that firms that began to believe in their own success would be the ones to start sliding down the list.

"The leadership of a lot of organizations that have gotten to a certain size kind of let up and take it easy," Mr. Hurley said. "The minute you start believing your own press release is when you're in trouble."

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InvestmentNews RIA Rundown 2015

Largest fee-only RIAs

Ranked by total assets under management

Rank 2015	Firm	Phone/website	2015 Total assets ($M)	2015 Total accounts	Discretionary assets ($M)	Discretionary accounts	Nondiscretionary assets ($M)	Nondiscretionary accounts	Employees
1	**Financial Engines Advisors** 1050 Enterprise Way, Third Floor Sunnyvale, CA 94089	408-498-6000 financialengines.com	**$104,426.1**	953,754	$104,426.1	953,754	$0.0	0	520
2	**Fisher Investments** 5525 N.W. Fisher Creek Drive Camas, WA 98607	800-851-8845 fisherinvestments.com	**$60,756.2**	51,483	$60,756.2	51,483	$0.0	0	1,085
3	**Hall Capital Partners** One Maritime Plaza, Suite 500 San Francisco, CA 94111	415-288-0544 hallcapital.com	**$32,179.0**	165	$7,891.9	46	$24,287.1	119	118
4	**Chevy Chase Trust Co.** 7501 Wisconsin Ave., 15th Floor Bethesda, MD 20814	240-497-5000 chevychasetrust.com	**$21,211.1**	3,192	$21,211.1	3,192	$0.0	0	80
5	**Silvercrest Asset Management Group** 1330 Avenue of the Americas, 38th Floor New York, NY 10019	212-649-0600 silvercrestgroup.com	**$16,289.7**	856	$11,113.3	831	$5,176.5	25	99
6	**Edelman Financial Services** 4000 Legato Road, Ninth Floor Fairfax, VA 22033	703-818-0800 ricedelman.com	**$14,413.0**	63,400	$14,413.0	63,400	$0.0	0	339
7	**Oxford Financial Group** 11711 N. Meridian St., Suite 600 Carmel, IN 46032	317-843-5678 ofgltd.com	**$13,818.2**	7,069	$2,201.3	1,947	$11,616.8	5,122	130
8	**Veritable** 6022 West Chester Pike Newtown Square, PA 19073	610-640-9551 veritablelp.com	**$13,448.9**	2,927	$13,025.3	2,767	$423.5	160	83
9	**Jasper Ridge Partners** 201 Main St., Suite 1000 Fort Worth, TX 76102	817-333-0027 jasperridge.com	**$12,321.8**	2,139	$12,221.7	2,138	$100.1	1	58
10	**Comprehensive Financial Management** 720 University Ave., Suite 200 Los Gatos, CA 95032	408-358-3316 N/A	**$11,100.0**	28	$11,100.0	28	$0.0	0	25
11	**Summit Rock Advisors** 9 W. 57th St., 12th Floor New York, NY 10019	212-993-7150 summit-rock.com	**$10,243.0**	72	$4,713.0	42	$5,530.0	30	45
12	**Brownson Rehmus & Foxworth Inc.** 200 S. Wacker Drive, Suite 2300 Chicago, IL 60606	312-346-5850 brfinc.com	**$10,127.9**	536	$0.0	0	$10,127.9	536	56
13	**The Mutual Fund Store** 7301 College Blvd., Suite 220 Overland Park, KS 66210	913-319-8100 mutualfundstore.com	**$10,080.0**	81,310	$10,080.0	81,310	$0.0	0	339
14	**Aperio Group** Three Harbor Drive, Suite 315 Sausalito, CA 94965	415-339-4300 aperiogroup.com	**$10,046.0**	1,856	$10,046.0	1,856	$0.0	0	40
15	**Rockefeller & Co. Inc.** 10 Rockefeller Plaza New York, NY 10020	212-549-5100 rockitco.com	**$9,769.8**	2,018	$9,394.9	1,818	$374.9	200	131
16	**Kayne Anderson Rudnick Investment Mgmt.** 1800 Avenue of the Stars, Second Floor Los Angeles, CA 90067	310-556-2721 kayne.com	**$9,367.4**	13,394	$7,990.7	7,712	$1,376.6	5,682	76
17	**Boston Private Wealth** Ten Post Office Square Boston, MA 02109	800-422-6172 bostonprivatewm.com	**$8,935.6**	8,763	$7,808.9	8,438	$1,126.7	325	136
18	**BBR Partners** Two Grand Central Tower, 140 E. 45th St., 26th Floor New York, NY 10017	212-313-9870 bbrpartners.com	**$8,884.3**	2,385	$7,107.7	2,224	$1,776.6	161	83
19	**Johnson Investment Counsel Inc.** 3777 W. Fork Road Cincinnati, OH 45247	513-661-3100 johnsoninv.com	**$8,675.6**	8,315	$8,675.6	8,315	$0.0	0	105
20	**Aspiriant** 50 California St., Suite 2600 San Francisco, CA 94111	415-371-7800 aspiriant.com	**$8,426.7**	6,008	$5,748.1	4,318	$2,678.6	1,690	130
21	**TAG Associates** 810 Seventh Ave., Seventh Floor New York, NY 10019	212-275-1500 tagassoc.com	**$8,374.7**	1,169	$316.8	36	$8,057.9	1,133	74
22	**Ronald Blue & Co.** 300 Colonial Center Parkway, Suite 300 Roswell, GA 30076	770-280-6000 rbis.ronblue.com	**$8,271.7**	17,675	$7,423.2	17,016	$848.5	659	275
23	**Convergent Wealth Advisors** 12505 Park Potomac Ave., Suite 400 Potomac, MD 20854	301-770-6300 independence.com	**$8,202.1**	3,499	$5,847.0	2,967	$2,355.0	532	67
24	**Litman Gregory Asset Management** 4 Orinda Way, Suite 200-D Orinda, CA 94563	925-254-8999 lgam.com	**$7,533.2**	1,165	$1,395.8	1,160	$6,137.4	5	69
25	**Bahl & Gaynor Inc.** 212 East Third Street, Suite 200 Cincinnati, OH 45202	513-287-6100 bahl-gaynor.com	**$7,468.1**	1,825	$7,063.1	1,782	$405.0	43	17

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InvestmentNews RIA Rundown 2015

Largest fee-only RIAs

Ranked by total assets under management

Continued from Page 16

Rank 2015	Firm	Phone/website	2015 Total assets ($M)	2015 Total accounts	Discretionary assets ($M)	Discretionary accounts	Nondiscretionary assets ($M)	Nondiscretionary accounts	Employees
26	**myCIO Wealth Partners** Cira Centre, 2929 Arch St., Suite 650 Philadelphia, PA 19104	267-295-2280 myciowp.com	**$7,003.3**	4,948	$3,025.6	2,964	$3,977.3	1,984	35
27	**FCI Advisors** 442 W. 47th St. Kansas City, MO 64112	816-329-1500 fciadvisors.com	**$6,319.6**	9,569	$5,398.3	8,120	$921.3	1,449	59
28	**Mercer Global Advisors Inc.** 1801 E. Cabrillo Blvd. Santa Barbara, CA 93108	800-258-1559 merceradvisors.com	**$6,142.8**	16,805	$5,978.1	15,638	$164.7	1,167	105
29	**Athena Capital Advisors** 55 Old Bedford Road, Suite 302 Lincoln, MA 01773	781-274-9300 athenacapital.com	**$5,943.7**	460	$5,139.6	399	$804.1	61	47
30	**Reynders McVeigh Capital Mgmt.** 121 High St., Suite 501 Boston, MA 02110	617-226-9999 reyndersmcveigh.com	**$5,846.9**	963	$926.2	877	$4,920.6	86	14
31	**KLS Professional Advisors Group** 1325 Avenue of the Americas, 14th Floor New York, NY 10019	212-355-0346 klsadvisors.com	**$5,814.1**	8,995	$5,167.6	6,070	$646.4	2,925	46
32	**Reinhart Partners Inc.** 1500 W. Market St., Suite 100 Mequon, WI 53092	262-241-2020 reinhart-partnersinc.com	**$5,376.3**	5,558	$5,357.3	5,547	$19.0	11	27
33	**Tiedemann Wealth Management** 520 Madison Ave., 26th Floor New York, NY 10022	212-396-5900 tiedemannwealth.com	**$5,336.3**	1,220	$4,753.1	976	$583.2	244	34
34	**Ballentine Partners** 230 Third Ave., Suite 6 Waltham, MA 02451	781-341-1300 ballentinepartners.com	**$5,238.4**	2,866	$2,288.3	1,347	$2,950.2	1,519	53
35	**East End Advisors** 610 Fifth Ave., Fifth Floor New York, NY 10020	212-218-8137 N/A	**$4,938.6**	22	$479.4	10	$4,459.2	12	15
36	**Gresham Partners** 333 W. Wacker Drive, Suite 700 Chicago, IL 60606	312-960-0200 greshampartners.com	**$4,758.2**	2,047	$2,738.9	86	$2,019.3	1,961	29
37	**Fiduciary Counselling Inc.** 2000 Wells Fargo Place, 30 East Seventh St. St Paul, MN 55101	651-228-0935 fidcouns.com	**$4,756.1**	1,294	$2,463.1	1,095	$2,292.9	199	74
38	**Douglas C. Lane & Associates Inc.** 777 Third Ave., 38th Floor New York, NY 10017	212-262-7670 dclainc.com	**$4,378.2**	4,149	$4,375.4	4,145	$2.8	4	32
39	**CV Advisors** 19495 Biscayne Blvd., Suite 808 Aventura, FL 33180	305-358-5990 cv-advisors.com	**$4,277.4**	96	$273.9	16	$4,003.5	80	26
40	**Ferguson Wellman Capital Management Inc.** 888 S.W, Fifth Ave., Suite 1200 Portland, OR 97204	503-226-1444 fergusonwellman.com	**$4,211.9**	2,292	$4,211.9	2,292	$0.0	0	43
41	**Welch & Forbes** 45 School St. Boston, MA 02108	617-523-1635 welchforbes.com	**$4,169.4**	2,484	$3,817.7	2,356	$351.7	128	53
42	**Savant Capital Management** 190 Buckley Drive Rockford, IL 61107	815-227-0300 savantcapital.com	**$4,120.0**	3,385	$4,089.0	3,384	$31.0	1	117
43	**Halbert Hargrove** 111 W. Ocean Boulevard, Suite 2300 Long Beach, CA 90802	562-435-5657 halberthargrove.com	**$4,108.4**	3,258	$2,225.7	3,244	$1,882.7	14	38
44	**Altair Advisers** 303 W. Madison St., Suite 600 Chicago, IL 60606	312-429-3000 altairadvisers.com	**$4,051.3**	569	$795.6	330	$3,255.7	239	40
45	**Symmetry Partners** 628 Hebron Ave., Building 2, Suite 502 Glastonbury, CT 06033	860-734-2000 symmetrypartners.com	**$4,029.0**	23,133	$4,029.0	23,133	$0.0	0	86
46	**Seven Bridges Advisors** 767 Fifth Ave., 24th Floor New York, NY 10153	212-490-6320 sevenbridgesadvisors.com	**$4,024.6**	111	$1,865.2	19	$2,159.4	92	20
47	**Finaccess Advisors** 1111 Brickell Ave., Suite 2300 Miami, FL 33131	305-377-1112 N/A	**$4,003.6**	260	$0.0	0	$4,003.6	260	14
48	**Seven Post Investment Office** One Montgomery St., Suite 3150 San Francisco, CA 94104	415-341-9200 sevenpost.com	**$3,998.1**	332	$3,594.1	198	$404.0	134	13
49	**Homrich Berg** One Buckhead Plaza, Suite 830, 3060 Peachtree Road N.W. Atlanta, GA 30305	404-264-1400 homrichberg.com	**$3,936.2**	5,384	$3,518.2	5,161	$417.9	223	71
50	**Mill Creek Capital Advisors** 161 Washington St., Suite 1500 Conshohocken, PA 19428	610-941-7700 millcreekcap.com	**$3,838.3**	268	$3,043.9	259	$794.4	9	20

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InvestmentNews RIA Rundown 2015

Biggest gainers

$1B+ fee-only RIAs ranked by year-over-year growth in total assets

Rank 2015	Firm	Phone/website	% change	2015 Total assets ($M)	2015 Total accounts	Discretionary assets ($M)	Discretionary accounts	Nondiscretionary assets ($M)	Nondiscretionary accounts	Employees
1	**Accredited Investors Inc.** 5200 W. 73rd St. Edina, MN 55439	952-841-2222 accreditedinvestors.com	**284.8%**	$1,446.3	3,357	$1,406.4	3,276	$39.8	81	31
2	**R.M. Davis Inc.** 24 City Center Portland, ME 04101	207-774-0022 rmdavis.com	**188.8%**	$3,090.1	4,090	$3,072.3	4,083	$17.8	7	39
3	**Halbert Hargrove** 111 W. Ocean Blvd., Suite 2300 Long Beach, CA 90802	562-435-5657 halberthargrove.com	**164.6%**	$4,108.4	3,258	$2,225.7	3,244	$1,882.7	14	38
4	**Truepoint, Inc.** 4901 Hunt Road, Suite 200 Cincinnati, OH 45242	513-792-6648 truepointcapital.com	**82.6%**	$1,859.4	4,086	$1,848.0	4,004	$11.4	82	36
5	**Hartland & Co** 1100 Superior Ave. East, Suite 700 Cleveland, OH 44114	216-621-1090 hartland.com	**80.8%**	$2,264.2	1,939	$1,577.2	1,205	$687.0	734	60
6	**Resource Consulting Group** 301 E. Pine St., Suite 600 Orlando, FL 32801	407-422-0252 resourceconsulting.com	**69.6%**	$1,319.5	1,773	$1,319.5	1,773	$0.0	0	15
7	**Montag** 133 Peachtree St., 2500 Georgia Pacific Center Atlanta, GA 30303	404-522-5774 montagwealth.com	**60.7%**	$1,384.4	1,019	$1,249.0	884	$135.4	135	21
8	**Klingenstein Fields & Co.** 125 Park Ave., Suite 1700 New York, NY 10017	212-492-7000 klingenstein.com	**49.5%**	$3,229.6	1,122	$3,199.5	1,116	$30.1	6	30
9	**Lee Financial Corp.** 8350 N. Central Expressway, Suite 1800 Dallas, TX 75206	972-960-1001 leefin.com	**47.3%**	$1,063.7	1,344	$1,054.0	1,202	$9.6	142	56
10	**Wescott Financial Advisory Group** 30 S. 17th St. Philadelphia, PA 19103	215-979-1600 wescott.com	**43.7%**	$2,078.7	448	$1,926.3	439	$152.4	9	29
11	**Regentatlantic** 1200 Mount Kemble Ave. Morristown, NJ 07960	973-425-8420 regentatlantic.com	**43.6%**	$3,157.2	1,522	$3,093.7	1,436	$63.4	86	24
12	**Moody Lynn & Lieberson Inc.** One Boston Place Boston, MA 02108	617-973-0590 moodylynn.com	**43.3%**	$1,015.1	703	$1,015.1	703	$0.0	0	10
13	**Financial Clarity, Inc.** 2570 W. El Camino Real, Suite 600 Mountain View, CA 94040	650-559-9900 financialclarity.com	**42.3%**	$1,287.5	31	$0.0	0	$1,287.5	31	10
14	**Wilbanks Smith & Thomas Asset Management** 150 W. Main St., Suite 1700 Norfolk, VA 23510	757-623-3676 wstam.com	**38.3%**	$2,561.5	3,847	$2,539.4	3,831	$22.1	16	31
15	**Donaldson Capital Management** 20 N.W. First Street, Fifth Floor Evansville, IN 47708	812-421-3211 dcmol.com	**36.4%**	$1,037.0	2,155	$990.9	1,976	$46.2	179	27
16	**Bahl & Gaynor Inc.** 212 E. Third St., Suite 200 Cincinnati, OH 45202	513-287-6100 bahl-gaynor.com	**36.3%**	$7,468.1	1,825	$7,063.1	1,782	$405.0	43	17
17	**F. L. Putnam Investment Management Co.** 20 William St., Suite G40 Wellesley, MA 02481	781-235-6323 flputnam.com	**34.3%**	$1,364.8	1,321	$1,364.8	1,321	$0.0	0	22
18	**Alaska Permanent Capital Management Co.** 900 W. Fifth Avenue, Suite 601 Anchorage, AK 99501	907-272-7575 apcm.net	**34.1%**	$2,879.5	98	$2,775.0	96	$104.5	2	15
19	**Rockefeller & Co. Inc.** 10 Rockefeller Plaza New York, NY 10020	212-549-5100 rockitco.com	**33.5%**	$9,769.8	2,018	$9,394.9	1,818	$374.9	200	131
20	**Parsons Capital Management Inc.** 10 Weybosset St., Suite 1000 Providence, RI 02903	401-521-2440 parsonscapital.com	**32.8%**	$1,109.7	1,375	$1,092.7	1,373	$17.0	2	16
21	**Signature** World Trade Center, 101 W. Main St., Suite 700 Norfolk, VA 23510-1676	757-625-7670 signatureus.com	**31.8%**	$3,331.7	987	$3,331.7	987	$0.0	0	38
22	**Federal Street Advisors Inc.** 24 Federal St. Boston, MA 02110	617-350-8999 federalstreet.com	**31.4%**	$3,586.6	1,521	$97.4	53	$3,489.2	1,468	32
23	**FCI Advisors** 442 W. 47th St. Kansas City, MO 64112	816-329-1500 fciadvisors.com	**31.4%**	$6,319.6	9,569	$5,398.3	8,120	$921.3	1,449	59
24	**Reinhart Partners Inc.** 1500 W. Market St., Suite 100 Mequon, WI 53092	262-241-2020 reinhart-partnersinc.com	**30.0%**	$5,376.3	5,558	$5,357.3	5,547	$19.0	11	27
25	**North Star Asset Management Inc.** 59 Racine St., Suite A Menasha, WI 54952	920-729-7900 northstarinvestments.com	**29.2%**	$1,200.2	1,684	$1,174.8	1,674	$25.4	10	16

