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BUILDING A STAR-STUDDED STAFF

SAVVY RIA OWNERS ARE REWARDING EMPLOYEES WITH SHARES IN THEIR BUSINESSES — AND BUILDING SUCCESSION PLANS ALONG THE WAY *PAGE 8*

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401(k) firm sticks with Tony Robbins

BY JEFF BENJAMIN

SELF-HELP GURU Tony Robbins, whose business relationship with $38 billion RIA Creative Planning ended two weeks ago following a wave of sexual misconduct allegations, is maintaining his affiliation with $1 billion retirement plan provider America's Best 401(k) Co.

Mr. Robbins, 59, owns approximately 30% of the plan provider. He is a partner and board member but has never been involved in day-to-day operations, according to a company spokesperson. His son Josh Robbins is chief strategy officer.

"I can confirm that Tony Robbins remains on the board of advisors," said spokeswoman Jami Schlicher of JConnelly Public Relations. The PR firm represents America's Best 401(k), as well as Mr. Robbins.

The allegations against Mr. Robbins were first published by the website BuzzFeed. Jennifer Connelly, CEO of JConnelly, issued a lengthy statement, which read, in part: "Tony Robbins has never behaved in the reckless and malicious manner suggested by the false and unfounded allegations published by BuzzFeed."

After BuzzFeed's reports, Creative Planning filed a form ADV stating it "eliminated the position of chief of investor psychology, and consequently Anthony Robbins is no longer associated with Creative Planning nor serves on the firm's advisory board."

Last week, Creative Planning issued a statement claiming the termination of the firm's relationship with Mr. Robbins was in the works prior to the BuzzFeed reports.

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Overlooked mid-caps lead 2019

BY JEFF BENJAMIN

KEY POINTS

- Mid-cap growth category beating others so far this year.
- Some think its outperformance is just a snapback from subpar returns last year.

THE STOCK market's volatility over the past several months has generally favored actively managed investment strategies, in a switch from passive strategies' generally stronger performance in recent years. But the biggest surprise so far this year is mid-cap growth funds.

This year through last Tuesday, the mid-cap growth category was up an average of 18.2%, making it the hottest fund category of 2019, according to Morningstar Inc.

For some financial advisers, the mid-cap rally is an inevitable snapback from the category's subpar performance last year.

"We slightly increased our allocation to mid-caps this year based on the underperformance relative to large caps last year," said Tim Holsworth, president of AHP Financial Services.

"We were hoping that the Trump tax cuts would finally add some fuel to the mid-cap fire," Mr. Holsworth said.

The mid-cap surge this year, which compares to a 15.3% category-average gain by large-cap

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Bob Oros on HighTower's aggressive growth plan

After Goldman Sachs' agreement this month to purchase United Capital for $750 million, "good vibrations" are spreading across the registered investment adviser industry.

And why not? Since summer is almost here, it would be appropriate to cite the Beach Boys and allude to their hit record, "Good Vibrations," from 1966. Goldman's deal is certainly giving plenty of industry people "the excitations" about the potential for growth, along with budding valuations, of their RIAs.

"I've been in the RIA business since 2002, and if someone had predicted back then that at some point a firm like Goldman would buy an RIA at that price, we would have wondered what that person was consuming," said Robert "Bob" Oros, CEO of Chicago-based RIA consolidator HighTower Advisors. "It's amazing to see how this space has matured. The level of respect for RIAs is pretty cool."

BRUCE KELLY

ONADVICE

With the United Capital deal fresh, and HighTower just wrapping up its annual meeting for advisers, I asked Mr. Oros recently about HighTower's evolution and where the firm was heading.

Mr. Oros came aboard as CEO in January, and he is in

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"I'D BE SURPRISED IF REGULATORS WANTED THAT TO HAPPEN, BECAUSE IT'S IRRESPONSIBLE."

JAMIE DIMON, CHIEF EXECUTIVE OF JPMORGAN CHASE & CO., ON FORMER WELLS FARGO & CO. CEO TIM SLOAN'S DEPARTURE BEFORE THE BANK HAD A SUCCESSION PLAN READY

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SEC to tackle thorny topic: How much broker advice is OK?

BY MARK SCHOEFF JR.

WHEN IT VOTES on a final investment advice reform package this week, the Securities and Exchange Commission will revisit an explosive issue: The extent to which brokers can provide advice without having to register as investment advisers.

When SEC members meet Wednesday, they'll decide whether to approve Regulation Best Interest and the disclosure document known as Form CRS. A new item on the agenda is labeled "interpretation of 'solely incidental.'"

That indicates the SEC will tackle language in the Investment Advisers Act of 1940 that exempts brokers from registering as investment advisers — and being fiduciaries — if the advice they provide is "solely incidental" to their work as brokers and if they receive no special compensation for those services.

