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NASA's first trip into space may not have been possible without the scientific calculations of Katherine Johnson.

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NASA's maiden voyage into space may never have happened without Katherine Johnson, the scientist responsible for calculating the rocket's flight path. Even after NASA computerized flight operations, they would rely on her to double-check the calculations. She went on to work on the space shuttle program, the Earth Resources satellite, and helped plan the first mission to Mars.

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Words of wisdom

A 99-year-old adviser looks back on her long career. Her advice to colleagues: Don't do anything stupid.

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VIRTUAL WORLD

Face-to-face client meetings are out; video conferencing and other digital tools are in

By Liz Skinner

WHEN KATE HOLMES launched her financial advisory business two years ago, she planned on rarely, if ever, meeting with clients face-to-face. Still, she decided to rent a small office near her home outside Las Vegas because she didn't think she would appear legitimate to prospective clients without a physical location.

"That lasted about two months," she said. "People are busy, and the clients I attracted all seemed to want to Skype or FaceTime right from the beginning."

Ms. Holmes now conducts meetings with her 40 clients on a virtual basis 99% of the time, and she can run her business, Belmore Financial, as easily from her parents' boat in San Diego Bay as she can from home.

Ms. Holmes, 31, is one of a growing number of advisers around the country who have never shaken hands with the majority of their clients. These mostly young planners have built advisory firms that rely predominantly on video conferencing, the telephone and other technologies to communicate with clients. Many brick-and-mortar advisory firms also have armed their professionals with the tools to satisfy clients' increasing desire to receive their financial advice on the fly.

Only about 4% of advisers currently list video conferencing as one of the communications methods they use most often to personally reach out to clients, according to an *InvestmentNews*/Cambridge adviser technology study last year. But 32% of advisers expect to be relying on video conferencing to

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Kate Holmes: From her home outside Las Vegas, the 31-year-old adviser uses Skype to communicate with clients, some of whom live as far away as New Zealand.

MICHAEL ROBERTS/STUDIO J INC.

Stifel seeks to add elite unit to firm

Barclays would bring in top advisers, rich clients

By Trevor Hunnicutt

If Stifel Financial Corp., reportedly in negotiations for Barclays PLC's U.S. wealth management unit, can close the deal, it could provide a template for that acquisition-hungry firm to compete for an elite group of advisers as well as their wealthy clients, analysts said last Monday.

Barclays could fetch between $150 million and $250 million for its unit, which has struggled with adviser attrition, according to Credit Suisse analysts Christian Bolu and Matt Tate.

But for Stifel, the acquisition offers the possibility to acquire — at a potentially favorable price — a descendent of the legacy wealth management operations owned by Lehman Brothers Holdings Inc., whose 249 advisers focus on the wealthiest clientele.

Reuters reported that Stifel was in "advanced negotiations" to acquire the unit, citing three unnamed sources. Stifel's stock popped 7% in trading last week.

$189M Average assets managed by Barclays advisers

"Such a deal would be right up [Stifel's] chief executive Ron Kruszewski's playbook — buying a troubled franchise from a motivated seller," the Credit Suisse analysts wrote. "Strategically, the deal would round out Stifel's wealth management offering to include the high-net-worth segment."

RISKS

But there are risks. Stifel largely focuses on less wealthy clients. Its advisers manage $89 million, on average, compared with Barclays advisers' $189 million, according to Credit Suisse. That means a different set of investment products, and therefore compliance and other challenges.

Stifel may also face morale issues with existing advisers, and they likely will have to pay competitive retention deals to keep Barclays advisers on hand for the coming years, Mr. Bolu and Mr. Tate wrote in a note Monday.

Barclays Wealth ranks 20th by U.S. private-client assets, overseeing $47 billion last year, according to Barron's Penta, a magazine that ranks firms based on an estimate including only client accounts exceeding $5 million. Although the number of advisers was roughly flat, assets dropped an estimated 4% from 2013

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Reeling one in

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SEC crackdown

The regulator filed two enforcement actions against advisers for falsifying credentials and issued an investor alert about the practice.

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EDITOR'S NOTE

When advisers get together, fireworks

In my travels last week, I found myself in Chicago at the HighTower Apex conference.

The conference was attended by more than 200 HighTower advisers and was jam-packed with useful content. Among the topics that really captivated folks were the outlook for the markets, keys to good branding, and strategies for attracting wealthy clients and — often more importantly — their children.

Frederick P. Gabriel Jr.

DoubleLine Capital chief executive Jeffrey Gundlach attracted attention when he forecast that the Federal Reserve is unlikely to raise interest rates this year. While Mr. Gundlach's prediction contradicts the general consensus of economists and market analysts, it shouldn't be summarily dismissed.

He is, after all, Jeffrey Gundlach — a man more often right than wrong when it comes to deciphering varied and contradictory economic signals, and figuring out how they will affect the bond market.

So, what is Mr. Gundlach waiting for before he is ready to accept that a rate hike is imminent? Mainly, he wants to see Americans earning more money.

When hourly wages start to rise, "the Fed will have a clearance to tighten," he said. "But we are not there yet."

One of the most chilling forecasts, however, was delivered last Thursday by Shahira Knight, vice president of government relations for Fidelity Investments. Much of Ms. Knight's presentation focused on the Labor Department rule proposal that would require anyone making investment recommendations to retirement plan sponsors, participants and beneficiaries to act as fiduciaries.

Though the rule allows for certain exemptions, it essentially would prohibit advisers from receiving 12(b)-1 fees, commissions and/or benefiting from revenue-sharing agreements, Ms. Knight said.

That's because taking advantage of the prohibited-transaction exemptions requires so many disclosures that it is unworkable, she said. As the proposal now stands, there is also no exemption for giving advice to small businesses, or for recommending rollovers and planned distributions.

"In practicality, the rule is not going to work because it is incredibly burdensome to comply with," she said.

While registered investment advisers would not go unscathed by the rule proposal, broker-dealers would be the ones that are really hamstrung by it, she said.

"B-Ds are in trouble," she said. "They are going to have to find a way to comply with these exemptions and that is going to be difficult, if not impossible."

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Correction

The Op-Ed piece in the June 1 edition, "Most financial advice tainted by advisers' self-interest," misstated the name of author Bert Whitehead's training organization. It is the Alliance of Comprehensive Planners, not the Alliance of Comprehensive Advisors.

Finra touts BrokerCheck in ads

But critics say database doesn't provide all the information that investors need

By Mark Schoeff Jr.

Finra last Monday launched a $3.5 million advertising campaign to encourage investors to research their brokers before hiring them, but some industry observers said Finra's database doesn't provide enough information.

The digital, print and television ads, which will run through the month of June, promote BrokerCheck, an online database managed by the Financial Industry Regulatory Authority Inc. The database provides employment and disciplinary history about brokers, as well as their certifications and licenses.

The ads are hitting the airwaves just days after Finra submitted a rule to the Securities and Exchange Commission for final approval that would require brokers to include a link to BrokerCheck on their websites and brokers' profile pages.

A print ad ran in last Tuesday's Wall Street Journal. Digital ads will appear on financial news websites, as well as search engines.

Joe Peiffer, president of the Public Investors Arbitration Bar Association, said BrokerCheck, which is based on information in the Central Registration Depository, is not complete. It leaves out items such as internal firm investigations involving the broker, as well as exam scores.

Finra ad: Look before you leap, and check out your broker.

"If they're going to spend all this money on promoting BrokerCheck, why not make it a complete listing of what an investor needs to know about his broker?" said Mr. Peiffer, a partner at Peiffer Rosca Wolf Abdullah Carr & Kane.

Benjamin Edwards, director of the Investor Advocacy Clinic at the Michigan State University College of Law, said that if investors want to get a complete report about brokers, they need to turn to state-level databases, such as the one that Florida maintains.

"This [additional] information is material for investors," Mr. Edwards said. "While BrokerCheck is a great resource, it doesn't tell investors everything they should be able to know."

Even though the information is not as complete as Mr. Edwards would like, he wants to see higher traffic for BrokerCheck.

"One of the best ways to protect yourself is to check and make sure the person you're dealing with is licensed," he said.

One of the 15-second television ads features a man who doesn't realize that pills he's just swallowed would give him "gorilla arms."

"You wouldn't take medicine without the checking the side effects," the voice-

Continued on Page 21

LPL hires E*Trade finance chief Audette

Newly hired CFO will follow Arnold, who was elevated to presidency

By Trevor Hunnicutt

LPL Financial said last Monday it had hired Matthew J. Audette as chief financial officer to replace Dan H. Arnold, who recently was promoted to president of the country's largest independent broker-dealer.

The hire of the E*Trade Financial Corp. CFO to serve in the same role at LPL comes nearly three months after the surprise departure of president Robert Moore.

Mr. Audette, 41, succeeds Mr. Arnold, 50, who had been CFO until he was asked to take the No. 2 slot that had been filled by Mr. Moore.

Mr. Moore, once thought to be the heir to chief executive Mark S. Casady, moved to Legal & General Investment Management America, an institutional money manager, where he serves as CEO.

Accountant Thomas D. Lux had served as acting CFO. In a statement, the firm said he was retiring after the transition.

Matthew J. Audette: Credited with helping to orchestrate E*Trade's recovery.

TURNAROUND ARTIST

In its statement, LPL framed Mr. Audette's career as one of a turnaround artist. "In recent years, he helped orchestrate the firm's recovery — leading the company in its efforts to execute on a financial and capital plan," the statement said. "His track record has garnered the commitment of shareholders, the respect of the industry, and praise from his peers and the media alike."

LPL Financial Holdings, parent company to broker-dealer LPL Financial, had discouraging financial results in 2014 due to a sharp increase in regulatory expenses. The company paid $36.3 million last year in regulatory charges, including fines and restitution.

The firm missed analysts' estimates during two of four quarters last year, according to Thomson One Analytics, a data service.

Mr. Audette started his career in the financial services practice at KPMG, the accounting giant. He joined E*Trade in 2000 after its acquisition of Telebank, an online bank where he worked, LPL said.

Mr. Audette will be based out of LPL's San Diego office starting Sept. 28.

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Ben Fulton: Smart beta "allows the adviser to take charge, and provide the active overlay, while using cost-efficient underlying" products.

Early ETF pioneer rips 'ill-conceived' funds

After hiatus, Ben Fulton returns with new firm

By Trevor Hunnicutt

An unlikely source is making the case that there's too much "ill-conceived" product development in exchange-traded funds.

Ben Fulton is an improbable messenger because he was one of the early proponents of smart beta, the nontraditional benchmark indexing that underpins a growing number of funds. And, after a bit of a hiatus from the industry's epicenter, the former managing director of global ETFs at Invesco PowerShares is back to launch his own suite of products.

> "SOME PRODUCTS ... [try] to capitalize on smart beta, but they're not capitalizing on the needs of the marketplace."
>
> **Ben Fulton**
> Founder
> Elkhorn Investments

But Mr. Fulton said the industry is going to have to reckon with a few ETF closures and growing pains as more products come to market. One hundred seventy-six ETFs were launched last year, nearly 14% of the market by number of funds, while 59 shut down, according to the Investment Company Institute, the mutual fund industry's trade group.

"There's some really ill-conceived ideas out there that probably are not viable in the long run," Mr. Fulton said. "There are some products that have been created that are just trying to capitalize on smart beta, but they're not capitalizing on the needs of the marketplace," including financial advisers.

EARLY PROPONENT

Mr. Fulton, 53, was one of the early proponents of an industry that's attracting a growing share of media attention and drawing money away from other investment vehicles such as mutual funds. He helped Nuveen Investments Inc. develop its would-be ETF line in the late 1990s and early 2000s before the enterprise was shut down.

H. Bruce Bond, one of the members of the team at Nuveen, would go on to co-found and run PowerShares Capital Management. Mr. Fulton went to Claymore Securities Inc., which eventually would start ETFs and be sold to Guggenheim

Continued on Page 23

The big lift: Raymond James lures $2.4B team from Morgan

By Mason Braswell

GETTY IMAGES

Raymond James Financial Inc. has hit a new milestone in its quest to lure top wirehouse talent.

The company, which in recent years has focused on attracting veteran advisers from wirehouses or boutique firms, scored the largest coup in its 54-year history with the addition of a $2.4 billion team from Morgan Stanley Wealth Management.

That surpasses a $900 million team that it recruited in December from J.P. Morgan Securities.

The six advisers, who on average manage $400 million, compared with the $129 million average for all Morgan Stanley advisers, include industry veterans Don d'Adesky, W. Kristopher Lemke, Matthew Cicero, Jose Cabrera Sr., Kevin Gourrier and Ryan Weber. They operate as The Americas Group and will be part of Raymond James' employee-adviser channel, Raymond James & Associates Inc.

Raymond James has around 6,400 advisers across its employee and independent advisory units. Those advisers manage some $502 billion, or an average of $784,375 per adviser.

BASED IN FLORIDA

The Americas Group, which will operate out of two Florida offices in Boca Raton and Miami, focuses on a mix of high-net-worth and institutional clients, including insurance companies, car dealers and bankers located in the Caribbean region.

Morgan Stanley spokeswoman Christine Jockle confirmed the

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Guggenheim eases ladder construction

Jeff Benjamin
On Investments

When it comes to fixed-income investing, particularly at a time of historically low interest rates and unprecedented monetary policy, it's hard to beat a basic bond laddering strategy.

For income investors, even if they're grumbling about the low yields, there's nothing quite as comforting as knowing exactly what to expect from the safe part of their portfolio, since bond investments are held to maturity. The alternative that a lot of investors and advisers are still opting for involves holding bond funds and hoping the portfolio doesn't get creamed when rates start rising.