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Source: *InvestmentNews* Data

Top fee-only RIAs by state

States where fee-only RIAs are headquartered, ranked by total assets

	State/top 3 firms	# of fee-only RIAs	Total assets ($M)/ market share	Discretionary assets ($M)/ market share	Nondiscretionary assets ($M)/ market share
1	**California**	247	**$312,357.1**	$259,868.5	$52,488.6
1	Financial Engines Advisors		33.4%	40.2%	0.0%
2	Hall Capital Partners		10.3%	3.0%	46.3%
3	Comprehensive Financial Management		3.6%	4.3%	0.0%
2	**New York**	95	**$128,725.0**	$89,874.3	$38,850.7
1	Silvercrest Asset Management Group		12.7%	12.4%	13.3%
2	Summit Rock Advisors		8.0%	5.2%	14.2%
3	Rockefeller & Co. Inc.		7.6%	10.5%	1.0%
3	**Washington**	59	**$98,942.0**	$90,593.6	$8,348.4
1	Fisher Investments		61.4%	67.1%	0.0%
2	Cornerstone Advisors Inc.		3.4%	3.7%	0.0%
3	Freestone Capital Management		3.0%	3.2%	0.9%
4	**Massachusetts**	85	**$82,220.8**	$61,738.7	$20,482.1
1	Boston Private Wealth		10.9%	12.6%	5.5%
2	Athena Capital Advisors		7.2%	8.3%	3.9%
3	Reynders McCeigh Capital Management		7.1%	1.5%	24.0%
5	**Texas**	93	**$60,435.6**	$49,815.7	$10,619.9
1	Jasper Ridge Partners		20.4%	24.5%	0.9%
2	Robertson Griege & Thoele Financial Advisors		6.2%	6.1%	6.5%
3	South Texas Money Management Ltd.		4.3%	4.9%	1.5%
6	**Illinois**	71	**$59,693.9**	$37,846.9	$21,847.0
1	Brownson Rehmus & Foxworth Inc.		17.0%	0.0%	46.4%
2	Gresham Partners		8.0%	7.2%	9.2%
3	Savant Capital Management		6.9%	10.8%	0.1%
7	**Pennsylvania**	63	**$56,736.3**	$45,909.9	$10,826.5
1	Veritable LP		23.7%	28.4%	3.9%
2	myCIO Wealth Partners		12.3%	6.6%	36.7%
3	Mill Creek Capital Advisors		6.8%	6.6%	7.3%
8	**Ohio**	62	**$52,228.0**	$44,951.1	$7,276.9
1	Johnson Investment Counsel Inc.		16.6%	19.3%	0.0%
2	Bahl & Gaynor Inc.		14.3%	15.7%	5.6%
3	Bartlett & Co.		6.6%	7.5%	1.1%
9	**Maryland**	41	**$48,634.1**	$43,654.7	$4,979.4
1	Chevy Chase Trust Company		43.6%	48.6%	0.0%
2	Convergent Wealth Advisors		16.9%	13.4%	47.3%
3	WMS Partners		5.7%	4.6%	15.1%
10	**Virginia**	62	**$43,692.5**	$40,108.9	$3,583.6
1	Edelman Financial Services		33.0%	35.9%	0.0%
2	Signature		7.6%	8.3%	0.0%
3	Wilbanks Smith & Thomas Asset Management		5.9%	6.3%	0.6%
11	**Georgia**	52	**$34,845.8**	$30,448.2	$4,397.6
1	Ronald Blue & Co.		23.7%	24.4%	19.3%
2	Homrich Berg		11.3%	11.6%	9.5%
3	Capital Directions		4.6%	3.6%	11.6%
12	**Indiana**	32	**$25,751.4**	$11,871.9	$13,879.5
1	Oxford Financial Group Ltd.		53.7%	18.5%	83.7%
2	Valeo Financial Advisors		6.7%	0.6%	11.9%
3	Sheaff Brock Investment Advisors		4.7%	10.2%	0.0%
13	**Connecticut**	32	**$25,301.9**	$22,442.4	$2,859.5
1	Symmetry Partners		15.9%	18.0%	0.0%
2	Chilton Investment Services		15.0%	16.9%	0.8%
3	Northcoast Asset Management		11.1%	12.5%	0.0%
14	**Florida**	51	**$25,140.0**	$12,763.8	$12,376.2
1	CV Advisors		17.0%	2.1%	32.3%
2	Finaccess Advisors		15.9%	0.0%	32.3%
3	WE Family Offices		13.2%	0.0%	26.8%
15	**Wisconsin**	41	**$22,387.9**	$20,222.0	$2,165.9
1	Reinhart Partners Inc.		24.0%	26.5%	0.9%
2	Orgel Wealth Management		13.7%	15.2%	0.0%
3	North Star Asset Management Inc.		5.4%	5.8%	1.2%
16	**New Jersey**	46	**$21,149.1**	$15,850.4	$5,298.8
1	Regentatlantic		14.9%	19.5%	1.2%
2	Massey Quick & Co.		12.4%	4.5%	36.0%
3	Circle Wealth Management		6.1%	2.4%	17.2%
17	**North Carolina**	42	**$18,891.5**	$15,589.7	$3,301.8
1	Parsec Financial Management Inc.		9.1%	10.2%	3.6%
2	Biltmore Family Office		8.1%	3.1%	31.7%
3	Salem Investment Counselors Inc.		6.9%	8.4%	0.0%
18	**Missouri**	19	**$18,212.5**	$12,159.6	$6,052.9
1	FCI Advisors		34.7%	44.4%	15.2%
2	Plancorp		15.9%	23.7%	0.1%
3	Matter Family Office		15.1%	0.0%	45.6%
19	**Colorado**	51	**$18,185.1**	$14,366.4	$3,818.7
1	Obermeyer Wood Investment Counsel		9.4%	11.6%	1.2%
2	IWP Wealth Management		7.3%	0.3%	33.6%
3	Sargent Bickham Lagudis		5.3%	6.6%	0.1%
20	**Michigan**	39	**$17,904.0**	$14,801.2	$3,102.8
1	Brick Capital Management Inc.		13.1%	0.0%	75.6%
2	Mainstay Capital Management		10.9%	13.2%	0.0%
3	Retirement Income Solutions Inc.		7.5%	9.0%	0.0%

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Building a Better Tax-Advantaged Investing Platform: The Past, Present and Future of IOVAs

Tax season is behind us. Yet many RIAs and fee-based advisors will continue to look for new ways to enhance tax-adjusted returns for clients in the months ahead. Choosing the most tax-efficient investing strategies is a year-round focus, at the core of holistic planning and wealth management. A quick review of clients' 2014 tax returns can reveal the 'tax alpha' opportunity for 2015 — to see how you can decrease current ordinary income and short term capital gains to improve overall portfolio returns.

When considering the most innovative products to help you minimize taxes, enhance performance and generate more tax alpha, a variable annuity may not be the first thing that comes to mind. But there is a new generation of low-cost Investment-Only Variable Annuities (IOVAs), rebuilt and re-engineered from the ground up to confront the challenging dynamics of today's markets. Designed as a tax-advantaged investing platform — instead of a complex and costly commission-based insurance product — low-cost, no-load IOVAs are seeing strong adoption among RIAs and fee-based advisors, often the harshest opponents of using VAs in their practice.

Market Forces Drive Innovation

Variable Annuities have evolved significantly. VAs were first introduced in the 1950s by the Teachers Insurance and Annuities Association-College Retirement Equity Fund (TIAA-CREF) as a tax-deferred vehicle to fund pension arrangements. With the Tax Reform Act of 1986, VAs reached a tipping point, when insurers began promoting them as a tax-advantaged vehicle to supplement the low contribution limits of recently introduced individual retirement accounts.

With the bull market of the 1990s traditional VA assets soared, as investors sought to defer taxes on the double-digit returns. By the late 1990s, as defined benefit pension plans declined, insurers began offering traditional VAs with enhanced benefits such as income guarantees. This ushered in the era of traditional VAs built around underlying insurance guarantees instead of tax advantages — and propelled VAs to become a trillion-dollar industry by 2000.

In the ensuing years, many advisors have relied on traditional VAs with income guarantees as a way to ensure that their clients have sufficient income to meet their retirement needs. That is, until the financial crisis forced the industry to rethink the traditional VA.

Re-Price, Re-Tool, or Retreat

The appeal of traditional VAs with income guarantees is based upon the combination of downside protection, upside potential and a guaranteed income stream in one investment package. But the rise of traditional VAs with guarantees also increased complexity, eliminated transparency, and led to an escalating arms race of features and benefits in the commission-based advisor channel. With asset-based fees that frequently exceed 2% or even 3% per year[1], restrictions on underlying investment options, and insurance guarantees that can be difficult to decipher, traditional guaranteed VAs have their limitations. These came to the forefront as the VA industry went through a massive shift in the wake of the financial crisis of 2008.

In response to drastic market declines, record low yields and ongoing volatility, insurers faced significant capital shortfalls. To manage risk on their balance sheet, many were forced to raise fees, cut back on investment choices and reduce the benefits associated with income guarantees. Some were forced to retreat from the industry entirely. Advisors, clients and consumer advocates alike responded with criticism, and many remain conflicted. The solution: a next generation of Investment-Only Variable Annuities.

Maximizing Tax Deferral— Not Insurance Guarantees

After the crash, low-cost, no-load Investment-Only VAs began gaining new proponents and seeing greater growth. IOVAs were conceived to maximize the power of tax deferral, instead of promoting complex and costly insurance guarantees. While going back to the product's original roots, this next generation of IOVAs is designed to generate more tax alpha — and built to be used in ways that traditional guaranteed VAs can't.

Many experts agree that the primary advantage to the variable annuity is the power of tax deferral — but it must be low cost. And just as the power of tax-deferred compounding can grow wealth, its corollary is that the drag of compounding fees can reduce wealth.

Research has shown that tax deferral can generate additional alpha of 100 bps or more — without increasing risk.[2] But traditional VAs easily can wipe out the value of tax deferral, with basic insurance fees averaging 135 bps per year,[3] plus added fees for riders and guarantees that can quickly double or triple total annual costs.

Building a Better IOVA

For IOVAs to work, simplicity, transparency and low cost are not enough. To re-engineer the traditional VA chassis into a true tax-advantaged investing platform, more choice, flexibility and integration are key. Jefferson National was the first to pioneer a flat-fee, no-load IOVA for the growing market of RIAs and fee-based advisors, launching Monument Advisor in 2005. It continues to be a category leader — one of the lowest cost IOVAs on the market today, with 8 times more funds that the typical VA and a robust suite of portfolio management tools.

A broad choice of underlying funds is critical. To help you create customized portfolios to manage the market, meet clients' needs and a range of risk profiles, today's leading next-gen IOVAs offer an expanded lineup of funds, including liquid alternatives that use strategies like those favored by hedge funds and elite institutional investors.

Flexibility is essential. The ideal IOVA will utilize web-enabled functionality, helping you to efficiently evaluate investment options, build individual portfolios or proprietary models, and employ a full scope of trading and mass transactions. With features such as online applications, cloud-based account management and performance reporting, next-gen IOVAs can help you enhance accuracy, speed and efficiency.

Integration and aggregation is crucial. While many tax-deferred vehicles, including qualified accounts, traditional VAs and other insurance products, are typically 'held-away' assets, the best next-gen IOVAs are designed to integrate into your practice and be managed holistically alongside taxable accounts. Next-gen IOVAs can integrate with a range of Broker-Dealer platforms, leading custodial platforms, and rebalancing software such as iRebal using DST FanMail, DST Vision, DTCC, and NSCC. Through data feeds and direct links between back office, front office, software and platform, next-gen IOVAs can become an every-day part of your investment strategy.

Driving Growth in a Competitive Industry

Recognizing the benefits of low-cost IOVAs, advisors are adopting them in record numbers — and driving rapid growth. According to Morningstar, annual sales of IOVAs have nearly tripled over the past two years, at $6.6 billion as of Third Quarter 2014 compared to $2.4 billion as of year-end 2012. Morningstar also reports that sales among independent investment firms and RIAs have become the fastest growing segment. While the traditional variable annuity industry is now adopting IOVAs, it continues to target a commission-based sales approach.

The demand for no-load, low-cost IOVAs is likely to increase, as the RIA and dually registered advisor channels continue to expand. According to a recent report from Cerulli Associates, RIA and dually registered advisor assets are expected to reach 27.9 percent market share by year-end 2018, up from 19.8 percent as of year-end 2013. The RIA channel alone experienced the strongest growth among the independent channels in 2013, with total assets increasing 17.1 percent to $1.67 trillion in 2013, and market share based on assets expanding from 9.2 percent in 2007 to 11.9 percent in 2013.[4]

Helping Advisors and Clients Succeed

The power of tax deferral is real. According to surveys from Jefferson National, 96 percent of RIAs and fee-based advisors say tax deferral is important to generate wealth and manage tax implications for their clients, 86 percent expect that tax deferral will be more important in the future, and more than 85 percent say tax deferral is one of the best ways to accumulate more retirement savings.

Investment-Only VAs leveraging the power of tax deferral have evolved far beyond their predecessors — from a retirement saving vehicle to today's comprehensive platform for tax-advantaged investing. Today's next-gen Investment-Only VAs can be used in ways that a traditional VA cannot — a vehicle for asset location, a solution to create more tax alpha, a method to tax-optimize trusts, a new approach to accumulate more wealth and generate more retirement income.

As the RIA and fee-based advisor channels continue to grow, so will their clients' needs for more tax-advantaged investing strategies to mitigate the impact of taxes and build more wealth. Today's next-generation of Investment-Only VAs are the right fit for RIAs and fee-based advisors, eliminating commissions and their inherent conflict of interest, while offering lower costs, more underlying funds and the right selection of portfolio management tools. More importantly, all advisors and their clients can benefit from this new tax-advantaged investing platform to optimize portfolios and manage complex market dynamics.

Tax season may be over. But tax-efficient investing should remain a top priority all year long. There's a very direct relationship between paying less in taxes each year — and earning higher returns. Low-cost, no-load Investment-Only VAs can help. Built as a platform to provide more investing solutions, with low cost, more choice, more flexibility and greater integration, low-cost IOVAs offer you new ways to sit on the same side of the table as your client, to help your clients succeed — and help your firm succeed.

[1] 2014 IRI Fact Book, 13th Edition, Insured Retirement Institute, 2014.

[2] *Taxes and Investment Performance*, Morningstar, 2013.

[3] Morningstar data as of 12/31/14.

[4] *RIA Marketplace 2014: Growth Drivers in an Accelerating Industry Segment*, Cerulli Associates, 2014.

Disclosures

Variable annuities are investments subject to market fluctuation and risk, including possible loss of principal. Your units, when you make a withdrawal or surrender, may be worth more or less than your original investment.

Variable annuities are long-term investments to help you meet retirement and other long-range goals. Withdrawal of tax-deferred accumulations are subject to ordinary income tax. Withdrawals made prior to age 59 ½ may incur a 10% IRS tax penalty. Jefferson National does not offer tax advice. Annuities are not deposits or obligations of, or guaranteed by any bank, nor are they FDIC insured.