'SOLELY INCIDENTAL'

"The solely incidental issue is crucial," Michael Kitces, partner and director of planning research at Pinnacle Advisory Group, wrote in an email. "It's actually the central issue of reforming fiduciary regulation of advisers."

In 2005, the SEC proposed a rule that would permit brokers to offer fee-based accounts without having to register as advisers. The U.S. Court of Appeals for the D.C. Circuit vacated the rule in 2007, holding that the agency didn't have the authority to allow the exemption. As a result, brokers who put clients in fee-based accounts must be dually registered as investment advisers.

Mr. Kitces said the SEC should be careful not to define "solely incidental" too broadly this time around.

"This issue forms the crux of a potential lawsuit challenge to the SEC if they go too far," Mr. Kitces said. "Just as the SEC's fiduciary broker-dealer exemption was overturned back in 2007 when the SEC tried to expand existing fiduciary exemptions beyond what Congress wrote, an overly lax interpretation of the 'solely incidental' rule here creates a similar risk of legal challenge for the SEC."

Investor advocates argue the SEC allows brokers to hold themselves out as advisers yet continue to be governed by the suitability rule rather than the fiduciary duty. The brokerage industry has resisted suggestions to remove the broker exemption from the Investment Advisers Act.

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Redtail isn't only firm with cybersecurity issues

BY RYAN W. NEAL

REDTAIL TECHNOLOGY is the latest firm dealing with the fallout from a cybersecurity issue, but it likely won't be the last.

In an email sent out to advisers last month, Redtail blamed its leak on systems that inadvertently stored investors' personal information on a debug log file. These files record database operations, system processes, and errors for software developers in case they need to fix something. Redtail's debug file was publicly accessible to anyone with an internet connection.

EDITORIAL
What is the adviser's responsibility?
PAGE 6

But Redtail is hardly alone, said Alissa Knight, a senior analyst with Aite Group's cybersecurity practice. In a recent study of the security of 30 mobile apps from financial services firms in the U.S. and Europe, information stored inappropriately on a debug file that could be accessed publicly was identified as a common issue.

"Many of the apps I looked at were also mistakenly configured to log in debug mode, logging everything happening within the app, including sensitive data, to log files," Ms. Knight said.

While she wouldn't disclose the name of the firms she studied, they spanned banking, retail brokerage, financial technology vendors and auto insurance, she said.

Ms. Knight concluded that there is "a systemic problem" across both financial services firms and fintech: "a widespread absence of application security controls and secure coding."

Despite the amount of sensitive data these firms handle, many are still failing to apply adequate security to apps, she said.

Ms. Knight found vulnerabilities in 29 of the 30 apps analyzed. It took her less than nine minutes to identify the issue at many of them.

EASY TO GAIN ACCESS

Especially concerning are the application programming interfaces that companies use to integrate data with third parties, she said.

Financial services companies and fintech vendors have a habit of hard-writing credentials and API keys into the code. Anyone who knows where to look can gain access.

And hackers know where to look.

"Hackers are beginning to shift their focus to attacking organizations and end users via their mobile apps by finding vulnerabilities in the code due to a lack of code obfuscation being employed to secure apps," Ms. Knight wrote in her report.

The increase in the number of API codes that can be seen publicly on the internet is one reason hackers are increasingly focusing there, she said. Also, it's relatively easy to learn a company's API URLs by looking at the company's mobile app source code.

If security experts know this poses a problem, why is it happening? One reason might be companies outsourcing app development offshore to save costs.

"I was talking to some of the fintech companies and asked this very thing," Ms. Knight said. "They tell me a lot of the time companies they outsource to will publish the code, and the fintech or financial services companies aren't even involved in the process."

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Quality up, fees down in 529s

INVESTMENTNEWS

THE QUALITY OF investments available through 529 education saving plans continues to improve, according to an annual study by Morningstar, which noted the need for plans to continually review and upgrade their lineups to remain competitive.

Morningstar found that total assets in 529 plans remained mostly unchanged in 2018, due to negative investment returns that were offset by net inflows. Over the three- and five-year periods ended December 2018, however, the plans have grown at annualized rates of 7.9% and 7.4%, respectively. Plans sold directly to college savers have contributed the most to this growth, the study found.

Fees continue to decline for both direct- and adviser-sold plans, Morningstar said. The average adviser-sold portfolio costs 0.93%, down by 0.06 percentage points since 2017. The average direct-sold portfolio costs 0.39%, which is 0.03 percentage points cheaper than in 2017. All-in fees for 529 plans remain higher than comparable mutual funds due to layers of oversight fees, the report said, noting that small plans with limited scale are burdened by high oversight fees.

Women to Watch Nominations Now Open!
SEE PAGE 26

LPL cuts costs for some ETFs on adviser platforms

BY BRUCE KELLY

LPL FINANCIAL said last Thursday that it was making another move to attract assets by cutting transaction charges on exchange-traded funds on two key advisory platforms for advisers from $9.00 to $4.95.