With that in mind, Guggenheim Investments is upping the game with a new platform aimed at making bond ladder construction easier to accomplish. But there are a few wrinkles worth noting.

The platform, which launched last week, is essentially Phase 2 of Guggenheim's side-door entry into the bond ladder business, which began with its launch of a family of target-maturity BulletShares ETFs in 2010.

Similar to an exchange-traded fund lineup offered by BlackRock Inc., BulletShares are portfolios of individual bonds that all mature on the same date, triggering an annual liquidation that results in checks being sent to shareholders.

At the end of last year, when the $800 million 2014 BulletShares was nearing maturity, Guggenheim managing director William Belden said, "We swallow hard and give the money back."

GETTING IT BACK

They give it back while hoping investors will use the money to buy another BulletShares on the long end of a bond ladder, which is where the new platform comes in.

"We know that laddering has become the predominant use of the BulletShares ETFs, and we've been working for a while to develop a bet-

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Massachusetts adviser found liable in fraud cases

Benjamin Grant of Sage Advisory agrees to permanent bar

By Alessandra Malito

A Massachusetts federal court ordered Boston firm Sage Advisory Group and its principal, Benjamin Lee Grant, to pay more than $1 million, concluding two fraud cases. Mr. Grant also agreed to a permanent bar, according to the Securities and Exchange Commission.

The SEC said Mr. Grant participated in fraudulent activity on two occasions, once when he encouraged brokerage customers at his former firm to transfer their funds to his new advisory firm, Sage Advisory Group, in 2010.

The second time was when Mr. Grant and the firm violated a commission rule by creating a securities business and failing to tell clients that the SEC had barred his father, John "Jack" Grant.

On May 29, the U.S. District Court for the District of Massachusetts made final judgments on the two cases. A federal court jury previously found Mr. Grant and his firm liable for fraud, and Mr. Grant admitted liability for fraud in the second case.

Mr. Grant could not be reached for comment. His attorney, William Haddad, did not reply to a request for comment.

$1M
Amount Mr. Grant was ordered to pay by the court

WRAP FEE SAVINGS

In his BrokerCheck report, however, Mr. Grant responded to the first case by saying, "I disagree with the allegations of the SEC and intend to vigorously defend against them."

In the first case, Mr. Grant, who in 2005 left his former employer, broker-dealer Wedbush Morgan Securities, told clients they would pay a 2% wrap fee to Sage that would cover advisory, management and transaction costs. He said that structure would work out to cost less than the 1% fee plus trading commissions Wedbush charged.

Mr. Grant also said the brokerage managing clients' assets, First Wilshire Securities Management Inc., suggested those assets should be moved to Charles Schwab & Co., according to the SEC. According to the case documents, First Wilshire Securities never made that suggestion.

What the clients did not know was that Mr. Grant was the one benefiting. His compensation reached more than $1 million in 2006-07, up from $500,000 in 2004-05, according to the SEC.

In the second case, Mr. Grant's father, barred by the SEC in 1988, continued to act as an investment adviser and set up 95% of his clients with accounts at his son's firm.

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Alternative DOL rule proposed

SIFMA says beefing up suitability standard better than fiduciary

By Mark Schoeff Jr.

The major trade organization for the financial services sector last Wednesday proposed its own version of strengthened investment advice rules for brokers, outlining a standard it says is more workable than one floated earlier this spring by the Labor Department.

In essence, the Securities Industry and Financial Markets Association suggests amending suitability rules enforced by the Financial Industry Regulatory Authority Inc. to include a "legal and enforceable best-interests obligation" and requirements to consider investment fees, avoid or manage material conflicts of interest, and provide disclosures about fees and conflicts.

SIFMA's version differs meaningfully in scope from the DOL proposal designed to reduce conflicts of interest for brokers working with retirement accounts. The DOL proposal establishes a best-interests contract exemption, which gives brokers flexibility in their compensation arrangement as long as they sign a legally binding contract that requires them to act in their client's best interests.

PRICING OUT INVESTORS

The DOL says its rule, introduced in April with White House backing, would curb incentives for brokers to put their clients in high-fee products that erode retirement savings.

SIFMA contends the DOL rule would significantly increase broker liability regulatory costs, and force brokers to move clients from commission-based brokerage accounts to fee-based accounts, potentially pricing investors with modest assets out of the advice market. It also said in its proposal that if the DOL finalized a rule that applies only to 401(k) and retirement accounts, it would "add to investor confusion and result in regulatory duplication

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[1] Metrics are based on observations of rolling 3-year annualized returns over the last 30 months, calculated on an annualized, gross-of-fees basis, and includes mutual funds as well as pooled and separately-managed institutional portfolios that fall within our traditional (long-only commercial book of business that remain open as of 03/31/2015. If terminated and other accounts had been included, results may have differed from that shown. Source of performance returns is Voya Investment Management, and further detailed information regarding these calculations is available upon request.

[2] Metrics presented use pre-determined criteria to measure each individual investment product based on its ability to either A) rank above the median of its peer category; or B) outperform its benchmark index on a gross-of-fees basis. Generally speaking, the results for unconstrained, fully-active investment products were based on relevant peer category rankings while those of "enhanced index", rules-based, risk-constrained, or client-specific investment products were based on benchmark-relative performance. Metrics are calculated on an annualized basis and includes mutual funds as well as pooled and separately-managed institutional portfolios that fall within our traditional (long-only) commercial book of business that remain open as of 03/31/2015. If terminated and other accounts had been included, results may have differed from that shown. Source of performance returns and peer medians is Voya Investment Management but is based in part on data from Morningstar (mutual funds) and eVestment (institutional composites). Further detailed information regarding these calculations is available upon request.

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VIEWPOINT

EDITORIALS

Time to get in gear on longevity annuities

IT'S NEVER A GOOD SIGN when the crux of one of our articles is: Nobody knows who is responsible for what. Welcome to the world of QLACs. Qualifying longevity annuity contracts allow people to use 401(k) or IRA money to purchase a deferred-income annuity and exclude its value from the required minimum distribution calculation when they reach age 70½. The change makes it easier for people to buy contracts that don't begin paying until far later in life — as late as age 85 — so the annuity can truly act as "insurance." The Treasury Department and IRS announced the final regulation last summer, saying the purpose for updating the laws was to help people manage the risk of running out of money in retirement — the greatest fear many have.

Financial advisers largely welcomed the development (as well as a follow-up announcement last fall that QLACs could be included in target date funds) as another potential planning tool to diversify income in retirement — and to delay a portion of RMD payments. The product certainly isn't for everyone, but with the Obama administration's backing of it, the possibilities were exciting.

HAVING A BACKSTOP

Concerns about people outliving their money as life spans and health care costs grow are real. Even if an adviser's got every detail accounted for, having a backstop for healthy clients with less-than-healthy retirement balances can be a real relief to both adviser and client. Whatever an individual adviser feels about a QLAC's usefulness for a particular client, if it is a product with even limited applicability, it should be available.

So if there's enthusiasm on all sides — advisers, broker-dealers, insurance carriers, the public — where are the QLACs?

OK, they are out there, at least on some platforms. But many advisers still don't have access.

A recent article in *InvestmentNews* explained that the delay in broker-dealers adding QLACs to their platforms largely is attributable to confusion over who's responsible for ensuring contracts meet Treasury guidelines, particularly the contribution limits. Either the insurance carrier or the broker-dealer will have to ensure clients are using no more than $125,000 or 25%, whichever is less, of their qualified plan assets on a QLAC.

Some broker-dealers, especially those who consider this "outside business" for their advisers, rely on insurance companies to capture information ensuring suitability on applications, including having clients attest that they meet QLAC requirements. For broker-dealers that process transactions themselves, the responsibility could be greater, but concerns need not translate into inaction.

PENSIONIZING a portion of defined-contribution dollars is a worthwhile concept.

There is some reprieve after all, for mistakes. The Treasury's final rules permit buyers who exceed the limits to correct that excess amount without disqualifying the annuity purchase. Of course, the penalty for not taking the RMD for that overage could be hefty. These issues could benefit from further guidance from Treasury and the IRS.

The incentive for the industry to take action and sort out the responsibility for meeting QLAC requirements could very well gain steam on its own, once demand starts to grow for the products. Currently, the idea of locking into low rates with some of these annuities is not spawning a wave of adviser interest. Neither is the fact that contribution maximums are relatively low.

LIMITS TOO LIMITING

Two types of clients might especially benefit from a QLAC, but for both, the limits of 25% or $125,000 diminish the product's usefulness. For clients with low account balances — who are most likely to outlive their savings — 25% of a tiny pile of money won't buy much guaranteed future income. For the wealthy who don't need longevity insurance but want to delay RMDs, sticking $125,000 into a low-paying annuity might not be worthwhile.

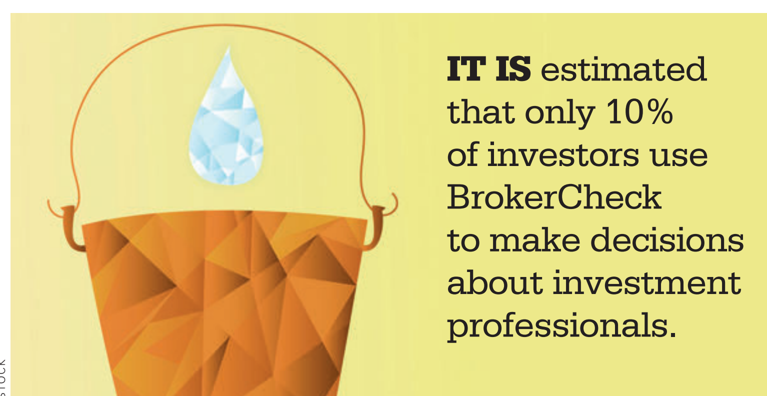
So there's a lot to be done to reach the full potential of these products. But regardless of the need for tweaks, more guidance and a stronger impetus to take responsibility around QLACs, the fact that the industry — and government — are having this conversation is encouraging.

Pensionizing a portion of defined-contribution dollars is a worthwhile concept. It would benefit everyone if the industry continues to discuss creative ways to evolve risk management — insurance at its very purest — to meet the growing challenges facing retirees.

What good is an ad if no one sees it?

The Financial Industry Regulatory Authority Inc. has made great strides in recent years in improving the quality and relevance of the information found in its BrokerCheck database.

So we are heartened by the industry-funded watchdog's decision to launch a five-week, multimillion-dollar advertising campaign aimed at encouraging investors to research their brokers before hiring them. The ads will run online, in print and on television.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IT IS estimated that only 10% of investors use BrokerCheck to make decisions about investment professionals.

WEB LINKS

The move comes as the Securities and Exchange Commission considers whether to green-light a rule proposal by Finra that would require brokerages to include a link to BrokerCheck on their websites and brokers' profile pages — a proposal that this publication supports.

But $3.5 million, the amount of the ad campaign, is a drop in the bucket compared to what major companies spend on promoting their products or brands, and it is unlikely to significantly raise consumer awareness of Finra's database. We urge Finra to dig deep and find the resources necessary to extend the campaign both in duration and scale so that more investors learn of BrokerCheck's existence.

It is estimated that only about 10% of investors use the database to make decisions about investment professionals. What good is a new-and-improved BrokerCheck if 90% of investors aren't aware the useful resource is there?

The answer is "not much."

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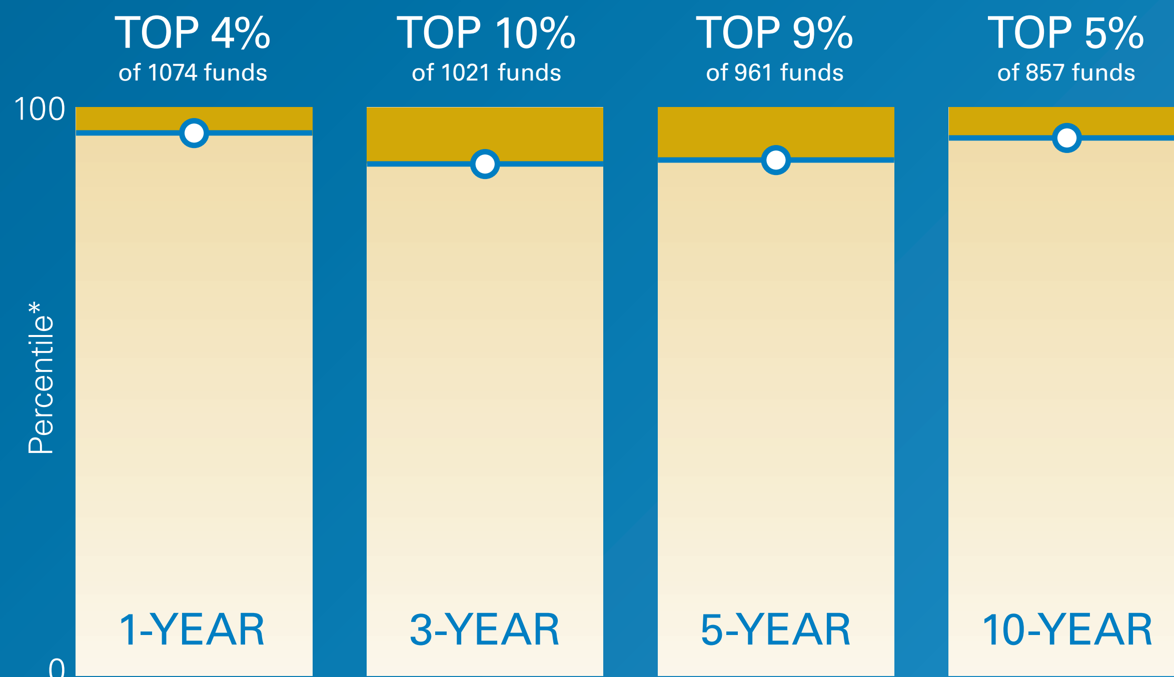

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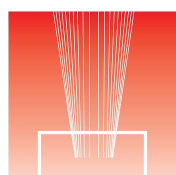

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[2] Morningstar percentile ranks are based on a fund's total returns (including the effects of sales charges, loads and redemption fees) for the specified time period relative to all funds in the same category. The highest (or most favorable) percentile rank is 1 and the lowest (or least favorable) percentile rank is 100. The top-performing fund in a category will always receive a rank of 1. Ranks shown are for Class I and A shares. Class I percentile ranks were 4% (34/1,074 funds) for the 1-year period, 10% (96/1,021 funds) for the 3-year period, 9% (88/961 funds) for the 5-year period and 5% (43/857 funds) for the 10-year period. Class A percentile ranks were 6% (56/1,074 funds) for the 1-year period, 15% (153/1,021 funds) for the 3-year periods and N/A for the 5- and 10-year periods.