Watch for more IOVA insights from Jefferson National 866-667-0564 www.jeffnat.com/IOVA

THE VARIABLE ANNUITY: A VISUAL TIMELINE

1950s →

Variable Annuities (VAs) have evolved significantly since their inception. The product was first developed and introduced by the Teachers Insurance and Annuities Association-College Retirement Equity Fund (TIAA-CREF) in the 1950s and initially used as a TAX-DEFERRED VEHICLE TO FUND PENSION ARRANGEMENTS. For several decades sales grew slowly, and VAs seemed destined to be a niche product of limited use.

1980s →

But in the mid-1980s, the VA industry reached a tipping point. The Tax Reform Act of 1986 limited the opportunity for tax-deferred saving in qualified retirement plans, making annuities increasingly attractive compared to other retirement saving vehicles. Insurers began promoting annuities as a TAX-ADVANTAGED ALTERNATIVE TO THE RECENTLY INTRODUCED INDIVIDUAL RETIREMENT ACCOUNTS.

1990s →

The bull market of the 1990s helped traditional annuity assets soar, as investors sought these vehicles to DEFER TAXES ON THE DOUBLE-DIGIT RETURNS IN THEIR PORTFOLIOS. Between 1989 and 1993, individual annuity premiums increased from $58.6 to $71.8 billion.

2000 →

Then, by the late 1990s, with the declining availability of defined benefit pension plans, insurers began to offer traditional VA products with added features and enhanced benefits such as income guarantees as a way to boost sales. This ushered in the era of TRADITIONAL VAs BUILT AROUND UNDERLYING INSURANCE GUARANTEES instead of tax advantages — and propelled VAs to become a trillion-dollar industry by 2000.

2005 AND BEYOND →

Jefferson National was the first to pioneer a FLAT-FEE, NO-LOAD IOVA for the growing market of RIAs and fee-based advisors, launching Monument Advisor in 2005. It continues to be a category leader — one of the lowest cost IOVAs on the market today, saving clients an average of $3,100 per year in insurance fees alone. Simple and transparent, with 9x more funds than the typical VA, this tax-advantaged investing platform is easy for clients to understand, easy for advisors to use and effective for bringing on more fee-based assets.

JNL201503-A037

Private-equity firms target $4T in family office assets

Bloomberg News

It was an invitation too good to resist.

Matthew McCarthy was asked by KKR & Co. to fly to New York from Ohio, where he manages money for the founders of a consumer-products company. First, he had dinner with KKR's billionaire co-founder Henry Kravis. The next morning, he met David Petraeus, former Army four-star general and former director of the Central Intelligence Agency, who now serves as chairman of the KKR Global Institute.

"They didn't really pitch products," said Mr. McCarthy, 43, whose firm, Rockside Capital Partners, intentionally stays under the radar. "They brought out Gen. Petraeus."

Mr. McCarthy is the type of investor that KKR and its private-equity competitors, including Blackstone Group and Carlyle Group, increasingly are courting. Family offices and their advisers manage an estimated $4 trillion, including assets of the newly rich in Silicon Valley and China, Midwestern entrepreneurs and old money in Europe.

OFFERING SWEETENERS

The money managers are responding by adding staff, holding conferences and offering sweeteners, including reduced fees on investments.

The efforts are paying off. Blackstone, which last year started reaching out directly to family offices and hosting forums for them, has $43 billion of its $310 billion under management from private wealth, more than triple the amount five years ago. Across private equity, family offices account for about 6% of capital, up from 4% in 2010, according to research firm Preqin.

Industry executives say the percentage should be higher.

"The private wealth side is such an undertapped segment, and way underinvested in alternatives," said Brendan Boyle, Blackstone's senior managing director of private-wealth management.

> KKR "DIDN'T really pitch products. They brought out Gen. Petraeus."
>
> **Matthew McCarthy**
> Partner
> Rockside Capital Partners

The firms are seeking new pools of wealth to lessen their reliance on state and corporate pension plans. They're also reaching out at an opportune time. Globally, private-equity firms reaped a record $428 billion by selling holdings last year, a 30% increase from 2013, according to Preqin.

Cracking the network of rich families isn't easy because it requires connecting with people who don't necessarily want to be sold to, said Lawrence Calcano, a managing partner at iCapital Network, an online marketplace for private equity funds.

"They don't have to buy things, unlike pensions that may need to hit a specific return target each year to fund payouts to retirees," Mr. Calcano said.

Private-equity firms want wealthy families for more than just their money. Family offices bring expertise in buying companies, usually have fewer regulatory restrictions and can take bigger risks than pensions or endowments, said Michael Arpey, a managing director at Carlyle who oversees fundraising.

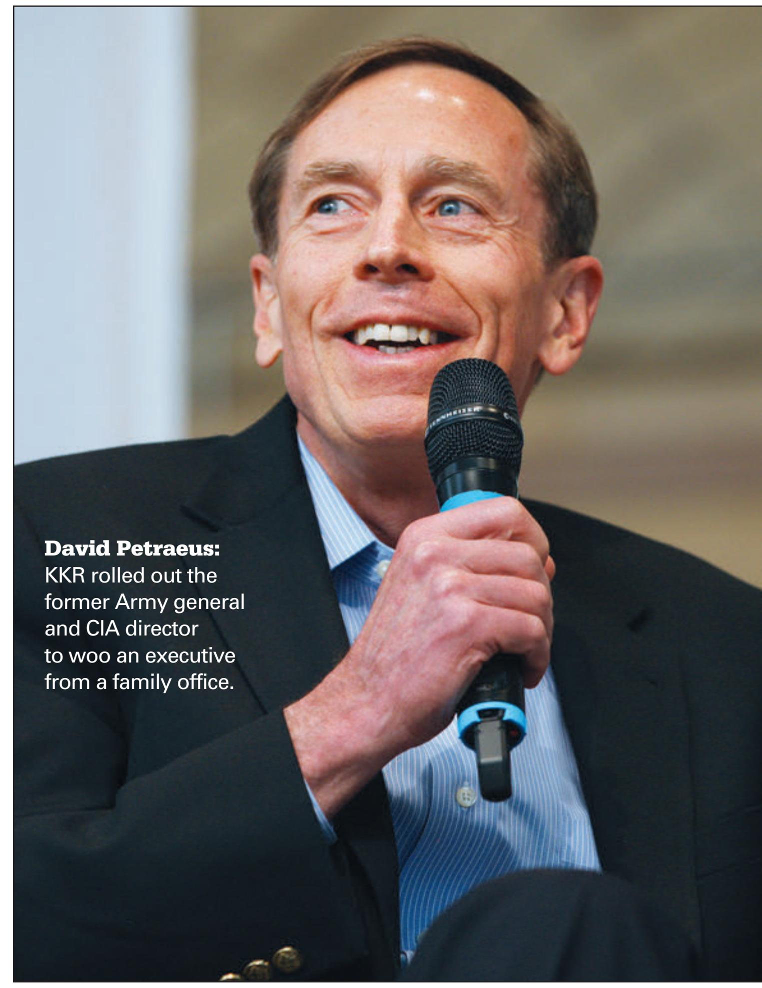
William Heitin, who works for families including the founders of fitness company Reebok International Ltd. and Stacy's Pita Chip Co., was invited by Blackstone last year to an event at the Waldorf Astoria hotel followed by time in the company's New York headquarters with senior executives.

Many of his clients are entrepreneurs who have built and sold their own businesses, so they can help private-equity managers vet deals, said Mr. Heitin, whose Waltham, Mass.-based Windrose Advisors manages more than $2 billion.

INTENSE COMPETITION

"We have a client that started and sold a major food company," said Mr. Heitin, Windrose's chief investment officer. "If the private-equity firm is looking at a deal with a food company, we put them in touch, and then there may be a co-investment opportunity for the family."

Private-equity firms — once they track down family offices — face intense competition to woo them from both larger and smaller rivals.



David Petraeus: KKR rolled out the former Army general and CIA director to woo an executive from a family office.

BLOOMBERG

BlackRock Inc., the world's largest asset manager, has amplified efforts to serve the group by hosting summits with speakers including its chief executive officer, Larry Fink. The company has more than 20 people dedicated to working with them in the U.S. and has added staff in London, Hong Kong and Australia, said Brian Feurtado, who leads the group in the U.S.

"There's been an explosion of family offices," Feurtado said. "It's a very, very vibrant and growing industry."

Kayne Anderson Capital Advisors last month said it raised more than $1 billion for its latest real estate fund, with half the money from family offices and high-net-worth investors.

A FAMILIAR FACE

There are an estimated 4,000 family offices globally, according to London-based researcher Campden Wealth — with the latest addition a familiar face. Doug Ostrover, co-founder of Blackstone's GSO Capital Partners unit, announced recently he's leaving to start one of his own.

Windrose met with more than 400 investment managers last year and ultimately made just five investments, Mr. Heitin said.

Rockside passed on investing with KKR in part because the family Mr. McCarthy represents — which he declined to name — can team with other wealthy investors to buy companies themselves.

Some private-equity firms are enticing family offices to invest with the promise of co-investment opportunities. That's when families invest alongside the firms rather than through a pooled vehicle, and are charged reduced or no fees. While that sounds good to investors who are more sensitive to costs, the offerings may not result in better returns, according to a 2015 study by professors Josh Lerner and Victoria Ivashina of Harvard Business School and Lily Fang of Insead.

For Jim Burns, who leads KKR's individual investor business, outreach is just ramping up. KKR hired him four years ago from Morgan Stanley's private-wealth management unit to build a team focused on sales to the wealthy. Mr. Burns hired two people in the past six months to reach more family offices in Europe and Latin America.

"You really have to go door to door," he said. "Most family offices don't necessarily want to be found."

Morningstar reiterates stance on liquid-alt costs

The riddle of the expense ratios for many liquid alternative mutual funds is not going away, as illustrated by last week's post by Josh Charlson, director of manager research for alternative strategies at Morningstar Inc.

For advisers, solving the riddle often means conducting another layer of research on certain liquid alt strategies, or screening out funds that might otherwise make the cut.

At issue are some glaring discrepancies between the fund expense ratios reported by Morningstar and those listed on fund company websites and in prospectuses.

One of the best examples is the $377 million Vanguard Market Neutral Fund (VMNFX). Morningstar lists the fund's expense ratio at a mere 25 basis points, but The Vanguard Group Inc.'s website puts it at 1.6%. That's still relatively low for an alternative-strategy mutual fund, but more than six times higher than Morningstar's calculation.

Another extreme example is the

> "IT'S A VERY antiquated rule and it needs to be revised."
>
> **Bradley Alford**
> Chief investment officer
> Alpha Capital Management

$747 million TFS Market Neutral Fund (TFSMX), which Morningstar reports as having an expense ratio of 2.02%, while the fund company reports it at 8.4%.

"It's sort of a complicated story, and some people think we don't do it the right way," Mr. Charlson said.

SEC REQUIREMENT

The discrepancy boils down to a Securities and Exchange Commission requirement that funds include the cost of short-selling and leverage in calculating and reporting their expense ratios. That differs from Morningstar's policy of netting out those expenses as part of the cost of doing business, similar to the way brokerage costs incurred by virtually every mutual fund are reported.

"Our perspective is that short-selling is part of the investment process," Mr. Charlson said. "I guess I could see a case for listing the gross expense ratio alongside the net expense ratio for all funds, because there's a benefit in understanding that there are additional costs that are part of the investment process, and engaging in some of these more complex investment strategies does come with additional costs."

It remains to be seen whether introducing gross and net expense ratios would reduce or increase confusion around fund expenses, but it doesn't really matter because it isn't yet under any real consideration.

It could be argued that Morningstar is thumbing its nose at the SEC by adopting its own method of reporting expense ratios. The SEC did not respond to a request for comment on whether it is even paying attention to the expense-ratio reporting disparities.

Those operating in the fast-growing liquid alts space, however, are paying attention.

"I think a lot of the alternative mutual funds are being penalized by having to report the higher expense ratios," said Bradley Alford, chief investment officer at Alpha Capital Management, which runs two funds of liquid alt mutual funds.

As he sees it, including the cost of short-selling in expense ratios means a lot of liquid alt strategies are listing artificially inflated expenses.

"I think Morningstar is seeing the expense ratio requirement as funds being penalized for employing the strategies they're being paid to do, and they've decided to not follow the same way the SEC does it," Mr. Alford said. "It's a very antiquated rule and it needs to be revised, because it's a changing world now and there are more than 500 alternative mutual funds."

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ISTOCK

Books to edify and amuse you this summer

As the summer begins, it's time to pull together the definitive reading list for advisers. *InvestmentNews* has collected recommendations from some of the leaders of the industry to help advisers make the most of their downtime. Below, find the 24 books these thought leaders are buzzing about, split between more professionally focused reads and just-for-fun books to help pass this summer's free time.

Ruediger Adolf

Founder and CEO, Focus Financial Partners

Professional Read: "What it Takes" by Charles D. Ellis

Reason for Recommending: "Creating, growing, and inspiring a successful professional services firm is a daunting challenge, and Charles provides fascinating insights by learning from the very best."

Fun Read: "Civilization: The West and the Rest" by Niall Ferguson

Reason for Recommending: "With the emergence of China as an economic and political powerhouse, the West has to recommit to the values that have made our civilization so successful, and success is about more than just economics."

Shirl Penney

President and CEO, Dynasty Financial Partners

Professional Read: "The Innovator's Dilemma" by Clayton M. Christensen

Reason for Recommending: "I like this book because it keeps you focused on the need to consistently innovate, evolve, and adapt in business."

"Be the business that is the change agent, don't let it happen to you!"

Fun Read: "The Essays of Warren Buffett" by Warren Buffett and Lawrence A. Cunningham

Reason for Recommending: "A very worthwhile read to learn life, economic, and business perspective from one of the finest minds of our generation."

Ron Carson

Founder and CEO, Carson Wealth Management Group

Professional Read: "Enough" by John Bogle

Reason for Recommending: "John Bogle approaches our profession from the heart in trying to serve others, and this book puts everything in perspective."

Fun Read: "Pillars of the Earth" by Ken Follett

Reason for Recommending: "It's amazing to go back in time and understand just how hard it was for people to live during the Dark Ages."

Amy Webber

President, Cambridge Investment Research

Professional Read: "Traction" by Gino Wickman

Reason for Recommending: "This book presents actual tools and strategies that a leadership team can use and implement to thrive, all while also having fun. The same tools give us the ability to reduce complexity in our business, stay focused on the end game, and make strong, effective decisions faster."

Fun Read: "The Hunger Games Trilogy" by Suzanne Collins

Reason for Recommending: "My husband, my daughter and I all read the series at the same time and all had a very hard time putting the books down. It sparked deep conversations around morality, choices and consequences. In our busy world, I will take every chance I get to engage on that level with my family."

Alexandra Armstrong

Founder and chairman, Armstrong Fleming & Moore

Professional Read: "The Checklist Manifesto" by Atul Gawande

Reason for Recommending: "Any good adviser should have great processes for staff and clients. This is an easy read, well written, and applicable to any aspect of business or life."

Fun Read: "The Wright Brothers" by David McCullough

Reason for Recommending: "I have read every one of his books, had the pleasure of meeting him in person and love all his books. Perfect for the person who likes to read about interesting people."

Bob Doll
Chief market strategist, Nuveen Investments

Professional Read: "Every Good Endeavor" by Tim Keller
Reason for Recommending: "Tim Keller reviews the purpose and pursuit of work and how an enlightened perspective on work is to serve others, not ourselves. A comprehensive and insightful read."
Fun Read: "The Accidental Super Power" by Peter Zeihan
Reason for Recommending: "A welcome read amidst all the doom and gloom about the U.S., this book discusses why the U.S.'s geographic position, march toward energy independence, and our relative youth make us better able to thrive and prosper than many other countries."

Bob Rice
Managing partner, Tangent Capital

Professional Read: "The Second Machine Age" by Erik Brynjolfsson and Andrew McAfee
Reason for Recommending: "Great summary of how technology advances are fundamentally changing society, and therefore business and investing."
Fun Read: "Why Nations Fail" by Daron Acemoglu and James Robinson
Reason for Recommending: "Tremendous history and economics lessons that provide important warnings for us. Worth reading just for the rise and fall of Venice."

Bernie Clark
Head of advisor services, Charles Schwab & Co.

Professional Read: "Success and Succession" by Eric Hehman, Jay Hummel, and Tim Kochis
Reason for Recommending: "The book takes a look at the transition process of leaders from the successor's point of view and outlines strategies that lead to a better future for the business."
Fun Read: "Fighting for Common Ground" by Olympia Snowe
Reason for Recommending: "Her perspective on Washington coupled with her personal experiences made for a very compelling read."