The new pricing will go into effect in the second half of the year.

The 45% cut in ETF ticket charges are for advisers who use two proprietary LPL advisory platforms: Strategic Asset Management (SAM) and Strategic Wealth Management (SWM).

The cut in transaction charges for ETFs on LPL's platforms are for those offered by State Street, Invesco and WisdomTree, the company said in a statement. LPL is pursuing similar changes with other ETF managers.

When broker-dealers cut fees on transactions, it can turn into a boon for advisers, who can either pocket the difference or pass along the savings to clients.

COMPETITORS DECREASE FEES

LPL is the largest independent broker-dealer with more than 16,000 independent contractor registered reps and advisers. Its price cut for ETFs comes as competitors in the business to custody registered investment adviser assets also have cut fees and moved to offer commission-free ETF trading.

In February, Charles Schwab Corp. and Fidelity Investments said they were each expanding to more than 500 the number of commission-free ETFs on their platforms. Meanwhile, TD Ameritrade in June is expanding its commission-free

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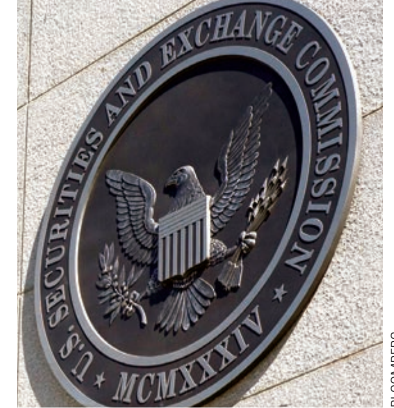

BLOOMBERG

SEC busts RIA for padding fees by 40%

BY JEFF BENJAMIN

THE SECURITIES AND Exchange Commission charged North Carolina-based financial adviser Stephen Brandon Anderson with defrauding clients by padding his asset-based advisory fees by at least $367,000 over a two-year period.

The SEC order prohibits Mr. Anderson from acting in a supervisory or compliance capacity or charging advisory fees without supervision for at least three years, and requires him to provide notice of the SEC order to clients and prospective clients.

Mr. Anderson, who could not be reached for comment, owned and operated River Source Wealth Management, which was a registered investment adviser in Waynesville, N.C., from November 2010 through March 2017.

MAJORITY OF CLIENTS

According to the SEC's order, River Source's primary revenue stream was asset-based advisory fees. The investigation found that in 2015 and 2016, Mr. Anderson "overcharged a majority of his clients."

The overcharging varied, but, in aggregate, amounted to "approximately 40% more than the agreed-upon maximum customer advisory fees," the SEC's investigation found.

The SEC also found that Mr. Anderson exaggerated the RIA's assets under management in public filings by at least 18% in 2015, and by 35% in 2016, and failed to implement required compliance policies and procedures.

Mr. Anderson agreed to a cease-and-desist order and a censure, and agreed to pay disgorgement and prejudgment interest of $405,381 and a $100,000 penalty.

OVERCHARGING TREND

Securities attorney Adam Gana, who was not involved in this case, said overcharging clients is becoming more common in the advisory space.

'Without a more robust enforcement arm, I'm finding advisers trying to get away with more of this kind of thing," Mr. Gana said. "With a growing pool of investment advisers, the SEC has to be more diligent than ever, particularly when it comes to overcharging clients, because it's not something they would notice."

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Protecting client data is an ongoing obligation

REDTAIL TECHNOLOGY'S RECENT data leak is a reminder of the weighty responsibilities financial advisory firms face when it comes to cybersecurity. Redtail's customer relationship management system contained data about clients of advisory firms that use the CRM. When some of that information was inadvertently exposed, Redtail's problem also became the problem of the advisers who relied on its CRM.

The Redtail leak can't be blamed on hackers. The company captured personal information about advisory firm clients on an internal file, called a log file, that serves as a record for software developers, and that file was accessible via the internet.

It's becoming common for personal information to get an airing. Earlier this year, BlackRock exposed the data of about 20,000 financial advisers who used the company's iShares ETFs — advisers from firms including LPL Financial and Axa Equitable. Voya Financial Advisors also had a glitch on a page of adviser bios on its website that had the potential to expose advisers' Social Security numbers.

A recent report from Aite Group suggests the problem is widespread. The report looked at 30 mobile apps from various types of financial services firms and found vulnerabilities in 29 of them.

Assessing and monitoring the cybersecurity practices of their technology providers may seem far outside the comfort zone of financial advisers, but regulators have made it clear that advisory firms need to be on the case.

And they're stepping up enforcement to ensure firms do so. The Securities and Exchange Commission cited cybersecurity as one of its examination priorities this year, and the $1 million fine the agency imposed on Voya Advisors last fall, after hackers gained access to the personal information of thousands of its customers, was seen as a signal that the SEC is cracking down in this area.