ADVISER'S CONSULTANT
PROSPECTING

Digital presence is critical

Social media channels give firms a way to reach out to clients more frequently

By Liz Skinner

Josh Nelson can't imagine an advisory firm growing today without a strategic approach to social media, search engine optimization and the crafting of a vibrant website.

The Keystone Financial Services founder pushes his five-year-old firm to excel at these, and said he'd switch broker-dealers if LPL Financial didn't have forward-thinking social media rules and policies.

"A digital presence is critical today," said Mr. Nelson, 39. "Without one, to a lot of clients, it's like you don't exist."

Prospects review an adviser's website before the introductory meeting, and if they can take a virtual tour of the office through a video and learn about the firm's story before walking in the door, they will feel more comfortable from the start, he said.

Josh Nelson: "Without [a digital presence] ... to a lot of clients, it's like you don't exist."

Keystone Financial Services recently revamped its website, cutting lots of text and incorporating more videos, infographics and photos. The firm hired experts to make sure the site's practices are optimized to rank high in search engine results, Mr. Nelson said.

The Loveland, Colo.-based firm also communicates with clients and prospects through social media, including LinkedIn, Facebook, Twitter and YouTube.

"Advisers might meet with clients a couple times a year, and might have phone calls and social events a couple more times," Mr. Nelson said. "With social media we are talking to clients every day, and there's no other way to touch them that often."

When they are on social media, people are looking to be communicated with, as opposed to something like an email blast that "intrudes" by landing in someone's mailbox uninvited, he said.

Two issues stand out as critical when it comes to a firm's digital presence, Mr. Nelson said. The first is making sure social media postings are interesting and relevant to clients.

It's also crucial that the firm's leaders don't have a "fix it and forget it" mindset.

"When we first signed up for social media, we expected to just put it on autopilot," he said. "But that didn't work at all."

Fresh content is constantly needed, and there should be a person dedicated to making that happen, Mr. Nelson said.

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Tip sheet

• Think carefully about which items you post on different forums. Messages on Facebook should be more fun and interesting, as it's mostly a social site. Use Twitter for newsier notes.

• LinkedIn is great for communicating with prospects. Someone you met on the golf course or even through a friend will connect with you much quicker on LinkedIn than if you call and ask to set up a meeting. Social media allows recipients to control the interaction, and they know they can always disconnect. LinkedIn is a great way to stay top of mind with clients, too.

• Commit to creating and sustaining a digital presence. Designate at least one person to keep social media and the website relevant with regular, fresh content.

• Think carefully about whether to communicate through a personal or business social media page. But keep in mind that even if you only post through the business page, many clients will seek out and find personal pages, so you should consider the content there carefully, too.

• Track the number of your likes on Facebook and connections on LinkedIn to make sure your followers are always increasing. If supporters are going down, rethink the content being posted.

• Pay attention to how much content and what type of content the firm is posting. Aim for about half business-related content and half personal notes, such as a staff member's baby announcement. Followers really like to see personal photos and videos, such as a picture of the team at an industry conference or celebrating the chief executive's birthday.

• Think about how the firm's digital presence is being delivered and make sure video and infographics are included on the website and on social media. People are more likely to consume the same message in video format, studies show.

Regulator charges advisers for using false credentials

Investors alerted to importance of background checks

By Mark Schoeff Jr.

The Securities and Exchange Commission filed two cases last Wednesday against purported investment advisers who falsified their credentials. In a related investor alert, the regulator warned about such misrepresentation and suggested that the public do background checks on those helping them manage their money.

In one case, the SEC charged that Todd M. Schoenberger of Lewes, Del., solicited at least a dozen people to invest in promissory notes issued by LandColt Capital, an unregistered advisory firm. According to the SEC, he said the notes would be repaid from management fees earned by a private fund he would launch.

$69K
Size of Mr. Schoenberger's settlement with SEC

TV APPEARANCES

Mr. Schoenberger, flaunting his appearances on national cable television business programs, persuaded four people to invest $130,000. But he never launched the private fund or paid back the investors, instead diverting $67,000 for personal use, according to the SEC.

Mr. Schoenberger settled with the SEC, paying a $65,000 disgorgement and $4,349.87 in prejudgment interest. He also was barred from the securities industry.

In the other case, the SEC charged Michael G. Thomas of Oil City, Pa., with misrepresenting to investors his background and past investment performance and the projected returns from Michael G. Investments. He told potential investors he was named a Top 25 Rising Business Star by Fortune magazine, according to the SEC. Such an honor does not exist.

Mr. Thomas reached a $25,000 settlement with the SEC and agreed to a five-year ban from the industry.

The SEC said that it is cracking down on people who pose as investment professionals or exaggerate or lie about their credentials.

"Advisers looking to raise funds cannot lie about their backgrounds to lull investors into a false sense of security about their purported expertise or the profitability of a potential investment," Julie M. Riewe, co-chief of the SEC Enforcement Division's asset management unit, said in a statement. "Each adviser in these cases used false claims about his background to create trustworthiness and lend credibility to their offering schemes."

Attorneys for Mr. Schoenberger and Mr. Thomas declined to comment.

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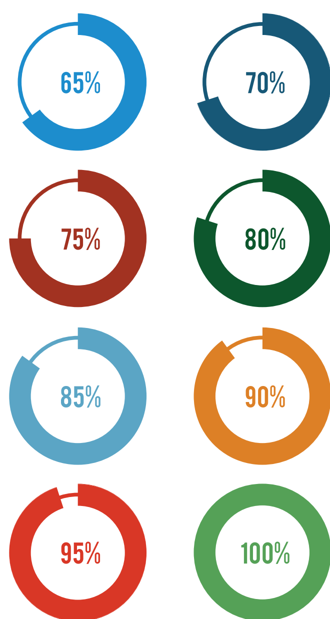

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Sen. Warren blasts White's record as SEC chief

Her letter cites too few firms admitting guilt, too many waivers

By Mark Schoeff Jr.

A Democratic senator who has become a scourge of Wall Street unloaded last Tuesday on Securities and Exchange Commission Chairwoman Mary Jo White, drawing mixed reviews for her criticism of the agency's direction.

"You have now been SEC chair for over two years, and to date, your leadership of the commission has been extremely disappointing," Sen. Elizabeth Warren, D-Mass., wrote in a 13-page letter to Ms. White that took her to task in several areas.

In her critique, Ms. Warren said the SEC has failed to follow through on Ms. White's promise to force more financial firms to admit guilt in enforcement settlements. Between Ms. White's announcement of the new policy in June 2013 and the end of the last fiscal year in September, the SEC required admissions of guilt in only 19 of 520 settlements, according to Ms. Warren's letter.

'MISCHARACTERIZATION'

Ms. Warren also slammed the SEC for granting 20 waivers, mostly to large financial firms, for violations of securities laws during Ms. White's tenure, which began in April 2013. Democratic SEC commissioner Kara Stein also has consistently criticized the agency's waiver policy.

In her own defense, Ms. White said the SEC had achieved a "record year in enforcement" and had proposed or adopted more than 30 congressionally mandated rules under her watch. The agency brought 755 enforcement actions in fiscal 2014 and obtained $4.1 billion in penalties and disgorgements.

"Senator Warren's mischaracterization of my statements and the agency's accomplishments is unfortunate, but it will not detract from the work we have done, and will continue to do, on behalf of investors," Ms. White said in a statement.

One investment adviser defended Ms. White, saying she has a difficult task in leading the politically divided five-member commission.

"The chair has to be a regulator, a navigator and a referee," said Paul Auslander, director of financial planning at ProVise Management Group. "I think she's done an exceptional job in those capacities."

He also praised Ms. White for coming out in favor of a uniform fiduciary duty for retail investment advice.

"She's the first chair that's discussed the 'f-word' in a meaningful way," Mr. Auslander said.

Another adviser said that while there could be room for improvement at the SEC, the agency should not go too far to appease critics such as Ms. Warren.

"They can always do better, but you don't want the pendulum to swing to over-regulation," said Daniel Lash, a partner at VLP Financial Advisors. "Over-regulation can be stifling for growth purposes."

It's difficult to know how to quantify the ideal SEC enforcement-penalty output, according to Mr. Lash. "How do you gauge that?" he said. "Should it be $8 billion? Is it $20 billion?"

But a consumer advocate endorsed Ms. Warren's tough assessment of the SEC's record.

"There's a legitimate case to be made that the SEC has failed to deliver an investor-protection agenda," said Barbara Roper, director of investor protection at the Consumer Federation of America. "There's cause to be disappointed in the SEC."

But Mr. Auslander said Ms. Warren went too far in her attacks.

"She's the Rand Paul of the Democratic Party," said Mr. Auslander, president of the Financial Planning Association of Florida, referring to the firebrand Republican senator from Kentucky. "For whatever reason, she's grandstanding."

Ms. Warren, a member of the Senate Banking Committee, indicated that she will continue to pressure Ms. White.

"I am disappointed that you have not been the strong leader that many hoped for — and that you promised to be," Ms. Warren wrote.

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"YOUR LEADERSHIP of the commission has been extremely disappointing."

Sen. Elizabeth Warren
D-Mass.

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Key lessons from the ETP graveyard

By Ari I. Weinberg

Exchange-traded fund issuers and acolytes like to flaunt significant figures — nearly $3 trillion in assets under management globally, $2 trillion in the United States — but the industry is not exactly crowing about a recent milestone.

With the shuttering of five ETFs by Deutsche Asset & Wealth Management on May 18, exchange-traded product issuers in the U.S. now have closed 500 products: 430 ETFs and 70 exchange-traded notes. Of those, a handful were designed to self-destruct: target-maturity bond ETFs and ETNs with set triggers. The rest, however, were abandoned or died on the vine.

With 1,707 ETPs listed in the U.S. today, Ron Rowland estimates at least 315 more ETFs and ETNs, or 18% of current products, remain at risk of closure because of limited assets and trading. Mr. Rowland tracks the dynamics of the ETP market, including closures and the "ETF Deathwatch," at his website, investwithanedge.com.

Still, the long-term survivorship rate of ETPs is around 75%, while separate recent studies from Dimensional Fund Advisors and Vanguard Group Inc. estimated 15-year survivorship rates of between 42% and 54% for traditional mutual funds in the U.S.

MARGINAL PRODUCTS

Marginal products, those with assets insufficient to support the cost of managing the fund over the long term, are the ones that tend to close. On occasion, funds close because of a shift in issuer strategy. Both Deutsche AWM and BlackRock Inc.'s iShares unit recently conceded that target-date ETFs were not fit for intraday trading, despite the overwhelming success of non-ETF target-date strategies within defined contribution plans.

Market observers, including Mr. Rowland, argue that fund closures are part of a healthy product ecosystem. Some useful lessons also have come out of the closures to create a stronger, more vibrant market.

With low-cost, broad-based products, both Charles Schwab Investment Management and Fidelity Investments succeeded in growing their ETF franchises despite entering the market late. Both have drawn upon their significant bases of retail and adviser customers and forgone trading commissions in a calculated move to attract clients.

FocusShares, which first closed in 2008 and was reincarnated as a unit of ScottTrade in 2011, tried a similar strategy, offering low-cost broad-based U.S. market size and sector ETFs tracking Morningstar indexes. Demand was nonexistent and FocusShares closed in mid-2012.

SECOND CHANCES

Some second chances do exist in the ETF market.

In the depths of the financial crisis in early 2009, Northern Trust Corp. closed 17 ETFs tracking branded country indexes, such as the FTSE 100 and Hang Seng, and put its ETF plans on hold. Over the next 2½ years, it rebranded its ETF business (to FlexShares from NETS) and revamped its product development cycle to attract $8.95 billion as of May 26 across 17 ETFs, according to XTF Inc.

In the U.S., the market for broad-based size and sector ETFs is dominated by BlackRock, Vanguard and State Street Global Advisors, which collectively manage or market $1.72 trillion across 527 products as of May 26, according to XTF. Much of that dominance is due to the way the companies have approached the market and their timing.

However, hiring executives from successful issuers doesn't always pan out. Russell Investments launched a suite of products in 2011 with a team of industry veterans from top-tier issuers. Operational challenges along with shifting priorities at the parent company put the young fund family on the chopping block by late 2012.

Backed by Warburg Pincus and former iShares CEO Lee Kranefuss, London-based Source, which manages nearly $20 billion across 84 exchange-traded products in Europe, made a brief appearance in the U.S. with a EURO STOXX fund. But its attempts to wrest assets from a similar (more expensive) product managed by SSgA were unsuccessful, and Source refocused its efforts on the European market this spring.