Scott Curtis
President, Raymond James Financial Services

Professional Read: "Team Of Rivals: The Political Genius of Abraham Lincoln" by Doris Kearns Goodwin
Reason for Recommending: "Not a business book per se, but it includes leadership lessons regarding listening, patience, managing multiple personalities and the value of diverse perspectives while trying to move the nation forward."
Fun Read: "Into Thin Air" by Jon Krakauer
Reason for Recommending: "This personal, eyewitness account provides vivid descriptions of experienced and inexperienced climbers attempting to ascend and descend the world's tallest peak. Remains the only book I've read that made my palms sweat."

Wayne Bloom
CEO, Commonwealth Financial Network

Professional Read: "The Extra 2%" by Jonah Keri
Reason for Recommending: "As a baseball fan and a financial industry professional, I thoroughly enjoyed this story of three guys who took a small market team from the cellar to the World Series simply by applying some Wall Street-like strategies."
Fun Read: "Half the Sky" by Nicholas Kristof and Sheryl WuDunn
Reason for Recommending: "Although it can be a difficult book to read, it is also inspirational. The more we in First World countries are aware of human rights issues like these, the greater the likelihood that we will be able to eradicate them."

Dale Brown
President and CEO, Financial Services Institute

Professional Read: "From Concept to Scale" by Steve Graves, Dave Blanchard and Josh Kwan
Reason for Recommending: "The book is a practical and inspirational guide for building an organization and integrating your faith deeply into your work."
Fun Read: "Return to Tobacco Road" by Charlie Fiveash
Reason for Recommending: "It is a fun and provocative story, especially for those of us in the 'fast lane' who may long for a return to our roots."

John W. Rogers Jr.
Chairman and CEO, Ariel Capital Management

Professional Read: "Misbehaving: The Making of Behavioral Economics" by Richard Thaler
Reason for Recommending: "Professor Thaler offers an extraordinary introduction to this groundbreaking field of study, and highlights the importance of being a contrarian in both investing and academia."
Fun Read: "Give and Take" by Adam Grant
Reason for Recommending: "Professor Grant provides empirical and anecdotal evidence that proves what my college basketball coach, Pete Carril, taught me long ago: Helping others is the path to success. This is one of my favorite books!"

Joe Duran
CEO, United Capital

Professional Read: "Awareness" by Anthony de Mello
Reason for Recommending: "This book has so many 'aha' moments that have changed my perspective about myself and the people around me. It's most important lesson? You can't effectively manage the world around you if you can't manage yourself."
Fun Read: "A Widow for One Year" by John Irving
Reason for Recommending: "A beautifully written book about human frailty and loss that makes me ache, laugh, think and get lost in a great story by an incredible author."

Can JPMorgan come back from under cloud?

Currency-fixing plea compounded by SEC probe of wealth unit

Bloomberg News

JPMorgan Chase & Co. has put allegations of currency-fixing largely behind it with a guilty plea, but it's not out of the woods yet.

With its new felony record, America's biggest bank needs to seek the Labor Department's permission to keep managing money in the $8 trillion private-pension market. At the same time, there's a cloud over the JPMorgan unit where pensions are managed: The Securities and Exchange Commission is well along in an investigation into conflicts of interest at the bank's wealth management unit, whose products include individual retirement accounts.

That puts the bank in a sticky position — arguing that a criminal conviction shouldn't keep it from managing Americans' retirement savings, while the SEC is investigating possible wrongdoing in the same division that handles such business.

"When a bank has enforcement action after enforcement action, it becomes hard to argue that it won't happen again," said Urska Velikonja, an assistant law professor at Emory University whose research focuses on securities law.

JPMorgan spokesman Darin Oduyoye declined to comment "on Bloomberg speculation over future events."

The May 20 guilty pleas by America's biggest bank and four others — Citigroup Inc., Barclays, Royal Bank of Scotland and UBS Group AG — required each to apply for regulatory exemptions from the SEC, as well as from the Labor Department, to carry on business as usual. The SEC issued the necessary approvals for the banks, but Democrats on Capitol Hill, as well as on the SEC, have criticized rubber-stamping of waiver requests.

Bank of America Corp. lost its ability late last year to issue certain securities without first seeking SEC permission. Credit Suisse Group AG is operating its $2 billion pension business under a temporary, one-year waiver while the Labor Department conducts an extensive review of whether to grant the Swiss bank's request for permanent relief.

The stakes are higher for JPMorgan Asset Management, the quickly growing business unit that includes mutual funds, private-wealth management and some trusts. Its assets under management included $319 billion in U.S. pension funds at the end of 2014, according to Pensions & Investments.

On the same day JPMorgan pleaded guilty to antitrust violations for manipulating currency rates, the bank applied to the Labor Department for an exemption to continue managing pensions as a qualified professional asset manager.

RELIES ON QUALIFICATION

Banks rely on their QPAM status to carry out key transactions for pension clients, and a plea by any bank affiliate anywhere in the world triggers the need for it to apply for an exemption to maintain that business. JPMorgan needs to secure the waiver before it is sentenced.

The Labor Department has taken several months or more, in most cases, to carry out similar reviews. Michael Trupo, a Labor Department spokesman, declined to comment.

The May 20 application came just two weeks after JPMorgan disclosed in a regulatory filing that its wealth management unit, part of the asset management division, was under investigation by the SEC, other government authorities and a self-regulatory organization. The unit was being probed for the sale and use of its own mutual funds and other proprietary products, the bank said.

> "WHEN A BANK has enforcement action after enforcement action, it becomes hard to argue that it won't happen again."
>
> **Urska Velikonja**
> Assistant law professor
> Emory University

The investigation is focused on whether JPMorgan employees have been putting customer money into the bank's own funds and other products, such as structured notes and hedge funds, not because they are necessarily the best choices for clients, but because those options generate fees for JPMorgan, according to people familiar with the matter.

As part of that probe, bank executives have been deposed and thousands of pages of internal documents subpoenaed, Bloomberg reported in March, citing people familiar with the situation.

JPMorgan faces another potential hurdle at the SEC. Any SEC civil enforcement action related to the wealth management unit that includes injunctions or cease-and-desist orders would force the bank to appeal for a fresh round of some of the same SEC waivers it has just been granted.

Bankers, lawyers and professors have said it would be hard to imagine that regulators would withhold waivers. Still, Ms. Velikonja said, that doesn't mean these officials couldn't give banks a few more hoops to jump through.

"I'd be surprised if the SEC didn't come out with more than the usual compliance programs and independent monitors," she said. "I'd be very curious to see if instead, it is something new and more invasive than in the past."

Fox Financial Planning launches robo-guide

By Alessandra Malito

Fox Financial Planning Network has teamed up with three technology companies to create AdvisorTouch Symphony, a program designed to help advisers learn how to add their own robo-adviser to their existing services.

The initiative involves Fox Financial, headed by chief executive Deborah Fox, a 29-year veteran adviser; Jemstep Inc., a company that provides advisers with robo-platforms; National Regulatory Services, which provides compliance guidance; and True North Networks, a cybersecurity firm.

Advisers who sign up for the six-month program will receive resources and support from the four companies. Topics addressed by the program range from implementing a robo to compliance and cybersecurity.

Firms with one to three advisers will be charged $5,500, while firms with more than three advisers and enterprise companies such as larger registered investment advisory firms, custodians and broker-dealers, will be charged based on their size and needs. Fox Financial is providing a discount for firms that sign up by July 31.

"The firms that are going to succeed are the ones that recognize this is an early phase of a trend transforming the way financial advisers do business," Ms. Fox said.

> "THE FIRMS that are going to succeed are the ones that recognize this is ... transforming the way financial advisers do business."
>
> **Deborah Fox,** chief executive, Fox Financial Planning Network

The firm chose Jemstep because the company provides an extra arm for advisers who want a robo-adviser of their own, while maintaining an adviser's portfolio suggestions. Other companies provide their own portfolio suggestions for clients to adopt. No new companies will be added to the alliance for now, Ms. Fox said.

"It's not about the technology for us, it's about how the technology is best used with advisers," said Simon Roy, president of Jemstep. "There are some things technology does extremely well and we want to automate as much as possible, but at the end of the day, it's helping advisers work with their prospects and clients."

Eric Roberge, a financial adviser with Beyond Your Hammock in Salem, Mass., said a training guide would be beneficial for advisers who want to begin using robo-platforms.

"The ideal goal, especially for independent advisers, is to remain as independent as possible yet to have a team supporting them along the way," Mr. Roberge said.

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Fannie DB assets up for grabs

By Mark Schoeff Jr.

Investment advisers and brokers in the Washington, D.C., area may be seeing new business from current and former employees of federal housing agencies, who must decide this week what to do with their retirement funds.

The Federal National Mortgage Association, or Fannie Mae, as well as the Federal Home Loan Mortgage Corp., or Freddie Mac, terminated their defined-benefit retirement plans at the end of 2013.

Fannie Mae gave current and former employees four options to reallocate their retirement funds — a lump-sum distribution, an annuity, the Fannie Mae 401(k) plan or an individual retirement account.

> **$1.4B**
> Estimated total assets in Fannie Mae's defined-benefit pension plan

The window for moving assets opened April 21 and will close Thursday, according to Scott Puritz, managing director of Rebalance IRA, an investment advisory firm in Bethesda, Md.

Mr. Puritz estimated that thousands of people are deciding what to do with their Fannie Mae retirement funds and that their assets total approximately $1.4 billion.

At the end of January, Fannie Mae had 7,600 employees. But its pension plan was closed to new entrants in 2011.

"We have provided resources and support to help our employees make informed decisions about how to receive their benefit payments," Andrew Wilson, Fannie Mae senior director of media and external relations, wrote in an email.

Mr. Wilson did not respond to questions about the number of Fannie Mae workers and retirees affected by the plan termination or the total amount of retirement assets that they hold.

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Retirement plan reset gives advisers an opening


ISTOCK

Update of documents could lead to other 401(k) improvements

Advisers have an enormous opportunity in the retirement plan market, but they must recognize it before the window closes. The opportunity comes in the form of an Internal Revenue Service requirement that employers that sponsor 401(k)s or similar defined-contribution plans amend and restate their plan documents by April 30, 2016. The restatement must incorporate language and provisions from the Pension Protection Act, and other required amendments that took effect between 2007 and 2011.

On its face, this restatement process appears to be a simple compliance exercise. The IRS generally requires employers with preapproved retirement plans — those offered by most retirement plan providers — to review, update and refile their plan documents every five or six years to reflect any changes and conform to the latest tax laws. But there is more to this IRS requirement below the surface.

The PPA restatement requirement may provide the perfect opportunity for advisers to connect with employers and review the effectiveness of their retirement plans. The review process and subsequent findings allow advisers to determine if retirement plans are meeting employers' goals and helping the employees prepare for retirement.

FALLING SHORT

Unsurprisingly, the performance of many plans is falling short. Consider that only 28% of Americans who have access to an employer-sponsored retirement plan are "very confident" they will have enough money for a comfortable retirement, according to the 2015 Retirement Confidence Survey by the Employee Benefit Research Institute. The lack of confidence indicates that few participants are saving enough to continue their lifestyles in retirement.

The good news: the restatement process review may help sponsors identify plan improvements and enhancements with the ultimate goal of boosting plan participation, increasing retirement savings and helping more plan participants become "retirement ready."

Many providers have introduced new tools to help plan sponsors assess the relative health of retirement plans. Many of these address questions and concerns by employers about how well employees are prepared for retirement. Increasingly, plan sponsors are asking advisers and providers what they can do to get employees who are off track back on.

Retirement readiness is at the core of new plan health tools. The most effective ones are predicated on a universal definition of retirement readiness. MassMutual, for instance, measures a plan's health by the percentage of participants on track to replace 75% of their preretirement income at age 67. The analysis takes into consideration retirement savings, the availability of Social Security, and a defined-benefit pension, if applicable.

So what differentiates the most effective analytical tools? In a head-to-head competition, the best analytics rely on actual participant financial data — not averages or assumptions — to appropriately measure and improve results.

POSSIBLE IMPROVEMENTS

If the retirement readiness benchmark falls short of expectations, then advisers and plan sponsors are encouraged to work closely with their provider to identify possible improvements.

Before filing the restatement, plan sponsors looking to enhance the effectiveness of their plans may consider a broad range of amendments, from redesigning their plan, incorporating features such as automatic enrollment or automatic escalation of retirement plan contributions, or updating investment offerings, to name a few.

Providers have resources to help sponsors better market their plans to employees, which may increase participation and boost contributions. The most effective campaigns employ a broad range of consumer-marketing techniques and resources to connect with participants where they live, on their own terms.

It's critical to target participants as effectively as possible. After all, the need to save for retirement is in direct competition for consumers' attention and dollars with the immediate gratification of a shiny new car, big screen TV, dinner out or shopping.

The path to creating a more effective plan can start with the restatement process, with the ultimate goal of raising retirement readiness for as many plan participants as possible.

E. Thomas Foster Jr. is the assistant vice president of strategy and relationships for MassMutual Retirement Services.

New Pimco offering uses Vanguard funds

By Trevor Hunnicutt

Investors who put a dollar into Pimco's newest set of mutual funds will find as many as 85 cents managed by the Vanguard Group Inc.

Pacific Investment Management Co. has launched a new target date fund offering with an equity portion held in Vanguard exchange-traded funds. The fund series, RealPath Blend, is a cousin of Pimco's traditional target date offering.

But the funds contain not only Pimco's flagship Total Return Fund (PTTAX), famous for its ex-manager Bill Gross, they also hold Vanguard's popular index-tracking funds.

85%
Maximum portion of Pimco target date funds managed by Vanguard

For an investor planning to retire around 2055, the RealPath Blend includes an 84.5% allocation to Vanguard's large-cap U.S., developed markets, emerging markets, real estate investment trust and small-cap index funds. Investors closer to retirement have higher exposure to Pimco bond funds.

PRESSURE TO LOWER COSTS

The launch takes place as retirement plans have faced increasing pressure to lower costs for investors, in part as a result of regulation and lawsuits. That's boosted ETFs, which have struggled to enter retirement plans on their own merits.

The JPMorgan SmartRetirement Blend series, started in 2012, includes Vanguard ETFs as well as funds from BlackRock Inc.'s iShares and State Street Corp.'s SPDRs. Principal Financial Services Inc. followed with its partly passive LifeTime Hybrid Funds.

"The attention to fees has resulted in the managers' also launching lower-cost versions, and one way to lower the cost has been adding in more passive management," said Jeff Holt, an analyst at Morningstar Inc. "A distant secondary consideration is the belief of whether certain markets are efficient or not."

Pimco spokeswoman Agnes Crane said executives weren't available for an interview. In an emailed statement, Rick Fulford, Pimco's head of U.S. retirement, said that large retirement plans "have long customized their target date funds to combine active and passive management" and that Pimco is expanding the combination to plans of all sizes.

Vanguard, the world's largest mutual fund manager, superseded Pimco as the top manager of U.S. fixed-income assets in 2013.

In an email, Vanguard spokesman David Hoffman said investors have been turning to the firm's funds "for their low costs, broad diversification and precise tracking.

"This is a continuation of that trend," he said.

Target date funds exploded in popularity after legislation allowed plan sponsors to automatically funnel employee contributions to retirement accounts into the funds of funds. They manage $702 billion.

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Mutual fund firms have lost touch with investors: Survey

Sameness of products leaves clients ignorant of what's in their portfolios

By Jeff Benjamin

The increasing trend toward the commoditization of investment products is putting more pressure on asset management companies to try to stand out with investors, and some companies are doing a better job than others, according to a new study by research firm Hearts & Wallets.

The report found that two-thirds of American investors know which mutual funds, bonds, ETFs or other financial products they own. That's down from 2011, when 76% knew the specifics of their portfolios.

The research also found that 20% of investors with between $100,000 and $500,000 in investible assets were unable to identify what investments they own.

"In a grave strategic error, investment product managers have allowed their offerings to become commoditized," said Laura Varas, co-founder and partner at Hearts & Wallets, which interviewed 5,500 investors.

> "FUND COMPANIES are not doing a good enough job in understanding the end consumer."
>
> **Laura Varas**
> Co-founder and partner
> Hearts & Wallets

"Industries often have a collaborative power struggle between manufacturers and distributors rather than going direct," she added, drawing an analogy to a toothbrush manufacturer that relies on distributors to sell toothbrushes.

"The manufacturer makes significant investments to understand brushing trends and develop new products and pricing," she said. "The toothbrush manufacturer would never let the store gain the upper hand by becoming more knowledgeable than it is about how consumers want to brush their teeth, yet that is precisely what has happened in retail investing the past 10 years."

THOUSANDS OF FUNDS

It certainly doesn't make it any easier that there are more than 6,000 individual mutual funds, a total that swells to more than 20,000 when multiple share classes are included.

With few exceptions, fund companies are losing ground on product awareness, according to the report, which was released May 18.