A $50,000 fine the Financial Industry Regulatory Authority Inc. imposed on a small broker-dealer last year for having lax procedures that let hackers transfer money out of customers' accounts also was viewed as a warning to the industry.

Late last year, Finra updated its cybersecurity guidelines to include such topics as how to combat phishing attacks and mitigate insider threats.

So what's an advisory firm to do?

Finra guidelines for advisory firms using third-party vendors say firms should perform due diligence on prospective providers before they sign on the dotted line. Contracts should cover such topics as how the firm's information will be stored and transmitted, the vendor's obligations in the event of a breach and limitations on the vendor's employees' access to data.

> **FIRMS MUST PERFORM DUE DILIGENCE ON PROSPECTIVE VENDORS.**

Once the firm has hired a vendor, it must continue to monitor their efforts. And if a firm terminates the relationship, it should ensure that the vendor deletes all the data it had. Finra also notes that an advisory firm's risk assessments should include all of its vendors' systems and processes.

Last month, the North American Securities Administrators Association came out with a model rule that would require firms to have written policies and procedures in place regarding cybersecurity to protect client information.

Just discussing the work entailed in vetting fintech providers and preparing an advisory firm internally is enough to arouse nostalgia for the Underwriters Laboratories seal of approval on household electronics. If only it were that easy.

But when clients trust firms with their personal information, advisers must repay that trust by doing the work it takes to ensure the safety of that data.

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SHARING T

Bert Herzog III doesn't have plans to step aside anytime soon from Executive Wealth Management, the Brighton, Mich.-based advisory firm he founded in 1981. But the 61-year-old already has a plan in place to ensure that his $900-million investment advisory firm that manages money for 3,000 households will continue for decades after he leaves.

In 2016, Mr. Herzog's goal of building a firm that will outlive him moved closer to fruition when he put in motion an internal succession plan that took two years to map out. He sold ownership stakes to four next-gen team members who currently range in age from 33 to 59. The deal reduced Mr. Herzog's equity from 90% to 23.75%, but provided a cash payout to fund his eventual retirement. His remaining shares will be sold when he turns 70 and retires, creating yet another path to ownership for younger, entrepreneurial advisers at the fee-based firm.

"I always wanted to build a legacy and a team that is multigenerational," Mr. Herzog said. "That's always been key to me."

He's not alone. Nearly seven in 10 (69% of) advisers said they prefer to pick and groom successors from within, according to a TD Ameritrade white paper. This internal succession process not only involves advance planning but also transferring ownership of the firm to next-gen advisers and creating other incentives for valued employees to stay and carry on the firm's legacy.

And that's the tricky part. How exactly does an adviser build ownership incentives to attract and retain good employees who in the future will become the foundation for a succession plan that will provide a comfortable way for the owner to cash out of the business?

"Continuity and succession plans are a really vital part of an investment adviser's business plan," said Carolyn Armitage, managing director at investment banking and consulting firm Echelon Partners. "The equity component is very important. Putting in place a long-term incentive plan can be an integral part of keeping employees happy."

Increasingly, promoting a well thought-out succession roadmap and timetable to both employees and clients is viewed as a good way for firms to retain and reward key players.

"The succession plan gives our younger advisers who've been so valuable to our growth the ability to say, 'Hey, we own this,'" Mr. Herzog said.

His firm's plan is also about making sure clients will be in good hands when he's gone.

"What we're transitioning toward is clients not dealing with just Bert Herzog — but dealing

TO HELP ATTRACT, MOTIVATE AND RETAIN EMPLOYEES, ADVISERS ARE GIVING THEM A STAKE IN THE BUSINESS AND LAYING THE FOUNDATION FOR A SUCCESSION PLAN

BY ADAM SHELL

HE WEALTH

with Executive Wealth Management and the team as our advisers mature," Mr. Herzog said.

Selling to in-house advisers provides clients with an added comfort level and continuity of service. It also enables owners to better target successors who fit the firm's culture, investment style and diversity goals.

STEPS TO TAKE

So, what are the steps to create an incentive/succession plan? Start with a talent assessment, Ms. Armitage said.

"Do you have the right talent within the firm?" she said.

While many first-gen advisers have a do-it-all mentality, it's difficult today to find one person with the skills to run a business, service clients, manage money and serve as rainmaker.

"It could be one person, or you may need three people," Ms. Armitage said.

Next, check to see if the potential successors you've identified are interested in becoming owners, and if they have the risk-taking personality needed to take out a loan to finance their ownership stake.

About one in four next-gen advisers who are offered the opportunity to buy shares in their advisory firm decide not to, said David DeVoe, founder of consulting firm and investment bank DeVoe & Co.

Many firms, he said, wait too long to offer shares, and the valuation climbs so high that the next-gen can't afford it.

"It's too expensive," Mr. DeVoe said.

The final steps are having both sides place a valuation on the firm, put together the path to equity ownership and arrange financing.