Reviewing the hundreds of closed products, it's evident that some themes just weren't accepted by the market: international and global sector funds, fundamental and equal-weight domestic sector funds, overly complex daily trading strategies, micro-parsing of the VIX futures market, real estate and health-care subsectors, and, more recently, target date ETFs.

The message embedded in all of these closures is that ETPs are best built for broader, less-targeted interests and investors (and speculators) coming from all sides.

Ari I. Weinberg is a contributor to sister publication Pensions & Investments.

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All-ETF target date funds now a thing of the past

By Robert Steyer

Despite their allure to some investors, exchange-traded funds have failed to attract investors for target date funds in an ETF format.

On May 27, Deutsche Asset & Wealth Management liquidated the assets of its X-trackers target date fund series consisting of five all-ETF funds, which represented about $136 million of the company's $17.4 billion in total ETF assets.

NOT A GOOD FIT

"Deutsche AWM aims to be a leading specialty provider of ETFs in the U.S., by providing differentiated and compelling products to investors," Fiona Barrett, head of passive management for the Americas, wrote in an email. "After carefully evaluating multiple factors, we made the decision to liquidate our target date ETF suite, as we believe they did not fit well within our overall strategy."

Deutsche AWM's departure from the ETF target date fund market reduces to zero the number of all-ETF target date funds.

In October, BlackRock Inc. liquidated the assets of its all-ETF iShares Target Date series, which contained 10 separate all-ETF funds.

When it announced the closing of the series in August, BlackRock's iShares unit said in a news release that the decision was "based on ongoing product reviews and client feedback and limited investor interest in the funds."

Robert Steyer is a reporter at sister publication Pensions & Investments.

After 5 years, Janus CEO still must prove himself

By Randy Diamond

Janus chief executive Richard Weil has beaten the odds by staying more than five years at a company where CEOs have come and gone quickly.

But the verdict is still out as to whether Mr. Weil can bring the company's financial metrics up to the level of its competitors, analysts and consultants say.

In February 2010, he became the fifth CEO in just eight years at Janus Capital Group Inc., with a clear mandate from the publicly held company's board to improve inflows and financial results.

The money manager, which has $190 billion in assets under management, gained a combined net $3.1 billion during the fourth quarter of 2014 and the first quarter of 2015. That's due in part to Janus' fundamental equity strategies. With net inflows of $1.8 billion, the first three months of 2015 marked the first quarter since 2009 that fundamental equities have had net inflows.

LAGGING PERFORMANCE

For years, Janus' financial performance has lagged that of its publicly traded competitors. The company reported an operating margin of 27.49% in 2014, compared with a peer average of 29.68%, Bloomberg data show, while its return on equity to shareholders last year was 10.17% versus a peer average of 28.35%.

Richard Weil
CEO
Janus Capital Group

LANDOV

Janus' 2014 operating margin was the largest in more than a decade, but the company still finished the year with almost $5 billion in net outflows despite the fourth-quarter inflows.

Assets under management have grown largely because of overall stock-market performance, not because of inflows. Mr. Weil brought in a new management team for the flagship fundamental equities business, championed the expansion of the firm's global fixed-income business, added alternative strategies, and in a move last September that focused worldwide attention on Janus, gave a new investment home to Bill Gross.

"It's definitely a work in progress," Robert Lee, a managing director and equity analyst with Keefe Bruyette & Woods in New York, said of Janus. "You can't declare victory after two straight quarters of better flows."

While progress has been made in turning equity-centric Janus into a more diversified asset manager, Mr. Lee said much more needs to be done. In particular, he said, Janus executives need to show they can build the company's presence beyond its predominantly retail focus.

"They have not had a huge presence in the institutional market" compared with many other publicly traded money managers, Mr. Lee said. "It's still a market they need to demonstrate that they can have success in."

Some 22% of Janus' $190 billion in assets under management were institutional as of March 31, down five percentage points from Dec. 31, 2009, two months before Mr. Weil took over the firm, company statistics show.

UNDER PRESSURE

Sources familiar with Janus' operations say Mr. Weil has been under pressure from the board of directors to improve the firm's financial results and stop overall redemptions by investors.

Mr. Weil was given a 73% increase in his compensation package in 2014 based in part on reducing net outflows in 2014 to $4.9 billion, down 75% from the previous year.

In an interview, Mr. Weil, who joined Janus after serving as chief operating officer at Pacific Investment Management Co., said he has made diversifying Janus' strategies beyond equities a key goal.

"It's a fool's errand to try and be everything to everybody, but it's also a fool's errand to be a really narrow single-product provider," he said. "You have to be in a middle ground where they can have a sustained trusting relationship with you over time."

Janus statistics show that as of March 31, assets in the firm's more than two dozen fundamental equity offerings accounted for 47% of its $190 billion in total AUM, down six percentage points from the end of 2009.

Fixed-income assets as of that same date totaled 19% of total AUM, up from 6% as of Dec. 31, 2009.

More than $2 billion of the fundamental equity assets are in institutional separate accounts or the institutional share class of the Janus Mid-Cap mutual fund, according to data from eVestment.

As of March 31, composite performance for that strategy was better than its benchmark, the Russell MidCap Growth index, eVestment data show. Janus' strategy returned 18.46% for the year, versus 15.56% for the index; over three years, an annualized 18.41% versus 17.41% for the index; and over five years, an annualized 17.64% versus 16.43%.

Mr. Weil said he also has made a broad effort to increase institutional

Continued on Page 18

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Pershing adds web traffic driver to its platform

Access to Vestorly will allow advisers to build customizable browsers

By Alessandra Malito

Pershing's broker-dealers and financial advisers now have access to Vestorly, a digital content platform designed to boost website traffic while giving advisers a snapshot of who views online content and when they do so.

The company, a BNY Mellon subsidiary that serves more than 1,600 broker-dealers and financial advisers, has integrated Vestorly's services on its NetX360 platform and will be offering them at a discount.

Advisers who use the services will be able to curate and customize posts from around the web for their clients and prospects to view via a separate personalized web browser. Advisers will be able to embed this content in their email newsletters, social media accounts and websites.

The "browser in the cloud" technology collects data on the investors who view the content, including their identity and consumer behavior history. Vestorly will collect data from advisers' websites, social media interactions and emails.

"We think it will enrich the way advisers will communicate and collaborate with clients," said Maureen Duff, managing director and global head of marketing at Pershing, adding that advisers' access to the data on their visitors potentially will provide new leads.

'MISSING DATA SET'

"It allows financial professionals to finally understand the identity and reading behavior of people who are reading the content they're putting online," said Justin Wisz, chief executive of Vestorly. "There's a lot of data about portfolio holdings, about the actual act of investing, but the missing data set is behavioral data on consumers."

Mr. Wisz said the technology will help advisers build better relationships with their clients and prospects.

"It's that human approach," he said. "It goes beyond how your portfolio is allocated. What interests you, what interests your spouse or the beneficiaries?"

Producing digital content — and the ability to analyze the data that come out of it — is a major objective for the industry. However, there's a gap between the number of advisers who understand how important data analysis is for their practice and how many actually take advantage of the possibilities, said Walter Lis, a digital marketing strategist who works with financial advisers.

"The more data you get on your side that you can manage, the better," he said. "But there's a huge disparity between advisers acting on that versus the people who aren't even aware this is possible."

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AR Capital lists REIT on NYSE

By Bruce Kelly

American Realty Capital, the nontraded real estate investment trust sponsor controlled by embattled REIT czar Nicholas Schorsch, saw its first liquidity event of the year last Tuesday.

Global Net Lease Inc., formerly known as American Realty Capital Global Trust Inc., began trading on the New York Stock Exchange. At the same time, the REIT, with the ticker symbol GNL, launched a tender offer to purchase up to $125 million worth of its common stock at $10.50 per share.

When it launched in 2012, Global Net Lease sold for $10 per share. The REIT has $2.4 billion in assets and kicks off an annual distribution of 71 cents per share, according to filings with the Securities and Exchange Commission.

Mr. Schorsch is the former chairman and chief executive of the REIT and majority owner of its advisor, AR Capital, the formal name for ARC. He resigned as CEO of ARC Global Oct. 22.

SEC INVESTIGATION

His resignation came days before the news that another REIT he controlled, the giant net lease REIT American Realty Capital Properties Inc., with the ticker ARCP, had intentionally not corrected a $23 million accounting error over the first half of 2014. Mr. Schorsch subsequently resigned as chairman and CEO of a number of nontraded REITs and companies he controlled.

According to ARCP's most recent quarterly report, the SEC launched an investigation into the company, while the U.S. Attorney's Office contacted the company about the matter. William Galvin, secretary of the Commonwealth of Massachusetts also has subpoenaed the company.

Mr. Schorsch's reputation first rose because of his ability to create stock market listings or mergers — known as "liquidity events" — much sooner than other companies in the industry.

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Dodge & Cox tops for female portfolio managers

Firm is the exception in an industry where 90% of PMs are men

By Liz Skinner

A quarter of Dodge & Cox's portfolio managers are women, placing the firm at the top of the industry for female representation in this asset management role, according to a new study that found more than 90% of fund managers are men.

Six of Dodge & Cox's 24 managers are women, a Morningstar Inc. analysis of the 20 largest fund families found. More than half of the companies boasted a larger number of female portfolio managers, but proportion-wise, Dodge & Cox beats all.

Other fund companies with above average percentage of women are Franklin Templeton Investments with 15% female managers, J.P. Morgan Asset Management with nearly 14% and Principal Funds with 13%. Lord Abbett & Co. lands at the other end of this ranking, with only one woman among its 29 fund managers, the analysis found.

Across all open-end U.S. mutual funds, women make up about 9% of the nation's 7,410 fund managers, according to the report. Women exclusively manage 2% of funds and 2% of the $12.6 trillion in total fund assets. Men exclusively manage 78% of funds and 74% of assets. The difference can be attributed to teams of women and men.

MIXED-GENDER TEAMS

In terms of investment performance, mixed-gender teams produce the best results, the Morningstar report found. There was no significant difference in fund performance between those managed solely by women or men.

25%

Share of Dodge & Cox portfolio managers who are women, the highest percentage at any of the 20 largest fund families

ISTOCK

"The number of female portfolio managers is actually growing across the industry," said Erin Davis, Morningstar senior equity analyst. "But the asset management industry itself is growing so rapidly that that amount of female managers is growing less rapidly than the industry as a whole."

Ms. Davis didn't have particular numbers to show that the portion of women fund managers has fallen, but she said it's disconcerting that the proportion of women is so low compared with other professions.

About 63% of accountants and auditors are women, as are 37% of doctors and 33% of lawyers, according to the Morningstar report. But the financial sector always has lagged behind others in terms of female representation, Ms. Davis said.

> "THE NUMBER of female portfolio managers is actually growing across the industry."
>
> **Erin Davis**
> Senior equity analyst
> Morningstar

A survey of certified financial planner professionals last year found 23% are women, a share that's been the same for about a decade. About 17% of chartered financial analysts are women.

Laura Lutton, director of manager research for Morningstar, called the number of women fund managers "exceedingly small," and said Morningstar researchers expect "shifting demographics may prompt the most change in the fund industry."

MORE WOMEN MILLIONAIRES

Women today represent about 45% of U.S. millionaires and are on their way to becoming the majority.

Each of Dodge & Cox's six funds has one to three female managers who are part of asset management teams that include from six to 10 portfolio managers, according to information on its website.

Neither Dodge & Cox nor Lord Abbett responded to requests for comments on Morningstar's report.

The Investment Company Institute, which represents mutual fund companies, said it recently backed a policy statement proposed by the Securities and Exchange Commission and other regulators related to the diversity policies of financial services firms.

"Greater diversity and inclusion can promote stronger, more effective and more innovative businesses, as well as create opportunities for firms to serve a wider range of customers," said Rachel McTague, an ICI spokeswoman.

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INVESTMENT STRATEGIES
Darek Wojnar

Don't overlook global small caps

They're less expensive than their U.S. counterparts and can lower portfolio volatility

As advisers consider where they can source potential growth for clients' portfolios, one overlooked asset class is global small-cap equities.

Despite U.S. investors' being very comfortable with international investing, small-cap companies (market cap of $300 million-$2 billion) outside the United States have generally flown under the radar. Yet upon closer review, they stand out for several attractive reasons.

For starters, of the more than 6,000 publicly traded global small-cap stocks, only about 2,000 are domiciled in the U.S., while two-thirds are based abroad. And a large proportion of those companies are in developed and emerging countries with established markets and liquidity. This represents an extremely large pool of companies that many U.S. investment portfolios simply aren't exposed to.

And while many investors with diversified holdings have at least some portion of their portfolio invested in small-cap equities via exchange-traded funds, mutual funds or directly, the majority of that allocation is likely in the U.S., where small caps currently appear expensive when compared to other markets.

HALF AS EXPENSIVE

Today, U.S. small-cap equities trade at 45 times trailing P/E, whereas international and emerging-markets small caps are nearly half as expensive at 23 times and 21 times, respectively. Of course, investing internationally involves additional risks, so some investors view this valuation premium as justified. Others looking deep into markets see many companies' being overlooked by most investors but have potentially attractive valuations.

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And consider this: U.S. small caps are also trading more than two times higher than U.S. large caps, so not only are most investors concentrating too much, if not all, of their small-cap exposure in the U.S., but that allocation currently looks a bit overheated and might be poised for a pullback. Advisers take note: There are potential dark clouds hanging over the U.S. economy and if the markets head south or even just flatten, U.S. small caps will be vulnerable.