Fidelity Investments and The Vanguard Group Inc. stand out as firms that are still recognized by consumers, with respective shareholder awareness scores of 66% and 64%. That's up from 55% for Fidelity and 63% for Vanguard in 2011. BlackRock Inc. also has gained some ground, with a shareholder awareness score of 47%, up from 41% in 2011.

American Funds and T. Rowe Price Group Inc. each have held steady with scores in the 50% range.

Putnam Investments, meanwhile, has seen its shareholder awareness score drop to 35% from 40% in 2011.

"Fund companies are not doing a good enough job in understanding the end consumer," Ms. Varas said. "The fact that consumers don't know what they own is one example that product manufacturers have lost touch with their consumers."

Todd Rosenbluth, director of mutual fund and ETF research at S&P Capital IQ, agreed that the disconnect at the investor level is not a good thing, but attributed part of it to the commoditization of products and part to the increased influence of financial intermediaries.

"If people are increasingly working with financial advisers that they are giving discretion to, then they are trusting that they are making those decisions for them," he said. "I'm betting that if you went out and did it all yourself, you would remember what you own."

INFORMED DECISIONS

One big problem with not knowing what's in your portfolio, he added, is that it becomes more difficult to make informed decisions based on changes at fund companies.

ISTOCK

"Bill Gross' departure from Pimco last year is a good example," Mr. Rosenbluth said. "If you don't know that you own the Pimco Total Return Fund, you might not know if you should care that Bill Gross stopped managing that fund."

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Broker-turned-congressman uses planning skills

Freshman legislator Hill is a go-to source on financial issues

By Mark Schoeff Jr.

On a typical day in Washington, Rep. French Hill, R-Ark., is pulled in several different directions.

The freshman legislator, a former broker, has to juggle votes on the House floor, hearings and meetings with constituents, colleagues, regulators and other officials.

"It takes planning, just like it does when you're trying to decide how to develop your call program when you're a financial adviser," Mr. Hill, 58, said in an interview in a hallway just off the House floor. "My financial adviser skills were good training."

The venue for the chat was fitting. Mr. Hill had just cast a vote and was on his way to a hearing that would include discussion of a bill he's drafted to increase investor access to research about exchange-traded funds.

During congressional recesses, he goes home to a stream of constituent events. Through all the activity, he relies on skills he developed as the founder, chairman and chief executive of Delta Trust & Banking Corp. in Little Rock.

BUSINESS RESOURCE

Although he has served in Congress for only a few months, Mr. Hill is becoming a valuable resource to his colleagues on the House Financial Services Committee, who are aware of his experience as a securities broker, investment manager, community banker, trust administrator and insurance salesman.

"I've just tried to be a practical, commonsense business resource since I joined the committee," Mr. Hill said, his lanky 6'2" frame leaning against a Capitol pillar.

During a May 1 hearing of a financial services subcommittee featuring Financial Industry Regulatory Authority Inc. chairman and chief executive Richard Ketchum, Mr. Hill was cited by Chairman Scott Garrett, R-N.J., for helping get the panel up to speed on Finra's controversial data-collection proposal, the Comprehensive Automated Risk Data System.

The idea has drawn criticism from Republicans, including Mr. Hill, who had years of experience being regulated by Finra. He maintains that Finra doesn't need CARDS.

"I believe Finra can meet its goals of early warning, surveillance and oversight through the existing tools and technology they have," he said.

> "I BELIEVE FINRA can meet its goals of early warning, surveillance and oversight through existing tools."
>
> **Rep. French Hill**
> R-Ark.

The regulator put CARDS on hold as it rethinks the program.

While Mr. Ketchum was at the witness table, Mr. Hill pressed him about whether the self-regulator is fair to small firms. "They're just not staffed to fully be able to execute in the way a large firm is," he said.

DOL FIDUCIARY

Like many of his GOP colleagues, Mr. Hill opposes the Labor Department proposal that would require brokers to act in the best interests of their clients when working with retirement accounts.

He has co-sponsored a bill that would require the DOL to halt its rule until the Securities and Exchange Commission decides whether to pursue its own rule aimed at retail investment advice, which could take months or years.

Rep. French Hill: Opposes CARDS and the DOL fiduciary proposal.

"Even with the exemptions proposal by the Department of Labor, they're in conflict," Mr. Hill said, referring to the DOL rule and a potential SEC rule. "There's going to be more confusion."

Last year, Mr. Hill sold his firm to Simmons First National Corp. for $66 million. He said he had a written succession plan in place, just in case the firm didn't sell and he won his congressional seat.

Much of the financial support for Mr. Hill's $2.2 million campaign came from the financial services industry. But he brushes off criticism that he is influenced by Wall Street.

"I campaigned on regulatory and legislative policies that spur economic growth," Mr. Hill said. "The people of Arkansas elected me, in my view, because of my very long background in private business and studying economics and proposing policy ideas that will increase economic growth and thereby increase jobs."

No stranger to Washington, Mr. Hill served as a Treasury Department official during the first Bush administration and also as an aide to the Senate Banking Committee.

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Freeing ETF research

Bill would allow broker-dealers to publish reports

By Mark Schoeff Jr.

Legislation approved by the House Financial Services Committee would allow broker-dealers to publish research reports on exchange-traded funds without the reports being considered offers to buy shares in the ETF.

The measure was co-authored by Rep. French Hill, R-Ark., and Rep. John Carney, D-Del.

Most broker-dealers do not publish ETF research for fear of violating securities laws, said Mr. Hill, who has worked as a broker,

"This is a commonsense proposal," he said at a May 20 committee hearing before the panel passed the bill. "With close to six million U.S. households holding and using ETFs, investors need access to this research."

DOUBLE-DIGIT GROWTH

The ETF market has experienced double-digit annual growth over the past few years and, as of the end of April, included 1,496 funds holding $2.1 trillion in assets, according to Morningstar Inc.

As ETFs occupy a greater share of both retail and institutional investor portfolios, there's a growing demand for insight about the vehicles, said Ben Johnson, director of global ETF research at Morningstar.

"There is a clear need for more research, more analysis across a very wide swath of the U.S. investor base," Mr. Johnson said.

He said the bill is a good idea because investors would benefit from ETF research in the same way that they now can find research on individual securities and mutual funds.

The Investment Company Institute, the mutual fund industry's main trade organization, also supports Mr. Hill's legislation.

The measure was one of 13 bills the House Financial Services Committee approved that are designed to ease capital-raising rules for small businesses. They will go to the House floor next for a vote by the full chamber.

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Broker-dealers struggling to cut new annuities' red tape

More insurers offer QLACs but verification, monitoring hurdles proving tough to overcome

By Darla Mercado

Qualified longevity annuity contracts are the latest "it" product for life insurers, but broker-dealers are running into hitches when rolling out the annuities onto their platforms.

Annuity nerds will remember that last summer the Treasury Department introduced its final rule on longevity annuities, encouraging retirees to protect themselves against the risk of outliving their retirement savings. The so-called qualified longevity annuity contract, or QLAC, is a variety of deferred income annuity: Clients buy the contract now but won't receive an income stream until far in the future, as late as in the client's 80s.

The rules permit participants in 401(k)s and IRAs to use up to 25% of their account balance, or $125,000, to buy a qualifying longevity annuity contract. The qualified dollars that go into the contract are exempt from required minimum distribution rules that kick in at age 70½.

> "THERE'S SOME confusion over who's responsible for watching the contribution limits."
>
> **Ethan Young**
> Director of insurance and annuities
> Commonwealth Financial

Indeed, deferred-income annuities and their QLAC cousins are poised to become a bigger part of advisers' retirement income strategies for clients.

Sure enough, carriers, including The Principal Financial, Pacific Life and AIG are releasing products. Lincoln National Corp. and Thrivent Financial have also joined the game.

ADMINISTRATIVE ISSUES

But even with the Treasury Department's blessing and a growing number of issuers to choose from, broker-dealers are encountering administrative hurdles. Namely, distributors and insurers are still trying to figure out who's responsible for ensuring the contract applications meet the Treasury guidelines.

Either the carrier or the broker-dealer will have to ensure clients are using no more than $125,000 of qualified plan assets or 25% of the balance in their qualified account.

"There's some confusion over who's responsible for watching the contribution limits, who's monitoring that and what are the penalties for the clients who exceed it," said Ethan Young, director of insurance and annuities at Commonwealth Financial Network.

Thanks to state-level regulation, life insurers are responsible for making sure annuity purchases meet state suitability standards. But broker-dealers shoulder that responsibility as well, at least to the extent they process fixed annuity insurance business.

For now, broker-dealers are waiting for insurers to take the reins, likely by releasing an attestation form on which the client can confirm that the QLAC purchase meets the Treasury's qualifications.

"That's been the biggest challenge," said Zachary Parker, first vice president of income and distribution products at Securities America Inc. "How do you verify that it's the right amount and not too much? The carriers are going to work that out."

There could be situations where the client purchases a QLAC through an insurer, fails to bring it up to his or her adviser and then purchases a second contract.

ISTOCK

Some broker-dealers haven't even rolled out the QLACs yet. At LPL Financial, for instance, they're still under review, confirmed LPL spokesman Peter Gilchrist.

For now, firms are still working to get their advisers up to speed on deferred-income annuities. Sales of the products hit record levels last year at $2.7 billion, up 22% from 2013. But they continue to be hampered by low interest rates. Those very same low rates are yet another difficulty advisers confront when they assess clients' income options.

"They're available, but they're not selling, and I'm not sure if it's a lack of awareness or a low-interest-rate environment," Mr. Young said. "We haven't seen sales of these take off."

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ADVISERS' BOOKSHELF
Maury Harris

How accurate are economic reports?

U.S. government data are probably not manipulated, despite market participants' suspicions

"I don't make jokes. I just watch the government and report the facts." — *Will Rogers, quoted in Saturday Review, Aug. 25, 1926*

Can we believe what Washington, D.C., tells us? Forecasters have no choice but to rely on information from the nation's capital. There are several reasons for this. Government statistics are the raw material for most forecasting models, and projections and analyses by various government organizations can be key inputs shaping thinking about the future. Analyses by Washington-based public policy interest groups and lobbyists are often influential as well.

The challenge for forecasters is to assess the credibility of this information. Government statistics are subject to substantial revisions. And very different answers to the same questions come from the government agencies and organized interest groups inside the Beltway.

Thus, forecasters are regularly challenged to sift through the welter of statistics and analyses coming out of Washington and determine what information to trust when assembling their forecasts.

"COOKING THE BOOKS"?

On Oct. 5, 2012 — just a month before the presidential election — the financial markets and most forecasters were surprised when the Bureau of Labor Statistics reported that the civilian unemployment rate in September had dropped by 0.3 percentage points to 7.8%. For supporters of President Barack Obama's reelection campaign, it was good news.

When Mr. Obama was inaugurated in January 2009, the civilian unemployment rate stood at 7.8%. Despite the $787 billion in fiscal stimulus embodied in the American Recovery and Reinvestment Act signed by the president in February 2009, unemployment kept rising to 10% in October 2009. It subsequently declined slowly, but remained well above its level when Mr. Obama assumed office — a fact that Republican challenger Mitt Romney repeated to the American electorate on an almost daily basis during the 2012 presidential election campaign.

In the eyes of Mr. Obama's supporters, the sharp decline in the September unemployment rate confirmed their confidence and proved that his economic policies were producing results.

However, some Republican supporters of former Massachusetts Gov. Romney cried foul. Jack Welch, the former chairman of General Electric Corp., charged on Twitter: "Unbelievable jobs numbers … these Chicago guys will do anything … can't debate so change numbers." (Mr. Obama was from Chicago, and in the first of three debates with Mr. Romney, the president was widely viewed as having done a poor job.)

THE strategic rationales for fudging cost estimates should be obvious.

Did someone in the Obama administration order the BLS to fake the September unemployment data to aid Mr. Obama's reelection bid? Members of the Obama administration were outraged.

Labor Secretary Hilda Solis responded on CNBC soon after Mr. Welch made his allegation that: "It's really ludicrous to hear that kind of statement … I have the highest regard for our professionals that do the calculus."

While Mr. Romney lost the election, some critics of the Obama administration persisted in asserting that something had been amiss with the September 2012 unemployment rate.

Just over a year later, on Nov. 18, 2013, a headline in the New York Post exclaimed: "Census 'Faked' 2012 Election Jobs Report." The Census Bureau conducts the monthly household survey the Labor Department uses to calculate the unemployment rate. According to Post business reporter John Crudele, an unnamed source claimed that the Census Bureau either allowed or overlooked employees filling out fake questionnaires in a manner that lowered the unemployment rate.

As evidence of a workplace environment that was supposedly conducive to such behavior, he cited the Census Bureau's firing in 2010 — two years before the presidential election — of an employee for turning in faked questionnaires in order to exaggerate to his superiors how many surveys he was able to complete. Mr. Crudele's unnamed source claimed such behavior on the part of other Census employees continued during the 2012 election, and that the Census Bureau failed to report the problem or the earlier firing to the Labor Department.

7.8%
Civilian unemployment rate announced by the Bureau of Labor Statistics in September 2012, down 0.3 percentage points from August.

A week after Mr. Crudele leveled his charges, they were challenged by Nelson Schwartz, a business reporter for the New York Times.

He quoted former Labor Department personnel who said that the size of the monthly household survey sample — 54,000 — was far too large to be materially affected by a few dozen faked responses. Moreover, for September 2012 there was other corroborative evidence of stronger job formation from the separate monthly survey of employer payrolls.

DEGREE OF SUSPICION

I mention this episode because it illustrates the degree of suspicion surrounding the veracity of government economic data. Disappointed investors and traders and angry political partisans sometimes have complained to me that some statistic unfavorable to their trading position or political cause somehow or other has been rigged to make economic conditions appear better than they really are.

I characterize such allegations as representing the "conspiracy theory" of government economic statistics.

It is understandable why some observers believe that the U.S. government deliberately alters potentially unfavorable economic reports.

The belief probably stems in part from investors' experiences with data released by a few foreign governments. There have been instances where government budget statistics have been very misleading in countries struggling to maintain investor interest in government debt issues. Or, in the case of Mexico during the 1994 debt crisis, there were delays in the Mexican government's usual release schedule for government budget and Treasury cash data.

Some observers, too, are somewhat (or more) suspicious of Chinese economic data. Why? There may be incentives for regional government officials to overstate their region's economic activity so as to please senior Communist Party officials in Beijing and obtain more financial aid that is linked to a region's size and economic performance.

With the following possible exception, I do not believe that U.S. economic data are politically manipulated.

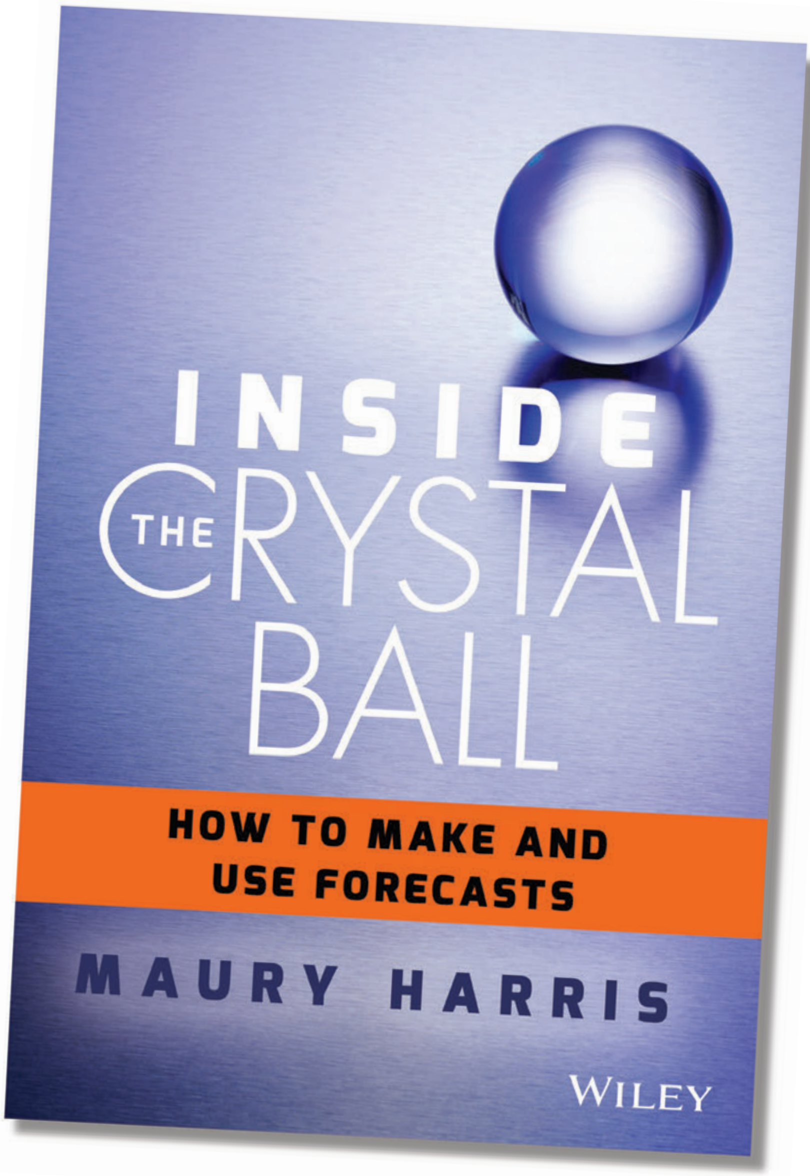
Government agencies are subject to ever more media scrutiny. In addition, whenever a suspiciously strong data report is issued during an election campaign, politicians are quick to encourage scrutiny by both the media and congressional investigative staffs. Another consideration is that government statistical agencies are headed by career civil servants who are generally immune from political pressures and who care about their professional reputations.