Coming up with the right deal terms and timelines for when the balance of power will shift from the first-gen adviser to the next-gen advisers is key, said Vanessa Oligino, director of business performance solutions at TD Ameritrade Institutional.

"It's like a prenuptial agreement," Ms. Oligino said, adding that all parties need to flesh out what goals and financial milestones must be met for the deal to stay on track.

HOW MANY OWNERS?

Providing more advisers with an opportunity to become owners is a proactive way to extend a firm's lifespan.

That's the strategy being employed by Mark Feldman, CEO and managing partner at MRA Associates, headquartered in Phoenix. Since he took over as CEO in 2012 and purchased 25% of the firm, the employee-owned investment advisory firm with $3 billion-plus in assets under management has increased its number of part-

CONTINUED ON PAGE 21

LARGEST FEE-ONLY RIAs

RANKED BY TOTAL ASSETS UNDER MANAGEMENT

Rank 2019	Firm	Phone/website	2019 Total assets ($M)	2019 Total accounts	Discretionary assets ($M)	Discretionary accounts	Nondiscretionary assets ($M)	Nondiscretionary accounts	Employees
1	**Hall Capital Partners** 1 Maritime Plaza, Sixth Floor San Francisco, CA 94111	(415) 288-0544 hallcapital.com	**$36,253.9**	174	$12,011.6	62	$24,242.3	112	157
2	**Moneta Group Investment Advisors** 100 South Brentwood, Suite 500 Clayton, MO 63105	(314) 726-2300 monetagroup.com	**$20,257.5**	25,379	$9,217.1	3,992	$11,040.3	21,387	300
3	**Jasper Ridge Partners** 201 Main St., Suite 1000 Fort Worth, TX 76102	(817) 333-0027 jasperridge.com	**$20,001.7**	40	$19,288.1	35	$713.6	5	82
4	**Silvercrest Asset Management Group** 1330 Avenue of the Americas, 38th Floor New York, NY 10019	(212) 649-0600 silvercrestgroup.com	**$19,032.2**	1,218	$14,244.6	1,192	$4,787.6	26	129
5	**BBR Partners** 2 Grand Central Tower, 140 E. 45th St., 26th Fl. New York, NY 10017	(212) 313-9870 bbrpartners.com	**$15,886.2**	3,670	$13,748.6	3,460	$2,137.6	210	115
6	**Comprehensive Financial Management** 720 University Ave., Suite 200 Los Gatos, CA 95032	(408) 358-3316 cfmoffice.com	**$14,175.0**	45	$14,175.0	45	$0.0	0	29
7	**Tiedemann Advisors** 520 Madison Ave., 26th Floor New York, NY 10022	(212) 396-5900 linkedin.com/company/ tiedemann-advisors	**$13,920.6**	407	$11,574.3	326	$2,346.4	81	115
8	**Summit Rock Advisors** 9 W. 57th St., 12th Floor New York, NY 10019	(212) 993-7150 summit-rock.com	**$13,720.9**	139	$6,450.3	97	$7,270.6	42	63
9	**Aspiriant** 11100 Santa Monica Blvd., Suite 600 Los Angeles, CA 90025	(310) 806-4000 aspiriant.com	**$11,670.0**	8,669	$9,903.6	7,303	$1,766.4	1,366	155
10	**Bahl & Gaynor** 255 E. Fifth St., Suite 2700 Cincinnati, OH 45202	(513) 287-6100 twitter.com/bahlgaynor	**$11,524.5**	2,211	$10,744.3	2,130	$780.3	81	23
11	**Brownson, Rehmus & Foxworth** 200 S. Wacker Dr., Suite 2300 Chicago, IL 60606	(312) 346-5850 brfadvisors.com	**$10,892.9**	7,451	$0.0	0	$10,892.9	7,451	52
12	**Mercer Global Advisors** 1200 17th St., 25th Floor Denver, CO 80202	(800) 258-1559 facebook.com/merceradvisors	**$10,687.2**	28,708	$10,323.5	26,961	$363.7	1,747	342
13	**Johnson Investment Counsel** 3777 West Fork Rd. Cincinnati, OH 45247	(513) 661-3100 johnsoninv.com	**$10,661.2**	11,001	$10,661.2	11,001	$0.0	0	116
14	**Appleton Partners** 1 Post Office Square, Sixth Floor Boston, MA 2109	(617) 338-0700 appletonpartners.com	**$9,650.8**	5,931	$9,650.8	5,931	$0.0	0	49
15	**Jordan Park Group** 100 Pine St., Suite 2600 San Francisco, CA 94111	(415) 417-3000 linkedin.com/company/ jordanpark	**$9,237.7**	1,167	$9,237.7	1,167	$0.0	0	53
16	**FCI Advisors** 5901 College Blvd., Suite 110 Overland Park, KS 66211	(800) 615-2536 fciadvisors.com	**$8,613.1**	12,406	$7,490.4	11,113	$1,122.6	1,293	63
17	**Personal Capital Advisors Corporation** 250 Montgomery St., Suite 700 San Francisco, CA 94104	(415) 800-5922 personalcapital.com	**$8,558.6**	52,331	$8,558.6	52,331	$0.0	0	236
18	**Pathstone** 10 Sterling Blvd., Suite 402 Englewood, NJ 7631	(201) 944-7284 pathstone.com	**$8,534.4**	8,334	$3,734.9	6,010	$4,799.5	2,324	112
19	**Tag Associates** 810 Seventh Ave., Seventh Floor New York, NY 10019	(212) 275-1500 tagassoc.com	**$8,054.5**	1,101	$290.9	92	$7,763.5	1,009	68
20	**WE Family Offices** 701 Brickell Ave., Suite 2100 Miami, FL 33131	(305) 825-2225 wefamilyoffices.com	**$7,402.7**	73	$0.0	0	$7,402.7	73	47
21	**Loring, Wolcott & Coolidge Fiduciary Advisors** 230 Congress St. Boston, MA 02110	(617) 523-6531 sustainabilitygroup.com	**$7,242.4**	2,850	$7,053.6	2,831	$188.8	19	90
22	**Williams, Jones & Associates** 717 Fifth Ave., 11th Floor New York, NY 10022	(212) 935-8750 williamsjones.com	**$6,989.8**	3,974	$6,829.0	3,722	$160.8	252	38
23	**Boston Private Wealth** 1 Federal St., 30th Floor Boston, MA 2110	(617) 223-0200 bostonprivate.com/personal/ wealth-management	**$6,789.2**	5,274	$6,405.8	5,158	$383.4	116	96
24	**Ballentine Partners** 230 Third Ave., Suite 6 Waltham, MA 2451	(781) 341-1300 ballentinepartners.com	**$6,424.6**	4,019	$4,231.6	2,398	$2,193.0	1,621	73
25	**East End Advisors** 610 Fifth Ave., Fifth Floor New York, NY 10020	(212) 218-8137	**$6,358.8**	33	$1,487.3	16	$4,871.5	17	16
26	**KLS Professional Advisors Group** 1325 Avenue of the Americas, 14th Floor New York, NY 10019	(212) 355-0346 klsadvisors.com	**$5,848.7**	8,729	$5,336.3	5,808	$512.5	2,921	55