International small caps, while generally considered riskier than the other parts of equity markets, also exhibit lower correlations to other asset classes, including to their U.S. counterparts. This may be viewed as both an attractive and particularly timely characteristic that can help U.S. investors prepare for the inevitable rise in interest rates and the potential resulting market turbulence, provided they're willing to look beyond the U.S. and take advantage of opportunities globally.

IF THE markets head south or even just flatten, U.S. small caps will be vulnerable.

One explanation for the lack of U.S. investors' exposure to this asset class is the idea of "home bias." Though investors today have thoroughly embraced international and emerging-markets investing, it's a somewhat recent development. In the mid-1990s, for example, most individual investors in the U.S. had little to no international exposure. By the early 2000s, the target allocation recommended by many institutional managers had significant allocation to international equities, but most individual investors had minimal exposure, if any. Today, most portfolio strategists recommend a meaningful allocation to international equity investments within a long-term equity portfolio; however, the vast majority of this allocation is in large-cap stocks.

FAR FROM RISK-FREE

I'm by no means recommending that investors abandon U.S. small caps altogether. As with all investments, global small caps are far from risk-free. But considering a strategy that incorporates international developed and emerging markets along with U.S. exposure seems to make sense. What we find intriguing is the idea that combining U.S. small caps with international small caps may actually decrease volatility.

In total, global small-cap equities may represent one of the last asset classes that U.S. investors have yet to embrace. Advisers would be wise to analyze this space to determine whether it makes sense for their clients' overall investment goals.

Darek Wojnar is a managing director at Lattice Strategies, a San Francisco-based investment management firm, and president of Lattice Strategies Trust.

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Investment Intelligence

The Future of ETFs: Changing the Landscape. Changing the Game.

Reginald Browne
Senior Managing Director
Cantor Fitzgerald

Matthew Hougan
President
ETF.com

Adam Patti
Co-Founder and
Chief Executive
IndexIQ

In a recent installment of an Investment Intelligence webcast, Reginald Browne of Cantor Fitzgerald, Matthew Hougan of ETF.com and Adam Patti of IndexIQ joined InvestmentNews contributing correspondent Consuelo Mack to survey the transformation of exchange-traded funds.

Consuelo Mack | Give us a sense of how the ETF universe has changed.

Reginald Browne | Early on, ETFs were based on major benchmarks. Now they're based on commodities, fixed income, alternatives and even currency.

Matthew Hougan | You can build an amazing portfolio covering every asset class using ETFs, and major companies have come into the space. We've moved from the early adopter to the mass adoption phase. Advisers are making ETFs the center of their portfolio and an increasing share of assets.

Adam Patti | About 30% of overall assets are indexed. The more sophisticated solutions are active strategies, and that's the next phase — the products that offer investors more value. ETFs have given everyone access to strategies that were once the province of institutional investors. The transparency component is crucial. You know total costs as well as what you're buying. That's especially important with an alternative or a smart-beta strategy.

Mack | Is the institutional space a primary growth driver, and what products does it want?

Browne | A lot of ETFs are being designed around institutional investors. Institutions are looking for strategies that give slight alpha to benchmarks. For example, a large pension plan needs to have exposure to the S&P 500 with a tilt. Index providers are bringing out ETFs with that exposure.

Hougan | Growth is across the spectrum. ETFs have inherent advantages: They're transparent, low cost, tax efficient and liquid. For the first time, every investor can get access to the same pricing and exposure.

Mack | Is the liquidity concern — that ETFs will have a problem unloading inventory when the bull market ends — justified?

Patti | It's no different from a mutual fund. It's all about the liquidity of the underlying securities.

Browne | We surveyed institutional clients about what they'll do when rates start to rise. They'll buy more, because they want to ride up and get extra return. ETFs are as liquid as the least liquid component of the basket. The market will find equilibrium and a place to absorb.

Hougan | In challenging markets, ETFs trade to a discount to the stated net asset value. You can exit at that level, and the fund itself remains whole.

Mack | Why is New York Life MainStay's purchase of IndexIQ a game changer?

Hougan | An established company decided it had to get into ETFs right away. If you're still on the outside, you're thinking you better get in, too.

Patti | We're a small company with almost no sales and marketing resources. Imagine putting that under an iconic brand and pairing it with MainStay's distribution power. There's tremendous content, or logic, to distribute — star managers across asset classes that can be put into the ETF structure.

Mack | How do you evaluate ETFs?

Hougan | Historically, we consider things like fiscal performance and manager culture. That's not the case with ETFs. You have to look at how well it tracks its index, how well it trades. If it's a smart-beta or an active strategy, you have to consider performance.

Mack | How do you benchmark a smart-beta or an illiquid-alts ETF?

Patti | Our [IQ Hedge Multi-Strategy Tracker] QAI is a fixed-income alternative, so we benchmark against a fund-to-funds and a fixed-income index. Our [IQ ARB Merger Arbitrage] MNA is more of an equity alternative, so we look at an equity and at a hedge fund benchmark. But just because a fund is called market neutral doesn't mean it resembles another market-neutral fund. You need to understand the portfolio and the product.

Hougan | My biggest concern with smart-beta funds is that people tend to buy them when they've been outperforming. There will be periods where they get crushed. If you don't have the fortitude, you should buy the S&P 500 and be done with it.

Mack | What makes an ETF succeed or fail?

Browne | Structure. If the issuer doesn't have a good explanation for why an ETF was developed or how to deploy it in a portfolio, it's going to fail.

Mack | Does an established asset manager necessarily make a good sponsor of ETFs?

Hougan | No. Major providers have come into the market and exited quickly. But it's important to have the resources to support an ETF's growth.

Mack | Where are the holes in the ETF lineup?

Patti | There's a lot of white space in terms of product development in fixed income and alternatives.

Browne | The biggest opportunity is bringing back smart logic — all the passive benchmarks are covered. Another is in dismantling the barriers to foreign investors.

Mack | Are there strategies in which you can effectively use ETFs as an asset allocation tool?

Hougan | ETFs are a great solution whether you're doing a passive or an active allocation. If you haven't restructured a portfolio in 10 years and it's made up mostly of old-school mutual funds, the costs have come down enormously. You should re-evaluate and consider ETFs.

Mack | How do investors use ETFs most effectively and efficiently?

Browne | Suitability is paramount. You have to know your client and understand the risk tolerance. ETFs don't mitigate the need for due diligence. They're portfolio tools for asset allocation.

Mack | Is there one type of ETF we should all own in long-term diversified portfolio?

Patti | QAI provides diversification, is low volatility and low beta to the markets. It's a fixed-income alternative in a rising rate environment. It's an ideal asset allocation tool for the alternative sleeve of your portfolio.

Mack | So everyone should look at a liquid-alternative ETF?

Hougan | It should be the core of your portfolio. With three ETFs you can own basically every stock in the world. You should do that now. ❖

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FIDUCIARY CORNER

Blaine F. Aikin

Justices: Fiduciaries cannot walk away

Plan trustees have an ongoing duty to continuously monitor 401(k) plan investment options

It's official. Fiduciaries have an ongoing duty to monitor. On May 18, the Supreme Court confirmed in Tibble v. Edison International that under the common law of trusts, ERISA fiduciaries have an ongoing duty to continuously monitor 401(k) plan investment options and, if necessary, remove imprudent ones. The court underscored the critical importance of the principle, developed over the centuries under common law, that persons entrusted with the assets of others cannot make the initial investment decision and walk away.

This was a narrowly focused, unanimous decision affirming a long-standing fiduciary duty. It was almost universally anticipated to come down in favor of the plaintiffs. Why, then, is Tibble being treated as big news? A partial reason is that decisions of two lower courts were overturned in the process. But more importantly, the case has sharply focused the attention of plan fiduciaries on the facts that fiduciary breaches can have big consequences and that monitoring is inextricably connected to many other fiduciary duties.

STATUTE OF LIMITATIONS

The primary question before the high court was whether the initial decision by Edison fiduciaries in 1999 to select retail share classes of three mutual funds as investment options, instead of lower-cost institutional shares, was exempt from breach claims under ERISA's six-year statute of limitations.

The employees asserted that Edison had a continuing duty to monitor investments beyond the statutory deadline. The 9th Circuit Court of Appeals disagreed, and the case moved to the high court.

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Ultimately, the Supreme Court sided with the plaintiffs: ERISA's strict duty of prudence requires 401(k) plan fiduciaries not only to prudently select investment options but to continue to monitor to ensure that all held investments remain prudent, even after the six-year deadline for breaches involving the original decision.

According to the opinion written by Justice Stephen Breyer, the lower courts erred by focusing on the six-year limit for fiduciary breach claims "without considering the nature of the fiduciary duty."

"We have often noted," Mr. Breyer wrote, "that an ERISA fiduciary's duty is 'derived from the common law of trusts.'" As such, he wrote, "a trustee has a continuing duty to monitor trust investments and remove imprudent ones. This continuing duty exists separate and apart from the trustee's duty to exercise prudence in selecting investments at the outset."

The lingering question that the court did not address is the scope of the duty to monitor. These details were remanded to the 9th Circuit for final adjudication. However, the court offered guidance, noting that the trustee must "systematically consider all the investments … at regular intervals," and when assets are found to be inappropriate, "to dispose of them within a reasonable time."

But the ramifications of this decision run even deeper. Consider the following fiduciary responsibilities that are relevant to this case, even though they were left unsaid in the narrow scope of the high court's review.

UNSPOKEN TRUTHS

It is imprudent to waste money. It is virtually indefensible for a plan to elect to use retail mutual fund shares involving much higher costs than readily available institutional class shares of the same fund.

The costs of poor decisions compound over time. This is true in terms of the damage done to investors through unnecessarily high fees. It is also true in terms of the damages and penalties plan fiduciaries may bear as a result of litigation.

Some were disappointed that the Supreme Court's decision didn't prescribe the frequency and due diligence criteria to be used in the monitoring process. The court wisely recognized that both the frequency and nature of oversight activities can and should vary based upon facts and circumstances of the plan and the portfolio. These things are better left unsaid by the court but are expected to be addressed in the investment policy statement.

The monitoring process is also important and it neither starts nor stops with investments. Service provider relationships must be closely monitored, as well.

Documentation is crucial. When the Tibble case returns to the district court, it will be searching for evidence of procedural prudence on the part of plan fiduciaries. The extent and magnitude of culpability will hinge on the quality of governing documents and minutes of investment committee meetings demonstrating adherence to those documents and fiduciary principles.

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

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RETIREMENT WATCH
David Baxter

Steering clear of role as family bank

Develop a strategy to help clients navigate family financial dynamics and protect retirement savings

It is a difficult situation familiar to many advisers. The client has taken all the right steps to prepare for retirement, saved and invested responsibly, and considered longevity, inflation, market, health care and other risks.

Yet just as it seems the client is on the path to a financially secure retirement, he or she receives an unexpected call. Perhaps a mother's health has begun to fail and she requires extended and expensive long-term care, or a sibling lost his job and needs help to pay the mortgage.

ONGOING ASSISTANCE

These clients find themselves taking on the role of the family bank, providing financial support to members of their extended family. They may be helping to meet one-time needs or providing ongoing assistance over the course of many years. Over time, the financial help they offer to parents, siblings, adult children and grandchildren can begin to deplete their once-secure nest eggs.

THE FINANCIAL help they offer ... can deplete their once-secure nest eggs.

A recent national study by Merrill Lynch and Age Wave found that roughly six in 10 people (62%) age 50 and over are providing financial support to family members. The amount of support can be substantial — averaging $15,000 over five years. Among clients with assets over $5 million, the average level of support climbs to more than $300,000.

In fact, the more financially responsible your clients are, the more likely they are to become the family bank.

UNFORESEEN, UNPREPARED

Even though your clients may be very likely to provide at least some financial support to family members, nine in 10 pre-retirees and retirees say they never budgeted or prepared for this financial risk in their retirement planning.

The impact of helping family members financially can be both unexpected and substantial.

One retiree in our focus groups confided, "I thought I would be supplementing my grandchildren's college funds. It turns out I was the college fund." Half of pre-retirees age 50 and over say they would make major sacrifices to help family members, such as delaying retirement, returning to work after retirement, or accepting a less comfortable retirement lifestyle.

FIRST RULE OF RESCUING

Among lifeguards, the first rule when rescuing someone at risk of drowning is "Don't be the second victim." In the same way, when family members need money, clients should have a thoughtful strategy in place for their own retirement security before lending a helping hand.

As an adviser, you can play an important role in helping your clients anticipate and prepare for providing help to family members. For example, consider creating a "family helping-hand fund," a bucket that's separate from retirement savings, to help responsibly limit how much clients give to family members and ensure they don't compromise their own retirement needs.

Advisers can also guide clients to reassess their inheritance strategies. A growing number of pre-retirees and retirees say that it is more useful — and often more personally satisfying — to contribute to family members while they're alive, instead of waiting to pass on assets through an inheritance. In fact, three in five (60%) people age 50 and over say it is better to pass on their assets now rather than waiting until end of life. Women age 50 and above are even more likely than men to say "giving while living" is better than passing on assets to their heirs through an inheritance (65% versus 53%).

For archived columns, go to InvestmentNews.com/retirementwatch

Open communication and responsible boundaries are also critical. Almost four in 10 pre-retirees and retirees say they give money to their adult children without even knowing what it is for. Some clients prefer giving with no strings. Others may want some say over how the money is spent. Some clients will expect to be paid back; others have no expectations of repayment.