That said, won't an incumbent president order stepped-up pre-election government spending both to stimulate the economy and produce better economic data? Undoubtedly, this happens in many countries.

On Oct. 26, 2012 — just over a week before the November election — the Commerce Department reported an unexpectedly large 2% annualized rise in real GDP growth for the third quarter. The especially surprising component was a sharp 9.6% annualized quarterly rise in federal purchases of goods and services, which accounted for 0.7 percentage points of the overall 2% gain in real GDP.

Did the Obama administration order accelerated government spending for political reasons? Critics thought the rise was suspicious. After all, the surprising gain came at a time when budget legislation dictated federal spending restraint.

Leading the third-quarter rise was a 13% annualized increase in defense spending, which had declined at annualized rates of 7.1% in the first quarter and a further 0.4% in the pre-



ceding quarter. Then in the fourth quarter, such spending tumbled at a 22.2% annual pace.

Critics contended that the Obama administration deliberately held back defense allocations in the previous two quarters so that such spending would stimulate the economy and boost a key economic statistic on the eve of the elections.

Absent very specific evidence of communications from the administration to federal agencies either suggesting or ordering such manipulation, such charges are hard to prove. Defense spending is one of the most volatile GDP components on a quarterly basis.

Also, the third quarter of a calendar year is the final quarter of the federal fiscal year, creating a strong incentive for agencies to spend the types of earlier appropriated funds that must be spent or lost before a fiscal year ends.

POLITICALLY MOTIVATED?

Although I doubt government officials politically manipulate reported government economic data, I have no doubt at all that the economic forecasts issued by government agencies are politically motivated at times. There is evidence of private-sector forecasts having a strategic element. Biases can reflect the business needs of different employers and the business strategies of independent forecasting firms.

Forecasters in the public sector are only human and also can exhibit similar types of strategic behavior. Instead of perceived business needs biasing their forecasts, public-sector economists and their forecasts can be influenced by their perceptions of office politics in Washington.

Cost overruns in the public sector are an all too familiar example of government forecasts going awry. Are some government officials and their staffs strategically motivated to low-ball initial estimates of a proposed program's expenses? This might well have been the case with two major government cost overruns in the administration of President George W. Bush — the start of the Iraq war in 2002 and the Medicare Prescription Drug Improvement Act of 2003.

ECONOMIC forecasts issued by federal agencies are politically motivated at times.

Prior to the U.S. invasion of Iraq, the Defense Department underestimated the war's costs as well as troop requirements. Both the Pentagon and Congress acknowledged the troop shortages two years later.

A year after the expanded Medicare prescription drug legislation was adopted, it was revealed that its costs were initially underestimated by around $150 billion.

The strategic rationales for fudging forecasts of future costs should be obvious. A government forecaster might have a personal preference for a particular policy or course of action. Also, just as in the private sector, government forecasters may consider self-preservation, in the form of promotion and job security, when contemplating a forecast at odds with an employer's specific goals.

REPUTATIONAL ISSUES

On the other hand, there are reputational issues for public-sector forecasters, as there are for their private-sector brethren who may prize their professional integrity. Civil service laws, too, help to protect government employees from undue pressure from their appointed superiors.

In my years (1973-80) as an economist at the Federal Reserve Bank of New York, I never felt overt pressure from my superiors to tilt my analyses and forecasts in any specific direction.

However, after reviewing a report, senior management would decide on the size of the internal distribution list. The short list limited a report's exposure and was ostensibly justified by considerations of other people's interests and their lack of time to read all of the voluminous research being churned out by the staff. However, some of my colleagues confided in me their disappointment at having a hard-researched report go only to the short list.

This is an excerpt from "Inside the Crystal Ball: How to Make and Use Forecasts" by Maury Harris (Wiley, 2015).

THE TAX-CONSCIOUS ADVISER

Tim Steffen

Not all loan interest is created equal

There's a lot of misunderstanding about the rules for deducting the interest on borrowing

Knowing the tax rules regarding interest expense can help investors avoid costly mistakes.

In late 2008, the Federal Reserve announced it was lowering interest rates to near 0% as a way to combat high unemployment. That created an opportunity to borrow money at very little cost, which not only allowed businesses to enact expansion plans, but also helped fuel a rebound in the housing market as homes became more affordable.

Since that time, it's been a guessing game for economists to predict when interest rates will begin to rise. At its April meeting, the Fed indicated it may be at least the third quarter before it considers a rate increase. Meanwhile, while consumer lending rates aren't at 0%, they're low enough to continue enticing those who want to borrow to do so. When you add in that the interest paid is tax-deductible, it makes borrowing even more enticing.

Or is it deductible?

In talking with advisers and investors, it's clear there's a lot of misunderstanding regarding the rules on deducting interest paid on a loan. Many borrowers assume that as long as debt is secured by an investment portfolio, interest on that loan is deductible.

INTEREST-TRACING RULES

In fact, that's not the case, thanks to the interest-tracing rules, which basically say the deductibility of interest paid on a loan is determined by the use of the loan proceeds, not what secures the loan.

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Say you have a client who uses their investment portfolio as security for a loan. The client may receive a statement from the brokerage referring to the "margin interest" they paid, but that interest isn't automatically deductible. For margin interest to be deductible, the loan proceeds must have been used to purchase property held for investment — property that generates interest, dividends or an annuity, or that produces a gain or loss upon its sale. In addition, the investment can't produce tax-exempt income, so buying municipal bonds is not an investment for these purposes.

If the margin loan proceeds are used for non-investment purposes — such as purchasing a car or paying for a vacation — it falls in the category of personal interest and is never deductible for tax purposes.

Even if it is considered deductible investment interest, that doesn't mean the borrower will automatically get a tax benefit. First, taxpayers must itemize their deductions; those who claim the standard deduction get no tax benefit from the interest.

TAXPAYERS who claim the standard deduction get no tax benefit from the interest.

Second, investment interest can only be deducted to the extent the borrower has net investment income. If the interest expense exceeds net investment income, the excess can be carried over to the next year.

MARGIN AS MORTGAGE

Why aren't qualified dividends or long-term capital gains considered investment income? The tax code figures taxpayers already get a break because that income is taxed at a lower rate. They can elect to include those items as investment income to offset it with the interest expense, but they must forgo that lower tax rate and instead allow it to be taxed as ordinary income.

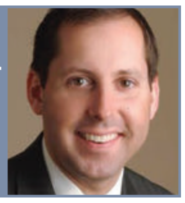
Another approach is to use margin in place of, or to supplement, a traditional mortgage. A bank loan may not be feasible for investors because of other credit issues, or they may be trying to avoid fees associated with a larger traditional mortgage. Instead, they hope to deduct the interest on the margin loan as mortgage interest.

Here again, the interest-tracing rules come back to bite the investor. A personal residence (primary or secondary) is not considered an investment, and therefore the interest on the loan can't be deducted as investment interest. Nor can it be deducted as mortgage interest, as the first requirement under those rules is that a mortgage must be secured by the home itself.

The point of this isn't to say that margin loans are a bad thing. Borrowing, used appropriately, can be a great way to participate in otherwise unavailable investment opportunities. However, advisers must be careful about touting the tax benefits of those loans without knowing their clients' full tax situation.

Tim Steffen is director of financial planning for Robert W. Baird & Co. Follow him on Twitter @TimSteffenCPA.

PRACTICE MANAGEMENT
Ray Sclafani



Tactics used by effective team leaders

It takes collaboration and generosity to build a group that produces sustainable success

Any true leader will tell you that success isn't achieved through delegation. It takes partnership and collaboration to build a team that can achieve goals and create sustainable success.

I've worked with financial advisers at many stages of their careers: Some who are very successful on their own and contemplating whether or not to build a team; others who have built a team and are in the process of perfecting it; still others who've built a team only to find that they have to rebuild it; and finally, those who have become so successful with their teams that they want to reach the next plateau of achievement.

In each of these scenarios, I remind the leaders of the qualities that the most effective team leaders and CEOs focus on, and in every scenario I find that these qualities apply to improving their situations:

Your own self-development: This is a crucial aspect of successfully leading an advisory team. Examining your self-development as a leader is the surest way to become a role model and lead an effort to develop team competence. As others see you working on new skills and behaviors, they will be inspired by your commitment to personal development and move to focus on their own.

Broadening individual and collective team competence: While technical capability is the cornerstone of your business and a huge contributor to where you are now, there are additional capabilities that will make you and your team better equipped to achieve success. You should devote time to understanding, taking and supporting actions to grow and use your team's problem-solving and decision-making capabilities, as well as their relational skills. These skills provide better communication between you and your team, among team members and with clients.

Understanding the career and learning aspirations of individual team members and how they relate to team goals: Taking the time to learn about your team members' aspirations shows caring and interest in both their personal and professional successes. This provides an opportunity for you to validate their interests, offer your perspective and provide encouragement. Equally important, it allows you to understand how best to motivate and involve each individual in team goals and activities. This will naturally encourage significant time thinking about and acting on team goals, and greater engagement in activities that will increase your team's ability to function and produce.

Assisting each team member to create a personal development plan: A development plan becomes a road map for how to leverage strengths and fill skill gaps for both short- and long-term learning. This plan should include short- and long-term development goals, specific learning outcomes and success measurements. It should also be oriented to both the individual's personal goals and his or her functioning as a team member and contributor. For greater ownership and accountability, the development plan should be jointly created by you and the team member, with the team member taking more of the lead.

For archived columns, go to InvestmentNews.com/practicemanagement

Creating opportunities for personal learning: The greatest leaders involve their teams as much as possible by modeling and leading greater team competence through opportunities for personal learning. The crux of the leader's challenge is not falling into the trap of failing to delegate. Delegating meaningful work creates learning and growth. Challenge yourself to delegate work that offers learning opportunities for others on the team. Integrating personal learning with team activities is an effective way to combine individual learning with team building and achieve results on both fronts.

Providing regular feedback and coaching: There is no substitute for one-on-one coaching and feedback. Team members can benefit greatly from your feedback on how they are progressing with an important skill or behavior, particularly those behaviors that affect team functioning and ability. Make yourself available and accessible for regular coaching so team members have the support they need to discuss challenges, concerns and obstacles to learning.

Rewarding and celebrating learning and growth: True moments of satisfaction come from watching team members learn and grow. Celebrating key milestones of personal and team growth are "feel good" moments for the individual and the team, and also enhance team cohesiveness. Implicit within this is understanding what team behaviors foster team cohesiveness, success and sustainability, and then taking actions to maximize those behaviors.

Ray Sclafani is the founder and chief executive of ClientWise, a business and executive coaching firm working with financial professionals and teams.

Use diversification to help deliver more income to clients

Advisers should go beyond traditional fixed-income options

Is it just me, or has it gotten harder to build a decent investment portfolio?

Equity markets are near all-time highs after a long and extended run. Much of fixed income has followed the Federal Reserve down close to zero. Europe's problems with deflation and defaults continue, and China's double-digit growth could take a nose dive, while many emerging markets remain as inscrutable as ever.

Building portfolios that serve clients' needs has gotten harder because of two big changes: Interest rates are persistently low globally, and demographic shifts have created aging populations, particularly in developed countries. This large and rapidly growing elderly cohort needs income, and yet the countries where most of these investors live have low interest rates due to low GDP growth — which stems in part from their aging populations. The circle of life.

As a result, many asset managers talk about the need to look for broader sources of yield. That begs the question of how best to put the pieces together in possibly new and different ways, generating returns and/or income while still managing volatility.

Passive instruments alone are not the answer, since they are by their nature 100% correlated to the markets and lack the tactical ability to adapt. What happens when their markets start going down, or even sideways?

We focus on diversification within our income and growth solutions so that when markets have bad weeks or horrible quarters, clients suffer less volatility and can remain on track toward reaching their goals. How can financial advisers use diversification to help deliver greater income to clients?

In asset classes known for their income potential, diversification counts: holding a variety of asset classes can help reduce overall volatility while still supplying current income.

NOT THE NORM

Diversification within income solutions requires learning to go beyond traditional fixed income, the familiar income-producing classes such as U.S. Treasuries, corporate bonds and dividend stocks. For the foreseeable future, those yield fields will likely remain fallow.

This has led many investors to explore less traditional income and distribution sources such as high-yield bonds, REITs, MLPs and emerging-market debt, as well as to utilize more flexible investment strategies such as unconstrained mandates and absolute-return credit.

There is a natural tendency to focus on the specific risks and returns inherent in each of these sectors. But what about their contribution to the volatility of an investor's overall portfolio?

The diversification effect — the potential reduction of portfolio volatility generated by adding additional strategies — can be illustrated in the combination of indexes that focus on asset classes with higher income components. It is often just as clear as in the broad stock and bond indexes on which investors traditionally rely.

For instance, the S&P 500 Dividend Aristocrats Index, comprising companies in the S&P 500 that have increased their dividends for at least 25 consecutive years, shows very low correlation with the lower-income Barclays U.S. Agg (0.032). It shows a higher, but still low (0.491), correlation with the Barclays U.S. High Yield Index.

As many of us know all too well, diversification does not assure returns or protect against loss of capital. During some market upheavals, its effects can be blunted despite the best modeling. Nevertheless, the relatively reduced volatility of combining asset classes that deliver higher income is clearly observable in historical data.

Since the Fed lowered benchmark interest rates to near zero, income-oriented investors have waited for rates to rise — with a combination of anticipation and dread. Anticipation, because those who need current income have been hard-pressed to find it. The dread reflects fears that the drop in the prices of fixed-income instruments will not make up for the pickup in current income.

STABLE STREAM

These reactions are entirely reasonable. Reducing the volatility of returns is not the only objective for investors. For example, focusing on enhancing or protecting streams of income could increase the willingness of some clients (although most assuredly not all) to endure losses in invested principal, to keep that income stream stable.

The better trade might be to sacrifice current income for a reduction in capital risk. With interest rates at lower-than-low levels, buyers of "risk-free" Treasury bonds may have to forgo meaningful income.

WIDE VARIETIES of asset classes can be used, each with its own risks and return.

For them, rising rates could be a blessing, creating opportunities to increase income from future investments.

Wide varieties of income-producing asset classes can be used, each with its own return and risk characteristics, different from each other, as well as from benchmark indexes. The general principle of retaining return while reducing volatility — or controlling volatility while seeking to increase return — can hold just as true for income asset classes as for others.

That's good news when seeking to maintain allocations to income-oriented investments, including equity and fixed income. No one knows what the future holds, whether it's rising rates, economic surprises or unpleasant geopolitical events.

Diversification clearly cannot assure profit or protect against loss. Nonetheless, diversification in income-producing asset classes can offer customized trade-offs between volatility and income benefits that provide meaningful choices to meet a variety of investment goals.

Thomas Hoops is executive vice president and head of business development at Legg Mason Global Asset Management.

SEC ticks off accomplishments, outlines priorities

The following is an edited version of testimony by Securities and Exchange Commission Chairwoman Mary Jo White May 5 before the Senate Appropriations Subcommittee on Financial Services and General Government.

Understanding the growth in the size and complexity of the [SEC's] responsibilities with regard to market participants and investment products is critical to assessing the agency's funding needs. From fiscal 2001 to the start of this fiscal year:

- Assets under management of SEC-registered investment advisers increased approximately 254% from $17.5 trillion to approximately $62 trillion.
- Assets under management of mutual funds grew by 143% from $6.4 trillion to $15.6 trillion.
- Annual trading volume in the equity markets more than doubled to in excess of $67 trillion.

During this same period, the SEC's responsibilities have also dramatically increased, adding or expanding jurisdiction over securities-based swaps, private fund advisers, credit rating agencies, municipal advisers and clearing agencies, among others. Improvements to technology and operations have made the agency more efficient and effective, but to continue to meet our mission, we must be able to keep pace with the growing size and complexity of our markets and the entities participating in them.