CONTINUED ON PAGE 12

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BALANCED FUND (JBALX)

★★★★★

Overall Morningstar Rating™
out of 690 Allocation – 50% to 70% Equity Funds as of 3/31/19

FORTY FUND (JCAPX)

★★★★

Overall Morningstar Rating™
out of 1256 Large Growth Funds as of 3/31/19

GLOBAL TECHNOLOGY FUND (JATIX)

★★★★

Overall Morningstar Rating™
out of 186 Technology Funds as of 3/31/19

GLOBAL LIFE SCIENCES FUND (JFNIX)

★★★★

Overall Morningstar Rating™
out of 133 Health Funds as of 3/31/19

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As of 3/31/19, Growth and Income Class I Shares Morningstar Ratings™ in the Large Blend Funds category: 5 stars out of 1218 funds, 5 stars out of 1081 funds and 3 stars out of 810 funds, for 3-, 5- and 10-year periods, respectively.

As of 3/31/19, Balanced Fund Class I Shares Morningstar Ratings™ in the Allocation – 50% to 70% Equity Funds category: 5 stars out of 690 funds, 5 stars out of 601 funds and 4 stars out of 439 funds, for the 3-, 5-, and 10-year periods, respectively.

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As of 3/31/19, Forty Fund Class I Shares Morningstar Ratings™ in the Large Growth Funds category: 4 stars out of 1256 funds, 5 stars out of 1114 funds and 3 stars out of 805 funds, for the 3-, 5-, and 10-year periods, respectively.

As of 3/31/19, Global Technology Fund Class I Shares Morningstar Ratings™ in the Technology Funds category: 4 stars out of 186 funds, 4 stars out of 174 funds and 4 stars out of 146 funds, for the 3-, 5-, and 10-year periods, respectively.

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Ratings based on risk-adjusted returns.