The important thing is for all family members to be on the same page. The best way to avoid family and financial strains is to both responsibly prepare for family needs and clearly communicate plans, expectations and ground rules up front.

David Baxter is senior vice president at Age Wave, a provider of research on the aging U.S. population and its effect on businesses.

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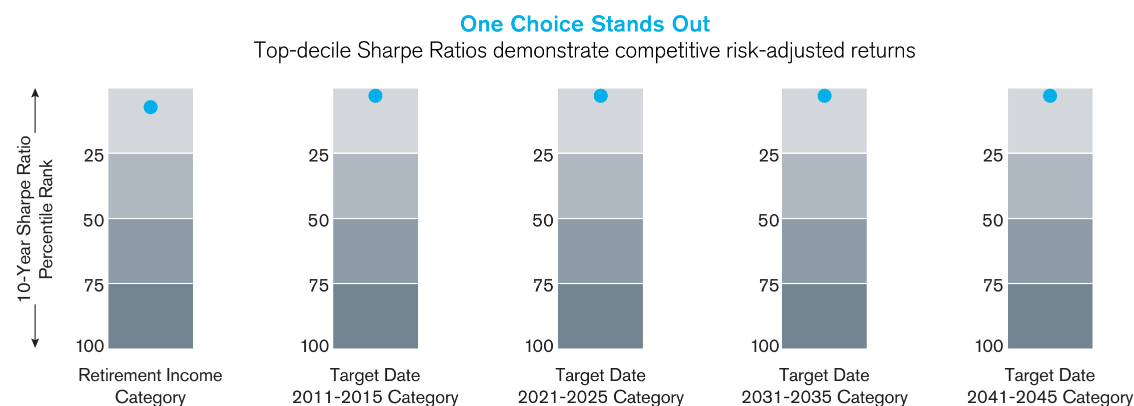

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Janus CEO still proving himself

Continued from Page 11
assets, including naming Nobel laureate Myron Scholes as chief investment strategist on a part-time basis to help institutional clients with portfolio construction.

Janus' institutional fixed-income assets totaled $5 billion as of March 31, from practically nothing at the end of 2009. Fundamental equities saw a jump to $3.5 billion, from $1.9 billion in the same period.

LIQUID ALTERNATIVE FUNDS

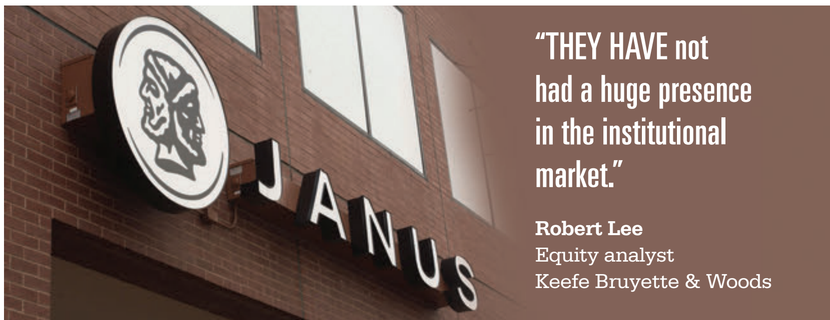
Another diversification effort by Mr. Weil, launched in early 2013, was to offer separate liquid alternative funds for institutional and retail investors. It has not fared well. The strategies combined have attracted less than $70 million as of March 31, company statistics show.

Acknowledging the strategies have "gotten off to a slower start than we would have liked," Mr. Weil said he remains optimistic they will garner investor interest eventually.

Mr. Weil's most visible move was the hiring of Mr. Gross, who had been one of Mr. Weil's bosses at Pacific Investment Management Co.

"My secretary called me and said, 'I've got Bill Gross on the phone for you,'" he recalled. Mr. Weil said Mr. Gross then asked him, "'If I became available, would you have a place for me at Janus?' My jaw dropped. ... Here is the greatest fixed-income investor over the last 40 years on planet Earth, and we run an investment company. Of course we'd want [him]," Mr. Weil said.

Analysts who cover Janus predicted Mr. Gross could bring as much as $45 billion to Janus by the end of 2016. So far, however, the unconstrained fixed-income fund Mr. Gross is running has attracted $1.5 billion, with a little less than half of it being Mr. Gross' own money.



BLOOMBERG

Mr. Gross had managed as much as $300 billion as portfolio manager of the Pimco Total Return Fund.

An investment consultant who requested anonymity said Mr. Gross' sudden departure from Pimco and his subpar investment record in his final year there have made institutional investors uneasy about moving assets to his strategy at Janus. He said Mr. Gross will need to demonstrate a multiyear track record of strong performance before he starts getting institutional money.

But consultant Michael Rosen, chief investment officer at Angeles Investment Advisors, said institutional money could flow to Mr. Gross sooner than the usual three-year track record if he can adequately articulate his investment process to potential investors.

Mr. Weil said he is pleased with the amount of assets Mr. Gross has raised so far. "The assets raised and the success so far have been significant on a Janus scale and we feel good about it," he said. "Where questions get raised is when people compare it to a Pimco scale, and that's not really relevant to who we are and what we're doing."

Randy Diamond is a reporter at sister publication Pensions & Investments.

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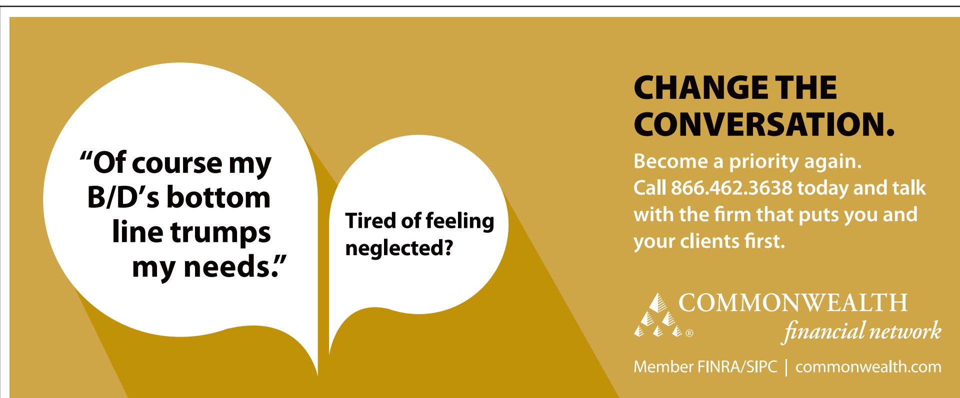

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What bubble? Vanguard to offer China A shares

Valley Forge steals a march on BlackRock in fight for access

By Trevor Hunnicutt

The Vanguard Group Inc.'s unexpected announcement last week that it will add exposure to China's high-flying but tightly regulated onshore markets accelerates competition among fund sponsors to provide the broadest exposure to global markets.

The firm, the largest U.S. mutual fund company, said last Tuesday it would add exposure to China's vast "A share" market to its $68.7 billion Emerging Markets Stock Index Fund (VEIEX) and a related exchange-traded fund (VWO).

"It is looking to take blood in the battle for [emerging-markets] ETF flows," the asset-management consultancy Z-Ben Advisors wrote in a note last Wednesday about Vanguard. "Its primary, and perhaps only, competitor, BlackRock — via the iShares MSCI Emerging Markets ETF (EEM) — will have to determine what, if any, action will be needed in response."

While classified as an emerging market, China is the world's second-largest economy and has the world's second-largest stock market. The Shanghai Stock Exchange Composite Index is up 141% over the last year, raising fears of a bubble. Much of the securities in that index are off-limits to U.S. investors.

Vanguard's decision, which will add 1,411 stocks to its fund, comes ahead of a decision expected Tuesday by the index provider MSCI Inc. over whether it will include Chinese A shares in its broad indexes. That firm backs $48 billion in emerging-markets stock funds and ETFs, including those by BlackRock Inc.'s iShares, according to an *InvestmentNews* analysis of Morningstar Inc. data.

141%
Increase in past year in the Shanghai Stock Exchange Composite Index

CLOSED MARKETS

Outsiders' access to China's domestic markets is controlled, though the country's regulators have welcomed increased foreign investment.

But other asset managers will struggle to match Vanguard's ability to access onshore markets without being granted permission by Chinese securities regulators.

A Vanguard affiliate in Australia secured a license in March granted selectively to institutional investors that allows it to access $1.6 billion in securities. BlackRock, by comparison, has access to $1.52 billion, according to Z-Ben.

Vanguard also said it was switching to new indexes on that fund and three other foreign-stock funds that manage $78 billion. The changes will add about 10% exposure to small caps. They also plan to add Canadian stocks to their developed markets fund.

All of the indexes were and are still built by FTSE Group. Vanguard said it did not expect to change the management expenses on the funds.

"We have the experience and the size to be able to provide this to investors. Not all fund managers will be able to do that and some may not want to at this time, but we believe it's the right thing to do," said Joseph Brennan, the firm's global head of equity indexing.

He said the firm is not worried about concerns the market is overheated or dominated by unsophisticated retail investors.

"The market dynamics will change over time and that's not a concern at all," Mr. Brennan said.

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99-year-old adviser can still show the kids how it's done

Bloomberg News

As she nears 100, Irene Bergman has some advice for enjoying a long career on Wall Street: Don't do anything stupid.

Consider investment returns, the financial adviser at Stralem & Co. said in an interview at her New York apartment, where, surrounded by paintings from Dutch masters, she telephones her clients. While many investors nowadays obsess over quick profits, it's best to wait at least three years, or better yet, many more, before evaluating holdings. But don't be afraid of revising your thesis, she said. If thorough research favors a portfolio shift, have courage and make changes.

"The longer you're in the business, the more pessimistic you get," Ms. Bergman said in her soft voice, noting she currently thinks shares are too expensive. Still, "I'm able to get bullish, because when I look at a stock, I can imagine where it was 40 years ago."

As one of the oldest working professionals in an industry run by men half her age, Ms. Bergman offers a rare perspective. She recalls the small private firms founded by German Jews in the 19th century that came to define Wall Street, before their partnership model gave way to public listings, and honor succumbed to an ever-fiercer push for profit.

"The way of doing business has changed," she said. "It's much more competitive, much more knives-in-the-back."

Guests at Ms. Bergman's midtown Manhattan apartment, where she's lived for more than 60 years, may be invited to sip vodka or Scotch while seated on furniture crafted in Europe before World War II. The French Louis XV chairs are off-limits.

Four personal assistants attend to her needs around the clock, and she calls on colleagues at Stralem, including Chairman Hirschel Abelson, when she needs research on particular securities. While she never married or had children, she does own a Maltese named Fanny.

CHILDHOOD IN GERMANY

Her career was a near-realization of a dream she had as a teenager. In an essay at the time, she wrote that she wanted to follow her father, a private banker, onto the Berlin Stock Exchange. He made that world seem so "lively," she said. She would have been the first woman to attain that position.

Those aspirations stalled when the Nazis chased her Jewish family from Germany and then Holland. They came to the U.S. In 1942, Ms. Bergman began working as a secretary at a bank. Fifteen years later, she joined Hallgarten & Co., a member of the New York Stock Exchange.

"Women on Wall Street were not very popular," she said. She would join Loeb Rhoades & Co., and in 1973, Stralem, where she finally felt like she belonged. "This was the first place where I was treated like an equal."

Stralem oversees almost $2 billion in assets and runs a strategy focused on identifying "up-market" and "down-market" stocks. It manages money for institutions and individual accounts, 11 of which are Ms. Bergman's. She serves on its investment committee.

Ms. Bergman, who stopped visiting the office in December and turns 100 in August, attributed her longevity to good genes, not any special diet. She said she stayed physically fit by riding dressage horses until she was 80 and mentally sharp by forgoing retirement. Ms. Bergman speaks with Stralem colleagues daily and talks with some clients every week.

"She's been through multiple business cycles, ups and downs, recessions, depressions, and has a good feeling for where things are going," said client George Falk, a doctor of internal medicine in private practice in Manhattan. "She understands what my needs are, has my interests at heart, and is not primarily interested in making a lot of money off of me. I have a great deal of trust in her."

POSTWAR EXPERIENCE

Ms. Bergman has Mr. Falk, 75, invested 100% in U.S. Treasuries.

Her family's postwar experience informs her advice today. Because it took a decade after coming to New York for Ms. Bergman to recover her family's wealth, which was frozen by U.S. and Dutch authorities, she emphasizes the importance of safeguarding funds.

One bright spot for today's investor is the ability to sell large blocks of stock quickly, Ms. Bergman said. Years ago, it would have taken Stralem weeks to execute a large order. Now it takes hours or days.

At the same time, speed has "great disadvantages," she said. "People trade who shouldn't be, or they do something too fast."

Her caution has translated into loyal clients, according to Philippe Labaune, head of trading at Stralem, who said that in almost 20 years at the firm, he's never seen her lose an account (she has outlived some of her clients).

"In this business, you have to get the confidence of your clients," Ms. Bergman said. "You don't have your clients for three weeks, you have them for at least three years. It takes that long to know if you're doing a good job."

Customers appreciate that she has her own wealth. "They had the feeling that I didn't need to churn their accounts because I had money myself," she said.

Ms. Bergman does recall one investment she let slip away: Apple Inc.

"I missed Apple totally," she said. "Apple was too much for me."

That brings her to another tip: Make your own decisions.

"I always like to do what I want to do, then it's my fault," she said. "I can't blame anyone else."

"THE WAY OF doing business has changed. It's much more ... knives-in-the-back."
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SEC calls Merrill up short on orders

By Mark Schoeff Jr.