The agency today oversees more than 25,000 market participants, including nearly 12,000 investment advisers, approximately 10,500 mutual funds and exchange-traded funds, nearly 4,500 broker-dealers and about 450 transfer agents. The agency also oversees 18 national securities exchanges, 10 credit rating agencies and eight active registered clearing agencies, as well as the Public Company Accounting Oversight Board, the Financial Industry Regulatory Authority Inc., the Municipal Securities Rulemaking Board, the Securities Investor Protection Corp. and the Financial Accounting Standards Board. The SEC also has responsibility for reviewing the disclosures and financial statements of 9,000 reporting companies and for enforcing compliance with federal securities laws.

The SEC's FY 2016 budget request seeks to address our current needs and the challenges we face by providing resources to allow the SEC to hire an additional 431 staff in critical, core areas and enhance our information technology. Specifically, the requested budget level would allow the SEC to advance several key and pressing priorities, including:

- Increasing examination coverage of investment advisers and other key entities that service retail and institutional investors.
- Further leveraging cutting-edge technology to permit the SEC to better keep pace with the entities and markets we regulate.
- Protecting investors by expanding our enforcement program's investigative capabilities and strengthening our ability to litigate against wrongdoers.
- Strengthening the SEC's economic and risk analysis functions.

> *"We have made substantial progress implementing ... Dodd-Frank."*

CRITICAL REFORMS

This year, the SEC has accomplished a great deal in many areas important to our mission and in fulfilling congressional mandates. Over the last year, informed and supported by rigorous and robust economic analyses, the commission has adopted a series of critical reforms, including rules that directly respond to the financial crisis and that protect the integrity of our markets. We have made substantial progress implementing the rule makings mandated by the Dodd-Frank Wall Street Reform and Consumer Protection Act and the Jumpstart Our Business Startups Act. The rules on which the commission has taken action in the last year include:

Asset-backed securities. The commission completed rules requiring significant enhancements to registered offering disclosures for asset-backed securities, a market with $4.8 trillion in issuances over the past decade that includes the types of securities backed by residential and commercial real estate that played a central role in the financial crisis.

Credit rating agencies. The commission finalized over a dozen rules that will reduce conflicts of interest and strengthen the integrity of nationally recognized statistical ratings organizations and the transparency of their ratings.

Money market funds. The commission completed reforms designed to enhance the structure and operation of the $3.7 trillion money market fund market to enhance the protection of investors and to support financial stability.

Security-based swaps. The commission proceeded with the next critical phase of its implementation of Title VII of the Dodd-Frank Act, adopting new rules for previously unregulated derivatives and establishing registration and reporting requirements for security-based swap data repositories.

Capital formation. On March 25, the commission voted to adopt a potentially transformative rule under the JOBS Act to significantly enhance the existing Regulation A exemption from registration for small offerings of securities. The commission also advanced rules to implement JOBS Act provisions concerning registration and reporting thresholds.

Risk retention. As required by the Dodd-Frank Act, the commission approved a joint agency rule requiring sponsors of securitization transactions to retain risk in those transactions.

Market stability and oversight. The commission adopted Regulation Systems Compliance and Integrity, creating for the first time mandatory technology and systems standards and reporting for significant market participants intended to reduce systems issues and improve the overall resiliency of our markets. Also on March 25, the commission voted to propose rule amendments to enhance the supervision of large proprietary trading firms, including those engaged in high-frequency

Mary Jo White: "Misconduct will be swiftly and aggressively addressed."

GETTY IMAGES

trading, which would require that broker-dealers trading in off-exchange venues become members of a national securities association.

ENFORCEMENT RESULTS

The Division of Enforcement continued to achieve significant results, filing 755 enforcement actions and obtaining orders for more than $4.16 billion in disgorgement and penalties in fiscal year 2014. Notable actions include the first series of cases involving violations of the "market access" rule, the first action enforcing the rule against investment advisers participating in "pay to play" arrangements, the first action against a private-equity firm relating to its allocation of fees and expenses, and the first anti-retaliation case to protect a whistleblower who reported improper trading activity. Structural and strategic enhancements within our Office of Compliance Inspections and Examinations have led to a more effective, efficient examination program.

Despite significant progress, there is much that the SEC still needs to do. Outlined below is a brief overview of some of the key components of our request.

1. Expanding oversight of investment advisers. Our current level of resources is not sufficient to permit the SEC to adequately examine investment advisers in a way that investors expect and deserve. The number of registered advisers has increased nearly 35% over the last decade, and the assets managed by these advisers have more than doubled. At the same time, the industry has become more complex, as evidenced by the increasing use of new and sophisticated products such as derivatives and structured products; the increased use of technologies that facilitate high-frequency and algorithmic trading; and the growth of companies with integrated operations that include both broker-dealer and investment adviser affiliates.

Even with the SEC's efficient use of limited resources to improve its risk assessment capabilities and focus its examination staff on areas posing the greatest risk to investors — efforts that helped to increase the number of investment adviser examinations approximately 20% from FY 2013 — the SEC was only able to examine 10% of registered investment advisers in FY 2014.

Under the FY 2016 request, a top priority will be to hire 225 additional examiners, primarily to conduct additional examinations of investment advisers. The examiners would assist the agency in increasing its examination coverage of advisers to an anticipated rate of approximately 14% per year.

"It is vital to the SEC's mission to bring timely, high-quality enforcement actions."

The agency also would add positions to improve oversight and examinations of broker-dealers, clearing agencies, transfer agents, self-regulatory organizations, swap data repositories, municipal advisers and, in the future, crowdfunding portals, among others.

2. Continue to leverage technology. In FY 2016, the SEC plans to build on the substantial progress made over the past few years to modernize its technology systems, streamline operations and increase the effectiveness of its programs. [It] would support a number of information technology initiatives, including:

• Data analytics tools, to assist in the integration and analysis of huge volumes of financial market data, employing algorithms and quantitative models that can lead to earlier detection of fraud or suspicious behavior.

• Electronic data gathering, analysis and retrieval modernization, an ongoing, multiyear effort to simplify the financial reporting process to promote automation and reduce filer burden. With a more modern EDGAR, both the investing public and SEC staff will benefit from having improved access to better data.

• Examination improvements, aimed toward improving risk assessment and surveillance tools that will help the staff monitor for trends and emerging fraud risks, as well as improving the workflow system supporting SEC examinations.

• Tips, complaints and referral system enhancements, to bolster the flexibility, agility and adaptability of the system.

• Enforcement investigation and litigation tracking, to support enforcement teams with handling the substantial volume of materials produced during investigations and litigations.

BOLSTER ENFORCEMENT

It is vital to the SEC's mission to bring timely, high-quality enforcement actions when violations of the federal securities laws are identified. The agency must adapt its enforcement function to keep pace with the growing size and complexity of the nation's markets and to send strong messages to wrongdoers that misconduct will be swiftly and aggressively addressed. For FY 2016, the SEC is requesting 93 new positions for the Division of Enforcement.

Analysis of large data sets, including SEC filings and trading data in equities, options, municipal bonds and other securities, helps to limit investor harm by permitting earlier detection of misconduct. The SEC's enforcement program expects that both an increasing number of high-quality tips, complaints and referrals, and its improved data analysis capabilities will yield additional case leads through FY 2016.

In addition, in recent years an increasing percentage of enforcement actions have been filed as contested matters, as opposed to being fully settled at the outset. This has led to more trials than in the past, a volume that is expected to continue to grow.

Rollovers: Back to basics

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he or she faces long-term capital gains taxes on the net unrealized appreciation — the difference between the cost basis and the current market value — of those shares.

By comparison, if an employee rolls everything over into an IRA, when the time comes to distribute the assets, they'll be taxed at an ordinary income rate, which is usually much higher.

NOT THE BEST SCENARIO

"This is an example where the IRA rollover isn't the best scenario for the participant," Mr. Sommer said.

Generally, plans tend to write a check to departing employees if their account balance is below $5,000. Those with larger amounts have to consider whether it makes sense to stay in the plan or leave.

There are additional factors to consider if the employees are 55 or over, Mr. Sommer said.

For one thing, they can take a distribution from their retirement plan without being subject to the 10% penalty on early distributions. Those workers are still subject to income taxes on those distributions.

It's important to note that IRAs don't have that exception. Early withdrawals from IRAs before age 59½ are subject to income taxes and the 10% penalty.

Why is it good for older workers to know about this?

"One could say that if a participant has an immediate liquidity need, it might be in their interest to leave a portion of the money in the plan, which they can access without penalty," Mr. Sommer said. "It's not a new rule. This is just an example of where advisers can separate themselves."

It's worth mentioning to employees the nature of fees in a retirement plan and how those expenses can differ if the worker rolls his or her money over to an IRA.

"The fees will be difficult to match for people who roll out of the 401(k)," Mr. Sommer said.

Deal aids Wells reps

Continued from Page 3
pant withdraw from the plan and invest in an IRA. For now, the answer is "no," that act isn't a prohibited transaction for a non-fiduciary rep.

From a practice management point of view, having such an arrangement — where professional management capabilities are available to plan participants via a third party — works well in favor of non-fiduciary reps who service retirement plans. It allows them to focus on plan metrics that make a difference, and it gets them away from the more dangerous conversation of participants' investment allocation.

MOTIVATING EXTRA SAVINGS

"Now, the rep who serves the plan can immediately shift the conversation away from allocation to goals, gaps and deferrals, and that motivates additional savings," said Jason C. Roberts, chief executive of the Pension Resource Institute. "The broker-dealers are pleased to see that; it puts the rep in the green zone."

That all could change, however, if the DOL's fiduciary rule proposal passes in its current form.

"The [fiduciary] rule we're looking at now will put everyone in the red zone, including advice concerning the rollover, distribution and advice on the reinvestment of those proceeds," Mr. Roberts added. "Those are fiduciary acts [under the new proposal]."

Additionally, plan fiduciaries need to remember that the mere selection of that third-party adviser to oversee participants' accounts is still a fiduciary act, noted Marcia Wagner, managing director of The Wagner Law Group.

Nevertheless, the reported pairing is a sign of the times as record keepers face a wave of retiring baby boomers who'll begin pulling money from their retirement plans.

"Everyone is trying to figure out the answer to the $600 billion question: How do you retain rollovers?" Ms. Wagner said. "The boomer population is aging, and there's been great accumulation in 401(k)s, but over time people will retire and need access to the money."

"The name of the game is how to retain these assets and not run afoul of the prohibited transaction rules," she added. "Anyone who can solve that has found the Holy Grail, both legally and financially."

Push for laws on digital access

Continued from Page 4
all but one state — is privacy. Most states either postponed or killed the bill following opposition by technology companies and industry coalitions. Delaware was the only state to enact the bill last August.

THE PEAC ACT

Separately, NetChoice, a trade association representing companies including AOL Corp., Lyft Inc. and PayPal Holdings Inc., created the PEAC Act. The bill aims to let fiduciaries have access to digital service providers to view select contents of accounts. Fiduciaries would only see "outside of the envelope" communication, such as the company holding the account and time stamp, but not the contents within the emails, instant messages and accounts. The PEAC Act has the support of the Internet Coalition, an organization that represents technology companies including Amazon.com Inc., Google Inc. and Facebook Inc.

The PEAC Act will be effective in Virginia as of July, and is also currently being reviewed in California.

The Uniform Law Commission, the committee that drafted the UFADAA bill, is in the process of amending its bill for next year's legislative sessions.

"I think there are a lot of practical changes we can make that will bridge the gap between the two sides," said Suzanne Brown, chairwoman of the Uniform Law Commission.

Ms. Brown said some solutions include revising the bill to clearly state how companies can authenticate the appointed person entering the account. Another revision would be to define the obligations of a fiduciary — to be loyal and responsible with an accountholder's content. Although the role of a fiduciary is pointed out in the federal privacy law, Ms. Brown said, it could be spelled out better in the bill's text.

> "BOTTOM LINE is that consumers have to be better prepared — with or without this legislation."
>
> **William Bissett**
> Adviser
> Secrest Blakey & Associates

Both bills, or a compromise of the two, would help financial advisers transfer their deceased clients' funds to family members. But financial advisers warn that they shouldn't wait for laws. "Bottom line is that consumers have to be better prepared — with or without this legislation," said William Bissett, a financial adviser with Secrest Blakey & Associates in Davidson, N.C.

Advisers should be proactive by working with their clients and state lawmakers to clearly write the language for how they would like their digital assets maintained after death, Mr. Bissett said. "Advisers should start to make sure digital assets are addressed in documents so that it's clear what their intent is," he said.

WORKING WITH CLIENTS

Mr. Bissett is also chief executive of Principled Heart, an online tool that organizes information for estate planning, including digital assets.

Kelly Pedersen, a financial planner and founder of Caissa Wealth Strategies in Bloomington, Minn., said she is in the middle of updating dozens of her clients' estate documents to address their digital assets.

"Many advisers are either not aware of or not paying attention," Ms. Pedersen said.

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Advisers, quit scaring potential clients

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postpone taking action, Mr. Geismar said.

A better approach is to frame the process positively and start small. "Too much choice is overwhelming and people don't make good decisions when faced with that," Mr. Geismar said.

'ACHIEVABLE SOLUTIONS'

"Consumers want to know that there are reasonable and achievable solutions," he said. "Hard choices — such as potential lifestyle changes and tough trade-offs — become acceptable if they are within the consumer's control," Mr. Geismar noted during the webcast, which was sponsored by the Retirement Income Industry Association.

The next step is to try to uncover clients' needs and help them prioritize their goals, such as asking which is more important: asset growth or guaranteed income?

Look for clues about their emotional views about their finances, he said. This goes beyond their investment risk tolerance. It's about what allows them to sleep at night.

Restate their answers to let them know you have been actively listening. Explain how their answers, needs and financial circumstances suggest certain types of investments may be more applicable than others.

At a high level, describe the range of possible retirement income options — not products — that may be applicable to the individual. This option becomes a starting place for making adjustments to products and asset allocations.

Finally, be ready to pivot. This process is about reinforcing the client's sense of confidence and control, Mr. Geismar said. Their needs are going to evolve. Assure them you will be there throughout their journey. Such ongoing support builds confidence and establishes you as a trusted adviser.

He summed up his six steps to improve outcomes with pre-retirees: Engage with the client's emotions; build their confidence in their decisions; enhance the client's sense of control; motivate action; create a closer alignment between provider and client; and engender trust.

GAINING CLIENTS' TRUST

"The real benefit of adopting this approach is you wind up with clients who want to work with you rather than prospective clients who don't," he said.

During a phone conversation after the webinar, Mr. Geismar told me that one of the best ways for advisers to engender trust is to offer free information and education about important retirement income topics, such as Social Security claiming strategies. "If you give useful information to consumers for free, they are more willing to trust you," he said.

David Leland, a Merrill Lynch financial adviser, couldn't agree more. After more than 30 years in the industry, Mr. Leland said he became convinced that making the wrong Social Security claiming decision, particularly for married couples, could be far more costly in retirement than making the wrong investment decision.

For the past year, Mr. Leland and his 12-person team at The Leland Group in Beverly, Mass., have been highlighting the value of savvy Social Security claiming strategies as part of their initial retirement-income-planning meetings. "Using Social Security income illustrations is winning us business and separating us from the competition," Mr. Leland told me. "When someone comes into our conference room, our close rate is 90%."

Mr. Leland's Social Security expertise is part of the Merrill Lynch Clear approach to helping clients navigate to and through retirement. The framework explores distinct priorities — including health, home, family, finance, giving and leisure — that connect the financial aspects of life in retirement.

Mr. Leland said he expects those Social Security conversations will be responsible for an additional $50 million in new business this year, on top of his firm's existing $1.5 billion in assets under management.

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

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Advisers now lean toward ETFs

Continued from Page 2
ing appeal of ETFs to the ever-expanding product line, ease of use and trend toward more customized portfolios.

"I think we're seeing advisers increasingly wanting to build their own portfolios or outsource the building of customized portfolios, and ETFs are a great tool for that," he said.

Mr. Rosenbluth noted that there are still limits to advisers' eagerness to dabble in the ETF space.

For example, some of the more complex smart beta ETF strategies, which go beyond basic index exposure, have been slow to catch on across the financial advice industry.

"Smart beta is a trend people talk about a lot, but advisers are starting with plain vanilla ETFs, because they are still cheaper and simpler to understand," he said. "As we look down the road, that may change."

KEEPING IT BASIC

Valerie Chaille, FPA practice management director and president of SummitView Financial, is among the advisers who use ETFs for client portfolios, but still keep it very basic.

"About a quarter of my clients' investments are in ETFs, but I don't use the exotic ones," she said.