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LARGEST FEE-ONLY RIAs

RANKED BY TOTAL ASSETS UNDER MANAGEMENT

Rank 2019	Firm	Phone/website	2019 Total assets ($M)	2019 Total accounts	Discretionary assets ($M)	Discretionary accounts	Nondiscretionary assets ($M)	Nondiscretionary accounts	Employees
27	**Athena Capital Advisors** 55 Old Bedford Rd., Suite 302 Lincoln, MA 1773	(781) 274-9300 linkedin.com/company/ athena-capital-advisors/	**$5,822.9**	429	$5,212.1	361	$610.9	68	44
28	**Fiduciary Counselling** 2000 Wells Fargo Place St Paul, MN 55101	(651) 228-0935	**$5,751.1**	1,487	$2,473.7	1,266	$3,277.4	221	74
29	**Churchill Management Group** 5900 Wilshire Blvd., Suite 400 Los Angeles, CA 90036	(323) 937-7110 churchillmanagement.com	**$5,500.3**	17,055	$5,360.6	16,444	$139.7	611	56
30	**Savant Capital Management** 190 Buckley Dr. Rockford, IL 61107	(815) 227-0300 savantcapital.com	**$5,383.0**	4,831	$5,383.0	4,831	$0.0	0	163
31	**Pinnacle Associates** 335 Madison Ave., Suite 1100 New York, NY 10017	(212) 652-3200 pinnacleinsights.org	**$5,323.8**	4,334	$5,323.8	4,334	$0.0	0	55
32	**Brighton Jones** 2030 1st Ave., Third Floor Seattle, WA 98121	(206) 258-5000 brightonjones.com	**$5,299.3**	1,718	$5,163.9	1,714	$135.4	4	170
33	**Seven Bridges Advisors** 9 W. 57th St., 29th Floor New York, NY 10019	(212) 490-6320 sevenbridgesadvisors.com	**$5,068.4**	125	$2,223.3	20	$2,845.1	105	23
34	**CV Advisors** 19495 Biscayne Blvd., Suite 808 Aventura, FL 33180	(305) 358-5990 cv-advisors.com	**$5,064.5**	576	$510.4	101	$4,554.1	475	40
35	**Adviser Investments** 85 Wells Ave., Suite 109 Newton, MA 2459	(617) 321-2200 adviserinvestments.com	**$5,014.0**	10,533	$5,014.0	10,533	$0.0	0	83
36	**Ferguson Wellman Capital Management** 888 SW Fifth Ave., Suite 1200 Portland, OR 97204	(503) 226-1444 facebook.com/ fergusonwellman	**$4,965.8**	3,011	$4,965.8	3,011	$0.0	0	48
37	**The Bollard Group** 1 Joy St. Boston, MA 2108	(617) 720-5800 bollard.com	**$4,940.6**	543	$4,876.3	514	$64.3	29	30
38	**Wetherby Asset Management** 580 California St., Eighth Floor San Francisco, CA 94104	(415) 399-9159 wetherby.com	**$4,851.9**	3,568	$4,616.7	3,483	$235.3	85	69
39	**Seven Post Investment Office** 1 Montgomery St., Suite 3150 San Francisco, CA 94104	415) 341-9300 sevenpost.com	**$4,515.8**	151	$4,283.0	143	$232.8	8	16
40	**Choate Investment Advisors** 2 International Place, Suite 3000 Boston, MA 02110	(617) 973-4900 twitter.com/choateia	**$4,495.3**	2,387	$3,863.2	2,211	$632.1	176	14
41	**Altair Advisers** 303 W. Madison St., Suite 600 Chicago, IL 60606	(312) 429-3000 altairadvisers.com	**$4,404.4**	701	$1,220.3	365	$3,184.1	336	49
42	**EP Wealth Advisors** 21515 Hawthorne Blvd., Suite1200 Torrance, CA 90503	(310) 543-4559 epwealth.com	**$4,390.0**	9,111	$4,290.0	8,959	$100.0	152	99
43	**Ropes Wealth Advisors** Prudential Tower Boston, MA 02199	(617) 235-4260 ropeswealthadvisors.com	**$4,260.4**	2,760	$4,121.5	2,705	$138.8	55	34
44	**Bridges Investment Management** 1125 S. 103 St., Suite 580 Omaha, NE 68124	(402) 397-4700 bridgesinv.com	**$4,235.3**	1,652	$4,124.6	1,562	$110.6	90	35
45	**Dowling & Yahnke** 12265 El Camino Real, Suite 300 San Diego, CA 92130	(858) 509-9500 dyinc.com	**$4,235.2**	4,299	$4,235.2	4,299	$0.0	0	44
46	**Orgel Wealth Management** 2420 Rivers Edge Dr. Altoona, WI 54720	(715) 835-6525 orgelwealth.com	**$4,191.4**	7,392	$4,191.4	7,392	$0.0	0	45
47	**Gofen And Glossberg** 455 Cityfront Plaza, Suite 3000 Chicago, IL 60611	(312) 828-1100 gofen.com	**$4,186.9**	3,093	$3,937.7	2,996	$249.2	97	27
48	**The Mather Group** 353 N. Clark St., Suite 2775 Chicago, IL 60654	(630) 537-1078 themathergroup.com	**$4,145.2**	5,825	$2,931.5	2,993	$1,213.8	2,832	52
49	**Balasa Dinverno Foltz** 500 Park Blvd., Suite 1400 Itasca, IL 60143	(630) 875-4900 linkedin.com/company/ balasa-dinverno-foltz	**$4,136.7**	5,346	$4,136.7	5,346	$0.0	0	44
50	**B|O|S** 345 California St., Suite 1100 San Francisco, CA 94104	(415) 781-8535 facebook.com/bosinvest	**$4,056.8**	3,424	$3,480.5	3,273	$576.3	151	41