The Securities and Exchange Commission announced an $11 million settlement with Merrill Lynch last Monday in a case involving the brokerage's missteps in fulfilling orders with borrowed securities.

The agency said Merrill executed short sales in certain securities when there was not sufficient supply for such transactions.

The SEC charged that Merrill used data that was more than 24 hours old to construct so-called easy-to-borrow lists. The lists were not updated even though during the course of a business day, Merrill learned that the supply of some stocks had become restricted.

"Firms must comply with their short-selling obligations by making sure they do not rely on inaccurate ETB lists," Andrew Calamari, director of the SEC's New York regional office, said in a statement. "When firm personnel determine that a security should no longer be considered easy to borrow, the firm's systems need to incorporate that knowledge immediately."

NO AVAILABILITY

In several instances from January 2008 through January 2014, Merrill allowed its trade-execution platforms to conduct short sales totaling 2.3 million shares in securities that should not have been included on the ETB list because their availability was too low.

Merrill admitted to wrongdoing and agreed to pay a civil penalty of $9 million, a $1.6 million disgorgement and $334,564 in prejudgment interest. The firm also agreed to hire an independent compliance consultant to review its policies, procedures and practices for short sales.

"We have taken steps to improve our internal controls related to execution of short sales," Merrill spokesman William Halldin said in a statement.

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Finra touts BrokerCheck in ads

Continued from Page 2
over says. "So why would you invest without checking BrokerCheck? Check your broker with BrokerCheck."

USING HUMOR

Other television ads, created by Ogilvy & Mather, center on a trucker who's oblivious to the height restrictions of an overpass, a bride who is shocked by the organ music at her wedding, and a diner who doesn't realize how spicy his dish is. The ads will air for five weeks on a variety of cable channels.

The campaign uses humor to make a point that Finra takes seriously — too few investors are utilizing BrokerCheck.

> "IF THEY'RE GOING to spend all this money on promoting BrokerCheck, why not make it a complete listing?"
> **Joe Peiffer**
> PIABA

"People immediately go online to check out a new restaurant where they might spend $25 for a meal, but don't think to use BrokerCheck when they're handing over $2,500 — or $25,000 of their life savings or even more — to an investment professional to invest," Finra chairman and chief executive Richard Ketchum said in a statement. "That has to change, and we hope this campaign will help."

Finra will spend approximately $3.5 million on the ad campaign, which will run through June, according to a spokesman. The organization will use funds generated from disciplinary fines imposed on member firms last year.

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Raymond James lures $2.4B team

Continued from Page 3
group's departure but said the firm was no longer able to cater to the group because of a shift in how it classified certain clients.

"We were no longer able to accommodate their business model," she said in an emailed statement. "They serve a number of smaller central banks in Caribbean and Latin American countries and for regulatory reasons, we are shifting coverage of these clients to our institutional business and will no longer serve them in wealth management."

Mr. d'Adesky said that he decided on Raymond James because it has "outstanding products and services designed specifically for that [institutional] client," in addition to a "strong" retail channel. He declined to break out what portion of the team's assets were from institutional clients.

SECOND LOOK

Mr. d'Adesky had looked at Raymond James a decade ago, but felt that it wasn't ready to handle his team's institutional business, he said. He changed his mind following its acquisition of Morgan Keegan & Co. in 2012.

"They acquired some very particular skill sets," he said. "That to me was one of the main reasons why [the acquisition] was a huge differentiator for that part of our business."

Mr. d'Adesky, who had been with Morgan Stanley since 2009, said he had a "wonderful experience" at the wirehouse and left on good terms.

"They were extremely cordial and very nice," he said. "They were definitely not wanting us to leave."

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Ladder construction just got easier

Continued from Page 3
ter way to support the use of them in bond ladders," Mr. Belden explained. "It's not a matter of if, but when interest rates start to bump up, so the laddering features and benefits are top of mind."

The bond laddering platform lets an adviser or investor customize a portfolio using the 16 BulletShares ETFs, which include nine investment-grade ETFs maturing annually between 2016 and 2024, and seven high-yield ETFs maturing between 2016 and 2022.

CUSTOMIZABLE

For example, an equal-weighted portfolio across all 17 ETFs would produce a yield to maturity of 3.67%, with a duration of 3.66 years for the blend of 2,913 underlying bonds.

Building a ladder with just the investment-grade ETFs generates a yield of 2.44%, a duration of 4.38 years, and a portfolio of 2,034 underlying bonds.

A ladder can be customized in multiple ways, blending different years and the two bond grades, but a seven-year ladder using just the high-yield ETFs generates a 5.41% yield, a duration of 2.78 years, and a portfolio of 879 bonds.

Before target-maturity ETFs came along, advisers had to go to the bond market to buy individual bonds for ladder rungs, and calculating total yields and portfolio duration was often more work than it was worth.

"For a lot of advisers, this will streamline the process," said Lawrence Whistler, chief investment officer at Nottingham Advisors Asset Management.

Mr. Whistler, who was involved in the beta testing of the Guggenheim platform, said he likes it because "it doesn't get too technical, it just gives you the most important metrics to build a bond ladder."

GETTY IMAGES

The catch, or downside, he confessed, is that it only works with BulletShares ETFs. But it's hard to fault Guggenheim for that.

One thing that Guggenheim could be faulted for is stacking investment grade bond ETFs up against its high-yield version, which makes it feel real easy to just step on the gas a bit for a little extra income.

"When you have the ability to mix investment grade with high-yield, people might just like the higher yield and not really understand the risks," said J. Brent Burns, president of Asset Dedication, a firm that builds customized bond portfolios.

"I think the software is nice, slick and very clean, and it will be easy for people who understand the basic concept of laddering to use," he added. "The only thing missing is a button that says 'click here to buy.'"

But even as a proponent of bond ladders, Mr. Burns said he would never use high-yield bonds when building an income ladder for a client.

"If you place the ladder on the growth side, I guess high-yield is fine, but if you're thinking of it as your safe money, it won't be safe when things fall apart like they did in 2008," he said. "High yield is a bond, but it's a speculative bond and it can go down like a stock."

Mr. Belden doesn't agree that high-yield should automatically be eliminated from a bond ladder.

"The determination of whether or not high-yield bonds should be used in a ladder is specific to each client's needs," he said. "Of course, there's a greater degree of risk associated with high-yield bonds, hence the higher yield."

In other words, just because the technology and products to build a solid bond ladder are readily available doesn't mean you don't have to do your due diligence.

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InvestmentNews

TECH CONNECT

Hedge fund investing minus the fees is aim of online firm

By Alessandra Malito

HedgeCoVest, an online alternative investments platform, is aiming to take advantage of the appealing aspects of hedge funds while overcoming concerns about their fees.

The registered investment adviser has 45 hedge fund firms, including Fred Alger Management Inc., The Boston Co., and Cornerstone Capital Management, signed on to its hedge-fund-replicator platform, which recently came out of beta.

HedgeCoVest's technology, which the company calls Replicazor, recognizes when a manager makes a trade and duplicates it almost instantaneously in investors' separately managed accounts. The idea is to provide investment strategies that mirror the hedge funds that advisers or SMA clients select.

HedgeCoVest is targeting both retail investors and advisers, who will be able to allocate and liquidate their clients' SMAs at any time, without the typical hedge-fund gate provisions.

HedgeCoVest charges a flat management fee of 2.5% with no performance fee, although users will also be charged a fee by their brokerage firm. So far, the company has teamed up with Interactive Brokers. Other brokerages in the process of coming onboard include Pershing, TD Ameritrade Inc. and Fidelity Investments.

'STRONG PENT-UP DEMAND'

A calculator on the website shows advisers and investors the difference between their net return and hedge funds' net returns. By using the HedgeCoVest platform, advisers can introduce their clients to a pool of alternative options — something they may have had difficulty doing in the past due to high investment minimums, gates, and two-and-20 fee structures (2% management fee plus 20% of profits).

"There is a strong pent-up demand from advisers," said Evan Rapoport, chief executive of HedgeCoVest.

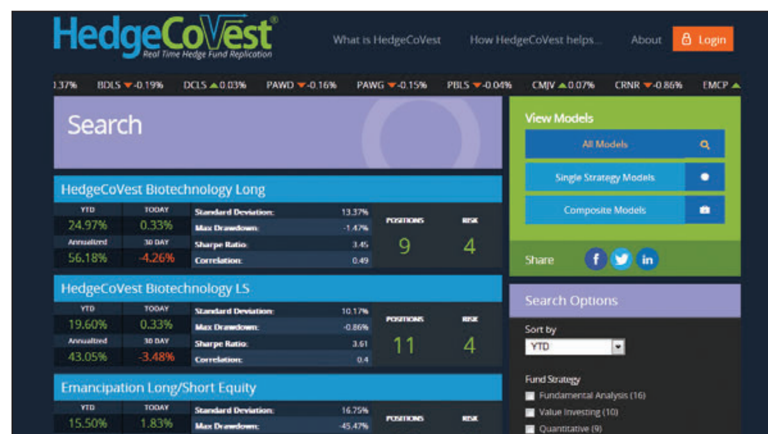
Some issues advisers have faced with hedge fund investing include receiving fund statements after the first of the month, when advisers usually provide their own statements to clients, and having clients who fall below the minimum for one hedge fund. Mr. Rapoport said advisers can use HedgeCoVest to diversify clients' portfolios with the use of customizable alternative investments, providing an opportunity for mass-affluent and other retail investors.

"They can actively manage portfolios and meet the individual's risk and return objectives, which is a fiduciary responsibility," he said.

The platform has agreements with hedge fund firms to target their portfolios and pull out individual positions to create new products, Mr. Rapoport said. Currently, HedgeCoVest has 14 investment products, including an investible hedge fund index that includes all available strategies. Other products will be specific to certain strategies and customizable based on advisor recommendations and investor preferences.

Many investors have been wary of hedge funds, especially in the wake of the financial crisis of 2008, Mr. Rapoport said, in part due to concerns about fraudulent activity. The platform aims to address those concerns by maintaining clients' money in their own SMAs.

HedgeCoVest has been in beta for nearly four years and has $80 million in investments, about 90% of of which comes from advisers.



Ed Butowsky, managing partner of Chapwood Capital Investment Management, has been using HedgeCoVest in beta.

"HedgeCoVest addresses and solves all of the issues that RIAs have with their clients about hedge funds," Mr. Butowsky said, citing daily visibility, a simple fee structure and no Schedule K-1 tax documents. "The need for alternatives has never been bigger in portfolios and being able to access it at this point is a major game changer."

ALTERNATIVES BUCKET

Hedgeable, a robo-adviser with alternative investment options, is also tackling issues that may arise from investing with hedge funds.

"Most advisers have always had an alternatives bucket in portfolios — this is something advisers and wirehouses have been doing — but clients aren't always very high-net-worth," said Mike Kane, CEO of Hedgeable.

Insight Advisors, which came out in November, is a hedge fund manager that provides strategies to advisers through an online automated platform. The company gathers data, profiles an investor and then creates a customizable plan.

"All individual investors should have access to these types of investment strategies in managed accounts," said Michael Tito, founder and head portfolio manager of Insight Advisors. "New financial technology makes this type of investment option possible.

"Success, however, will ultimately still be determined by investment performance," he said.

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Clients should be focus of social media

Instead of talking to each other, advisers should address investors' needs

As more advisers flock to Twitter, Facebook and LinkedIn, it's time for them to take a closer look at their posts — and whether they're providing what clients and, more importantly, potential clients, really want.

Sometimes the financial services side of the Twitter universe seems to be filled with technical jargon and comments about what's happening in the industry. But investors are turning to Twitter and other social media sites to find advisers with whom they can discuss important financial issues.

SPARKING RELATIONSHIPS

Investors' hunger for these sorts of resources was illustrated in a survey from Brunswick Group, which found 70% of investors believe digital media will play a role in their future investment decisions.

So it comes down to the conversation, which is all about sparking relationships.

Of the estimated 228,000 advisers who use social media, 74% use LinkedIn, 75% use YouTube, 65% use Facebook, and 32% say they use Twitter for professional purposes, according to a Cogent Reports survey.

All those advisers' online efforts will be for naught if they don't learn how to talk to their clients.

"By providing valuable content for them, you're showing you're there and available," said Sophia Bera, a virtual financial planner and founder of Gen Y Planning, who targets millennial clients.

The first step for advisers is to find their target audience and build their social media presence around that.

Ms. Bera said she normally shares her own posts or retweets

like-minded millennial-targeting organizations. For her, that includes building relationships with the team behind GoGirl Finance and radio talk show host Chelsea Krost.

THE FIRST STEP for advisers is to find their target audience.

When Ms. Bera started interacting with these people, the number of her followers began to grow.

Advisers "need to figure out who their ideal client is and then they have to figure out who already has that ideal client," Ms. Bera said.

LinkedIn is the most popular site among financial advisers. According to the Cogent survey, of the 74% of advisers who use LinkedIn, 59% said they use it as their primary platform.

For advisers, connecting with professionals on LinkedIn could be even more beneficial than simply building a network of fellow advisers.

An adviser who keeps an eye on how a person is moving up the ladder at work can reach out and congratulate that person, or even make suggestions about what they should do financially as they switch positions.

SENSE OF COMMUNITY

"What's nice about that, if you're on LinkedIn with them, somebody can easily refer you," Ms. Bera said.

There's also a sense of community that social media provides. Facebook, for example, is more than just sharing pictures — it can be a platform on which to build relationships.

Cristina Guglielmetti, a financial planner and president of a new firm, Future Perfect Planning, said when she started, she decided to create a Facebook page for her business.