Ms. Chaille, who has helped analyze the findings of the annual survey for the past two years, credits the proliferation of ETFs for their increased popularity among advisers. But she also credited the six-year bull market run.

"I was taught there are certain investment categories that are better for ETFs because you don't get enough alpha from some active strategies," she said. "I think the market's performance has been a driver for some of the ETF popularity."

To others, however, the historic stock market run from the bottom in March 2009 is practically the sole driver of ETF growth.

"In my opinion, it is nothing more than chasing performance, because if actively managed mutual funds were beating the ETFs, then the mutual funds would be more popular right now," said Tim Holsworth, president of AHP Financial Services Inc.

"We know we're great at chasing yesterday's news; that's what investors do," he added.

Mr. Holsworth also admits he might be "late to the party" in terms of using ETFs to build portfolios.

"Because I'm not trading, the liquidity is meaningless to me, but you can't argue with the tax efficiency of ETFs," he said. "The ones that appeal to me are smart beta ETFs that are not just replicating an index."

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F-Squared assets hit

Continued from Page 2
with some $5.7 billion in assets, including Virtus Premium AlphaSector (VAPAX).

In the wake of the financial crisis, managers claiming prowess in ETF selection, including F-Squared, touted their ability to protect investors in market downturns. The now-terminated contract with Virtus contributed to the uptake of F-Squared's separate-account strategies on broker-dealer platforms.

But the growth of firms offering ETF managed-portfolio strategies has stalled, with total assets in those strategies falling by 5% last quarter.

Those declines followed F-Squared's agreement in December to pay $35 million to settle SEC charges that it falsely claimed its performance was based on results with real money. In fact, the performance was both hypothetical and miscalculated, F-Squared admitted

> "IT'S AN industry in evolution. I wouldn't discount any of the [managers] who had issues."
>
> **Daniel Gamba**
> Head, Americas institutional iShares
> BlackRock

as part of the settlement.

The company cut a quarter of its workforce in March, *InvestmentNews* previously reported, and it is said to be exploring a sale.

A spokeswoman representing F-Squared did not immediately respond to a request for comment.

GROWTH OPPORTUNITIES

In an interview in April, Daniel Gamba, head of the Americas institutional iShares business at BlackRock Inc., a big seller of ETFs to strategists, said the industry has been "challenging" for boutique managers. He encouraged them to examine growth opportunities with institutional clients and international markets.

"It's an industry in evolution," he said. "I wouldn't discount any of the ones who had issues."

And F-Squared has expanded its reach abroad. It announced May 18 that it had struck an agreement with SoHo Asset Management to manage portfolios for that firm's clients in Singapore and the U.S.

F-Squared's largest index, Premium AlphaSector, is down 2.6% this year as of March 31, Morningstar said. Over three years, it delivered a cumulative 13.4% gain.

Morningstar's investment management division runs its own ETF strategies. Its quarterly report, written by analyst Ling-Wei Hew, included a new section specifying whether the performance reported by a strategist is hypothetical or based on live money

F-Squared's performance is listed as "hypothetical" and a footnote indicates the firm "did not successfully confirm performance was based on live assets for all periods reported. Periods of backtested returns may be included."

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Portfolio Manager Viewpoints

Emerging Markets — Opportunities in 2015 and Beyond

Gary Greenberg
Head of Global Emerging Markets, Hermes Investment Management
Sub-Advisor, Calvert Emerging Markets Equity Fund

Bennett Freeman
Senior Vice President of Sustainability, Research and Policy
Calvert Investments

On March 10, Hermes Investment Management's Gary Greenberg and Calvert Investments' Bennett Freeman sat down with InvestmentNews contributing correspondent Consuelo Mack in a Portfolio Manager Viewpoints webcsat to discuss responsible investing in developing markets.

Consuelo Mack | Why emerging markets, and why responsible investing?

Gary Greenberg | Emerging markets are moving from being boom-bust exporters to long-term growth economies. Valuations are cheap, but emerging markets are becoming more sustainable.

Bennett Freeman | We were interested in taking advantage of the dynamic growth in emerging markets. At the same time, we've seen a set of problems and opportunities around sustainability that play out more significantly in emerging markets.

Mack | Can you explain the fund's investment philosophy and objectives, and what role responsible investing plays in your selection and performance?

Greenberg | Our process is an integrated process that combines bottom-up, top-down and ESG approaches. We screen over 33,000 stocks in emerging markets for liquidity, profitability, balance sheet and valuation; the top 600 are considered investment candidates. We look at risk and opportunities, and at what companies are doing to make their environment or society better. We also make sure the home country is conducive to running a good business. Overall, the portfolio is a best-ideas portfolio. We pick the single best ideas and companies that we can introduce to a portfolio -- where you have managements that care about their employees, that care about their customers, that care about the environment that they're in and that care about delivering a return. There aren't that many in emerging markets. We're picking the best ones really to provide an example to other companies in their space of what can be achieved. If all those things come together, we'll make the investment. It's a concentrated portfolio of great companies that fit into a global portfolio.

Mack | Take us through the sustainability criteria.

Freeman | We want companies that are addressing ESG [environmental, social and governance] challenges in three areas: development, poverty and health; the environment and climate change; and human, labor, and indigenous people's rights. We also want to see transparency and good practices.

Mack | Which countries are you focusing on?

Greenberg | We take a long-term approach, three to five years. China, India and Indonesia are attractive because they're endeavoring to transform their economies from boom-bust to long-term sustainable growth. This is a profound process, and there will be ups and downs. But they're the places we're finding the most interesting stocks.

Mack | How does China's slowing growth change your outlook?

Greenberg | It is having a big influence on commodity exporters. Brazil, Russia, South Africa will continue to suffer as China's demand for energy, iron ore and other raw materials slips.

But China can slow to 4% or 3.5% and still be fine, because workforce growth has peaked. They need to employ fewer people at the margin. The growth model was unsustainable. Fixed-asset investment was 50% of GDP, which is probably twice as high as it should have been.

China needs to focus on consumption and services domestically. That will also help slower-growth companies fund growth internally rather than issue shares, so returns should improve.

Mack | How do you screen investments in China for ESG?

Freeman | As recently as six years ago, it was difficult to get sufficient data from Chinese-based companies. But larger ones are disclosing more ESG information now. That reflects their recognition that to be a player in global markets and attract investors, they've got to disclose to global standards.

Mack | What's the case for India?

Greenberg | The country is one of the last true emerging economies. It has a tremendous amount of work to do and a determination to do it. The new government is focusing on infrastructure for a decade or two of strong economic growth.

Mack | India's stock market has had a great run recently. Is it still a good place for new money?

Greenberg | India is trading at about 16.5 times forecast earnings, in line with its real long-term average. It could correct short term, but this is an attractive long-term bet.

Mack | What's your view on Mexico, specifically in terms of the drop in oil prices and the strong dollar?

Greenberg | The drop hurts in terms of government revenue and prices as Mexico auctions off the national oil company. But the economy's underlying dynamic looks good. The only problem with the country as an investment area is that its market is somewhat expensive.

Mack | What's your perspective on the oil decline and policies regarding fossil fuel use?

Freeman | Oil has been a source of wealth generation and economic growth, as well as a source of corruption. That's particularly true in frontier markets like Nigeria, which has lost tens of billions of dollars of revenue to bad governance. Environmental degradation and human rights abuses also have long been associated with oil.

Over the past 15 years, a number of companies in the oil and gas sector have been trying to address these problems. Even some of the biggest Chinese companies understand that, as global operators, they must step up.

Mack | Could you discuss the differences between emerging and frontier market funds?

Freeman | The main difference among markets is the institutional framework. At the developed level, we take the rule of law as a given. At the frontier level, you have no hope that the legal system will be useful.

Mack | Why is it better to invest directly in emerging markets rather than in multinationals domiciled in developed countries?

Greenberg | A lot of our competitors invest in the Unilevers and Coca-Colas. The trouble is that you're getting what you pay for, which is a mixture of developed market stagnation and emerging market growth. It makes more sense to go for the emerging market company, which has 100% exposure. We dig deep and find those exposed to underlying growth trends. And we're assembling our portfolio from such gems.

Mack | If you had to choose one emerging market for the next five to 10 years, what would it be?

Greenberg | China is going to surprise everybody. There's so much negativity right now, but I've been following it for 27 years, and it has been consistent in building an impressive society and economy.

Freeman | I wouldn't count out India, where we see dynamism in certain sectors. It's a democratic country demonstrating real vibrancy. And it has become a world-class technology hub. ❖

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GETTY IMAGES

"SOCIAL MEDIA isn't a tool where you're pitching and selling products."

Amy McIlwain
Author
"The Social Advisor"

Advisers tweeting like never before

Study finds 75% actively using social media

By Alessandra Malito

Advisers are spreading their wings and tweeting, liking and sharing a lot more these days.

Two separate surveys, one by Smarsh Inc., a compliance company, and another by Cogent Reports' Advisor Media Consumption, which collects data on financial advisers, both found that advisers are breaking down the barriers and using social media for their businesses.

The numbers are up — way up — across the board.

Overall, there are more than 228,000 advisers — about 75% of the total number of advisers — actively using social media for professional reasons, according to the Cogent Reports' survey.

And Smarsh found that social media sites have seen significant jumps in adviser usage: 39% of advisers used LinkedIn in 2011 versus 72% today; Twitter usage has gone from 14% in 2011 to 44% today; and Facebook is not far behind at 34% today, up from 23% in 2011.

It's not just pre-approved content, either. Amy McIlwain, author of "The Social Advisor: Social Media Secrets of the Financial Industry" and vice president of social and digital strategy at Moore Communications Group, said she's seen advisers move away from pre-approved comments and toward a more conversational tone on social media.

NO HARD SELL

"Social media isn't a tool where you're pitching and selling products," Ms. McIlwain said. "It's where you're building relationships … positioning yourself as an expert.

"Advisers need to find their own voices to connect with clients and prospects," she added.

There is a lot of oversight when it comes to advisers using social media accounts. The Financial Industry Regulatory Authority Inc. has regulations on blogs and social media sites for firms and registered representatives, and some firms have their own policies as well.

Douglas Boneparth, a financial adviser with Life and Wealth Planning, said as long as advisers don't break the "golden rule," using social media can and should be used by everyone.

"Don't give investment advice," Mr. Boneparth said. "And that's easy for financial planners to do because we're so planning focused."

He said he's seen compliance offices ease up on the use of social media sites, as well.

And it's all because of demand.

"Social media was not then what it is today," Mr. Boneparth said. "Demand is up. People are using it to drive business."

"Any time that happens, it will start to shape regulation and move regulation in a much more expeditious way," he added.

LINKEDIN NO. 1

The Cogent Report survey showed similar results. Perhaps no surprise, LinkedIn is currently the No. 1 platform used by advisers (of the 74% of advisers who said they use LinkedIn in the Cogent survey, 59% said it's their primary platform). But other sites are getting traction as well. Of those surveyed by Cogent, 75% said they use YouTube, 65% use Facebook and 32% use Twitter in some professional capacity.

Eric Roberge, a financial adviser with Beyond Your Hammock, said he takes advantage of YouTube because of its wide audience.

"YouTube gives me that new paradigm to share my personality and to hopefully provide more information to more people and keep them entertained at the same time," he said. "I'm going to click on a video. That's more enticing to me. I want to be that for other people."

Mr. Roberge said he knows what he should and should not do or say on social media sites. For him, those sites are meaningful ways to provide education to clients and prospective clients and to have a voice.

"It's like a ramp I can use to consistently stay in front of people," he said.

Cogent conducted its survey of 1,390 advisers in the first quarter.

Smarsh surveyed 274 advisers in February and March.

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Finra softens transparency rules

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transferring brokers.

Critics said the "educational communication" watered down the original idea for compensation disclosures.

But "Finra believes the revised proposal is a more effective approach," the regulator said in its proposal release. "[T]he educational communication allows for more context and explanation about financial incentives and is more likely to prompt a discussion with the transferring representative or current firm."

In a meeting with reporters on the sidelines of the Finra annual conference in Washington last Wednesday, Finra chairman and chief executive Richard Ketchum said that since the rule was withdrawn, Finra has conducted a cost-benefit analysis and consumer testing that improved the proposal.

Finra is soliciting public comments on the rule until July 13. It is likely to be on the agenda of the July meeting of the Finra board.

Industry pushback helped reshape another proposed rule Finra filed with the SEC last Wednesday. That rule would require brokerage firms to include links from their websites to a public database containing background information on their brokers.

Under the measure, a brokerage would have to include a link to BrokerCheck on a homepage that is initially viewed by retail investors. It also would have to include links to the database on profile pages of individual brokers.

The SEC must approve the rule before it goes into effect, but it's not clear when the agency will act. The SEC may also ask for comments.

Finra first filed the rule with the SEC in January 2013 but withdrew it after the financial industry raised concerns about its feasibility.

SOCIAL MEDIA SCRAPPED

The original measure would have required that BrokerCheck links be included in posts on social media sites, such as Twitter. It also would have made brokers use a "deep link" to the BrokerCheck profile page of a registered representative.

The revised rule does not apply to social media sites, and the BrokerCheck links only have to go to the site's homepage rather than to individual profiles, which include brokers' disciplinary history.

"Finra believes that by limiting the application of the proposal only to a member's own websites, the revised proposal significantly reduces these implementation costs for members, while maintaining the proposal's investor protection goals," Finra stated in the filing notice.

The industry seems to approve. One group that opposed the original rule, the Financial Services Institute Inc., said Finra got this iteration right.

"The rule, as revised, addresses the concerns with the original proposal without impacting the investor protection benefits of the proposed rule," Robin Traxler, FSI vice president for regulatory affairs, said in a statement. "Once again, this demonstrates how essential the comment process is, and we applaud Finra for responding to commenters' concerns."

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Ketchum takes aim at DOL fiduciary

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investors in any investment that benefits the firm financially with no disclosure of their financial incentives or the risks of the product are simply not true," Mr. Ketchum said in a speech at the conference. "Nor are they an accurate starting point to justify a new standard of care."

Ron Rhodes, director of the financial planning program at Western Kentucky University and a longtime critic of Finra, blasted Mr. Ketchum's comments. In an email, he said they demonstrate how Finra acts "to protect Wall Street, not Main Street. Finra and Wall Street want a thoroughly eviscerated 'new federal fiduciary standard' that would do nothing to protect investors, and which would preserve Wall Street's culture of greed."

PRACTICAL PROBLEMS

Mr. Ketchum said he supports the thrust of the DOL proposal, which is designed to reduce conflicts of interest for brokers that can lead them to put clients in high-fee products that erode their savings, but said it would create practical problems for brokers.

He warned that the primary mechanism in the DOL rule that would allow brokers flexibility in charging clients for their services — a legally binding contract requiring them to act in the clients' best interests — would send disputes over fiduciary duty into legal and arbitration forums without instruction on how to rule on compensation practices.

"It is not that Labor's conflict concerns don't have validity," he said. "It is that I fear that the uncertainties stemming from contractual analysis and the shortage of useful guidance will lead many firms to close their IRA business entirely or substantially constrain the clients that they will serve," Mr. Ketchum said.

Barbara Roper, director of investor protection at the Consumer Federation of America, said the Labor proposal does not change the state of play when it comes to how legal and arbitration cases are adjudicated.

"FINRA and Wall Street want a thoroughly eviscerated 'new federal fiduciary standard.'"

Ron Rhodes
Professor
Western Kentucky University

Both the suitability standard that exists today and the more stringent fiduciary one that would apply if the Labor proposal becomes law rely on a subjective determination of brokers' culpability, she said.

"If securities regulators wanted to lead on this, they had their opportunity and they blew it," Ms. Roper said, referencing decades of what she sees as glacial progress. "What you have here is a difference between people who think we need to make fundamental, radical changes in the way broker-dealers do business and those who are comfortable with the status quo."

Mr. Ketchum said he favors a fiduciary standard for brokers that emphasizes that they act in the best interests of their clients, requires them to set up structures to manage conflicts of interest, strengthens disclosure to investors and addresses compensation differences between investment products.

"I continue to believe that the clarity of a 'best interests of the customer' standard would be an important step forward in encouraging firm compliance cultures that translate to consistent actions to place the interests of the customer first," Mr. Ketchum said.

The Finra chief said the goal of his speech was to "lower the noise level" in the fiduciary-duty debate and focus on practical ways for the industry to institute the standard.

The DOL encouraged Mr. Ketchum to write a comment letter about its fiduciary-duty proposal. The comment period was recently extended by 15 days.

"We are in the midst of the public comment period and hope that these and other concrete suggestions of how to improve the proposal will be submitted for the record," DOL spokesman Michael Trupo said in a statement.

Trevor Hunnicutt contributed to this story.

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