She's been gaining clients from Facebook, she said, due in part to referrals she gets from being a member of a local parenting group.

Raef Lee, managing director and head of new services and strategic partnerships for the SEI Advisor Network, said he's seeing advisers become a little more comfortable with Facebook.

"Some advisers truly think of their clients as friends so they allow their business to impinge on the friendship side, and they're opening up that way," Mr. Lee said. "People are getting easier with social media. It's more commonplace now."

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ETF pioneer is back in the arena

Continued from Page 3

Partners, before joining PowerShares as Mr. Bond's deputy.

He oversaw PowerShares' development of scores of novel ETFs, all of which helped it distinguish itself from and compete with other large ETF providers such as iShares and State Street Corp.

By the time it was purchased in 2006, by what's now known as Invesco, PowerShares had accumulated $3.5 billion in assets. Mr. Fulton took over the firm's day-to-day management after Mr. Bond's 2009 departure, before leaving the firm in 2013. By then, PowerShares managed nearly $80 billion.

Now he's come back to the ETF industry in what he hopes will be a big way. His firm, Elkhorn Investments, last Wednesday launched its first ETF. The firm's investors include Tom Dorsey, co-founder of Dorsey Wright & Associates, a popular advisory firm that licenses its investment methodology. (An ETF with them is possible under Elkhorn's banner, Mr. Fulton said.)

$80B How much PowerShares managed under Ben Fulton

The firm's first fund, the Elkhorn S&P 500 Capital Expenditures ETF (CAPX), buys 100 S&P 500 companies whose long-term investments, or capital expenditures, appear to result in increased sales.

The methodology tilts away from industries considered more sensitive to rising interest rates. The fund also hits the market at a time when the ways that companies use their cash have come under increased scrutiny, as an greater share goes to pay dividends and buy back stock rather than to make long-term investments.

The fund joins a growing number of ETFs that attempt to beat the market — the basis of popular strategies from Research Affiliates to WisdomTree Investments Inc. and, yes, PowerShares. Last year, $1 of every $4 that moved into ETFs went into a category Morningstar Inc. calls "strategic beta" that roughly maps over the ill-defined term smart beta.

But with that growth could come some creative destruction, according to Mr. Fulton. He welcomes it. "I'm a capitalist," he quipped.

Asked to comment on specific products or companies that demonstrate the industry's excesses, Mr. Fulton declined. "I'd rather not say. Time will prove it right," he said. "It's too small of an industry for me to start naming."

In January, the Financial Industry Regulatory Authority Inc. said in a letter outlining its regulatory priorities that it plans to focus on smart beta. The regulator said it was an "open question" how the funds would perform in "different market environments going forward."

But Mr. Fulton said the development of smart beta has been a good thing. It "allows the adviser to take charge, and provide the active overlay, while using cost-efficient underlying" products, he said.

For his own business, the challenges may be considerable.

BlackRock Inc.'s iShares plans its own capex ETF. And an effort by another ETF pioneer, Lee Kranefuss, to expand the European ETF brand Source to America so far has fizzled. (A spokeswoman did not return a request for comment.) The firm closed its only fund last month.

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SIFMA

Continued from Page 4

and inefficiency."

SIFMA is not opposed to raising the bar for brokers, the organization's president and chief executive, Kenneth E. Bentsen Jr., stressed at a SIFMA event in New York. But it is concerned about the potential damage from a flawed rule.

"This is not about being for or against the best-interests standard," Mr. Bentsen said. "The industry's support of such a standard is quite documented. Rather, it is how you do it, and it's there where we have an issue and where we find the current [DOL] proposal unworkable."

> **SIFMA'S STANDARD** "is weak and vague precisely where DOL is strong."
>
> **Barbara Roper**
> Director of investor protection
> Consumer Federation of America

A DOL spokesman did not respond to a request for comment.

Barbara Roper, director of investor protection at the Consumer Federation of America, said SIFMA's proposal focuses too much on disclosure and consent to conflicts instead of targeting financial incentives that create broker conflicts.

"It is weak and vague precisely where DOL is strong: in providing meaningful restrictions on the practices firms use to encourage advisers to behave in ways that are inconsistent with their customers' best interest," Ms. Roper wrote in an email. "It would have to be considerably strengthened to provide the same protections DOL is seeking."

Last week, Finra chairman and chief executive Richard Ketchum called for a best-interests standard that is similar to SIFMA's.

Mr. Bentsen said the SEC should take the lead in establishing a fiduciary standard that would apply to all securities products. He said SIFMA's idea could serve as a benchmark.

But its requirements are much less stringent than the fiduciary standard imposed on investment advisers.

SEC Chairwoman Mary Jo White recently endorsed a fiduciary rule but said it's not clear whether the SEC will propose one.

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Pershing joins NetX360 to the robo game

By Alessandra Malito

Pershing has launched a robo-adviser with Marstone, a newly minted online investment and financial planning technology platform for advisers to use with their clients.

The custody and clearing firm, a subsidiary of BNY Mellon Corp., said Marstone will be a white-labeled platform for advisers, who can customize it. Marstone, which houses its robo-platform in the cloud, powers risk profiling, account opening and digital advice, and allows advisers to input their own portfolio models. The technology will be integrated into Pershing's NetX360 technology platform.

"It has all the basics you would see in a traditional robo," said Ram Nagappan, managing director and chief information officer for Pershing. "The only difference will be it can be customized."

Although there are robo-advisers that use Pershing's custodial and clearing services, including Personal Capital and Motif Investing, Marstone is the company's own digital-advice offering, to which advisers can add their own branding.

"From start to finish the client relationship and the client experience remains yours," Lisa Dolly, chief operating officer at Pershing, said at the Pershing Insite conference last Wednesday.

Margaret Hartigan, chief executive of Marstone, who has been a financial adviser, said she created the tool to help advisers work and retain their clients' assets, especially when those assets start to transfer to a younger generation.

Providing a user-friendly digital-advice platform is all about scalability, Ms. Hartigan added.

"We need more tools to automate and scale our businesses," she said. "These businesses are hard to scale. Any tool to help stay connected with clients I think is beneficial."

Mr. Nagappan said Pershing is digitizing all of its capabilities to be easily integrated and accessible on NetX360.

"Traditionally, people had technology silos — that was just Internet, mobile, social," Mr. Nagappan said. "But how you put it together is a digital experience.

"That's where the physical and digital world meet each other and each supplements each other," he said.

"This is part defensive and part offensive for Pershing," said Blane Warrene, co-founder of QuonWarrene, a technology consultancy company for financial advisers.

It's a move that makes sense for Pershing, he said, because it will "give [robo-advisory] tools to the advisers that can't build it themselves."

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DAN DONOVAN

Ron Kruszewski: Transformed Stifel from small regional brokerage.

Stifel deal

Continued from Page 1

despite a bull market in U.S. stocks.

Stifel doesn't make that top 40 list, though, unlike competitors, such as Bank of America Corp. (No. 1), Raymond James Financial (No. 13) and LPL Financial (No. 26).

A spokeswoman for Stifel, Sarah Anderson, did not respond to a request for comment. Barclays spokesman Mark Lane declined to comment.

Barclays bought some Lehman Brothers businesses in North America for $1.75 billion in a 2008 fire sale amid the investment bank's bankruptcy and the global financial crisis.

Largely through a series of acquisitions — 16 in the past 10 years alone — Mr. Kruszewski has transformed Stifel from a small regional brokerage with $123 million in revenue in 1997 into a full-fledged financial services company that had $2.2 billion in revenue last year.

Its acquisition this year of Sterne Agee adds capability in the independent advisory business as well as $20 billion in assets and 730 advisers, bringing Stifel's adviser workforce to 2,800. Stifel paid $150 million in cash and stock for Sterne Agee.

Stifel has focused on more distressed firms, or at least those needing more scale to be able to succeed. Barclays Wealth seems to fit that profile, analysts said.

In 2010, Stifel acquired an investment bank known for its expertise in technology, Thomas Weisel Partners. Three years later, it bought middle-market investment bank Keefe Bruyette & Woods. Both firms were losing money.

STRUCTURE OF DEAL KEY

How the Barclays deal would be structured is key. Years after the financial crisis, valuations for wealth managers have trended much higher. Firms have worked hard to create deals that protect them in the event they end up with more liabilities — and fewer top advisers — than they expected, according to Steven J. Insel, an industry specialist at Elkins Kalt Weintraub Reuben Gartside.

"Wall Street values assets under management, with annuitized-type advisory fees, as valuable," he said. "The bigger issue would be obtaining the asset you pay for, and the assets walk on two feet. The customers walk on two feet. The advisers walk on two feet. Meaning they can walk."

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Virtual advisers meet anywhere

Continued from Page 1

communicate regularly with clients in five years, the survey found.

"If you don't have the ability to hold virtual meetings, you're a little behind on the tech curve," said Daniel Lash, 40, a partner at VLP Financial Advisors. "Millennials grew up with these technologies and they expect them in the workplace and from the service providers they work with."

But it's not just millennials who are demanding virtual meetings with their advisers. People with hectic jobs, parents of young children, individuals who travel extensively, and clients who just have busy lives or are tech-savvy are showing an interest in virtual meetings.

In a new report, McKinsey & Co. said the virtual advice model would not be making strides today unless a substantial number of mass-affluent and high-net-worth clients were already comfortable handling their finances at a distance. The consulting firm said surveys show that at least 20% to 30% of those groups would use a dedicated financial adviser who is not located in their area.

> "MILLENNIALS grew up with these technologies and they expect them in the workplace."
>
> **Daniel Lash**
> Partner
> VLP Financial Advisors

McKinsey's report goes on to say that in North America, about 10 million households with personal financial assets totaling $6.4 trillion are prime candidates for virtual banking, borrowing and investing services.

Financial advisers who have introduced the option of virtual meetings said it has led to an increase in the number of times they are able to communicate with clients each year — so-called touches — and is more efficient. It also can reduce overhead expenses by as much as 50%, McKinsey estimates, if the adviser doesn't need to rent an office.

Jeff Powell, 46, an adviser with Polaris Wealth Advisers who meets virtually with about half of his 500 clients, said the efficiency of conferring with clients via mobile technologies can make advisers more productive, and therefore more profitable.

"Virtual meetings can be set up back-to-back, but when you're traveling in a car between meetings that just can't be done," Mr. Powell said.

His favorite virtual meeting involved three siblings — one located in Oakland, Calif., one in New York and one in Zurich — who needed to make financial decisions after the death of their father.

The virtual encounter was so successful he ended up retaining the parents' money and earning new assets from all three of the children.

The location-agnostic focus of virtual advisory firms also makes them a natural fit for clients who may be retiring and moving to a different region of the country or for expatriates. Ms. Holmes, for example, already has clients who reside in New Zealand, Italy and Rwanda.

IVAN SANFORD/ILLUSTRATION SOURCE

MORE INTIMATE

Eric Roberge, 35, founder of advisory firm Beyond Your Hammock, said some of the remote meetings he's held since beginning his business eight months ago have been more intimate than office meetings with clients at his former advisory firm.

With virtual meetings, clients often are communicating from their homes, he pointed out.

"I've met clients' young kids and pets and once learned about how a couple acquired a meaningful painting hanging on their wall," Mr. Roberge said. "I never would have known those things if I hadn't been in their home through video."

Although the investment advice itself need not change because advisers are communicating with clients virtually, the planning approach requires some tweaks when delivery comes via cyberspace.

"Sharing information changes quite fundamentally when you are not pushing a piece of paper across the desk or working side-by-side on a budget with clients," said Daniel Gourvitch, a partner at McKinsey. In a virtual interaction, an adviser must make sure the client is viewing the correct information. The adviser also may need to ask more questions to be sure the client understands the material, because it's difficult to judge that through a screen or over the phone.

"But there are some opportunities also because digital platforms allow you to do things more dynamically," Mr. Gourvitch said. For instance, voluminous paper financial plans can be replaced with dynamic visualizations online.

Mr. Gourvitch said certain types of financial advisers will be better than others at communicating virtually. It goes without saying that advisers need to be comfortable themselves with the digital tools, but individuals who can build trust easily over the phone and are "operationally and personally efficient" will be best at servicing clients remotely, he said.

Advisers communicating virtually should be extra-cautious about information security, and be willing to invest in high-end equipment and software, said Blane Warrene, a financial technology consultant and founder of QuonWarrene.

"The technology is out there, but be selective," Mr. Warrene recommended to advisers. "You'll have to spend more than advisers who meet in person if you want to create a client experience that offers the same service level."

WHEN TROUBLE BREWS

Technology failures most commonly occur on the client end, advisers said.

Andrew McFadden, founder of Panoramic Financial Advice, mostly communicates with clients virtually, and he finds they sometimes think they are more tech-savvy than they actually are. For example, trouble is brewing if clients can't download a statement to a secure portal, he said.

Some advisers don't believe a virtual advice experience can ever be as effective as sitting down face-to-face with a client.

"There's something about people's reactions to certain things you say that you don't pick up when you're not with them," said Pete Benson, 56, chief executive of Beacon Capital Management. "There's a lot of intangibles that you don't get when you're talking over the phone or via computer."

Every year, more and more clients want to meet virtually with him and Beacon's three other advisers, but it's not his preferred way to do business, Mr. Benson said.

"There's something about a client shaking your hand and looking at you face to face," he said. "I don't know if you can give that same level of service virtually."

Meanwhile, Ms. Holmes is spreading the word on running a virtual practice. She is speaking at the Financial Planning Institute of Southern Africa conferences in South Africa in September about how she's built an entirely virtual operation.

"It's been fun to see the international interest from clients, prospects and other advisers," she said.

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