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BIGGEST GAINERS

$1B+ FEE-ONLY RIAs RANKED BY YEAR-OVER-YEAR GROWTH IN TOTAL ASSETS

Rank 2019	Firm	Phone/website	% change	2019 Total assets ($M)	2019 Total accounts	Discretionary assets ($M)	Discretionary accounts	Nondiscretionary assets ($M)	Nondiscretionary accounts	Employees
1	**The Mather Group** 353 N. Clark St., Suite 2775 Chicago, IL 60654	(630) 537-1078 themathergroup.com	**180%**	$4,145.2	5,825	$2,931.5	2,993	$1,213.8	2,832	52
2	**Dynamic Wealth Advisors** 2415 E. Camelback Rd., Suite 700 Phoenix, AZ 85016	(877) 257-3840 401kextra.com	**85%**	$1,451.2	6,248	$1,298.7	6,132	$152.5	116	74
3	**Camden Capital** 2301 Rosecrans Ave., Suite 2110 El Segundo, CA 90245	(310) 725-0210 linkedin.com/company/ camden-capital-management-llc	**61%**	$3,174.6	3,317	$2,086.7	2,530	$1,087.9	787	24
4	**TCG Advisors** 900 S. Capital of Texas Hwy., Suite 350 Austin, TX 78746	(512) 600-5221 tcgservices.com	**60%**	$2,817.3	1,733	$2,133.1	1,578	$684.2	155	90
5	**LGL Partners** 1 Tower Bridge, 100 Front St., Suite 1300 West Conshohocken, PA 19428	(610) 545-6100 lglpartners.com	**58%**	$1,772.4	400	$642.5	265	$1,129.9	135	24
6	**Raub Brock Capital Management** Larkspur Landing Cir., Suite 240 Larkspur, CA 94939	(415) 927-6990 raubbrock.com	**50%**	$1,912.8	5,832	$464.8	955	$1,448.0	4,877	700
7	**Artemis Wealth Advisors** 570 Lexington Ave., 39th Floor New York, NY 10022	(212) 838-9000 artemiswa.com	**46%**	$1,199.0	13	$683.9	11	$515.1	2	10
8	**Venturi Wealth Management** 3600 N. Capital of Texas Hwy., Bld. B, Suite 100 Austin, TX 78746	(512) 220-2035 venturiwealthmanagement.com	**44%**	$1,009.1	1,774	$992.8	1,717	$16.2	57	16
9	**AdvicePeriod** 2121 Avenue of the Stars, Suite 2400 Los Angeles, CA 90067	(424) 281-3600 ap4advisors.com	**34%**	$3,039.0	3,127	$3,034.7	3,121	$4.3	6	64
10	**Personal Capital Advisors Corporation** 250 Montgomery St., Suite 700 San Francisco, CA 94104	(415) 800-5922 personalcapital.com	**32%**	$8,558.6	52,331	$8,558.6	52,331	$0.0	0	236
11	**Reynders, Mcveigh Capital Management** 121 High St., Fourth Floor Boston, MA 2110	(617) 226-9999 reyndersmcveigh.com	**28%**	$1,928.5	1,470	$1,734.3	1,403	$194.1	67	25
12	**Parallel Advisors** 150 Spear St., Suite 950 San Francisco, CA 94105	(866) 627-6984 twitter.com/paralleladv?lang=en	**27%**	$2,386.8	6,575	$2,386.8	6,575	$0.0	0	54
13	**Private Ocean** 100 Smith Ranch Rd., Suite 300 San Rafael, CA 94903	(415) 526-2900 salientwealth.com	**26%**	$2,004.7	3,622	$1,991.6	3,479	$13.1	143	53
14	**Biltmore Family Office** 6836 Morrison Blvd., Suite 100 Charlotte, NC 28211	(704) 248-5230 biltmorefamilyoffice.com	**25%**	$1,584.5	700	$887.6	477	$696.9	223	13
15	**Glassman Wealth Services** 8000 Towers Crescent Dr., Suite 1450 Vienna, VA 22182	(703) 534-4444 facebook.com/glassmanwealth	**25%**	$1,370.9	1,768	$1,370.9	1,768	$0.0	0	11
16	**Meristem Family Wealth** 701 Carlson Parkway, Suite 1400 Minnetonka, MN 55305	(952) 835-2577 meristemfw.com	**23%**	$3,237.4	578	$1,508.3	264	$1,729.1	314	39
17	**The Clarius Group** 999 Third Ave., Suite 3050 Seattle, WA 98104	(206) 462-7400 clariusgroup.com	**23%**	$1,398.0	520	$804.5	388	$593.5	132	23
18	**Bridges Investment Management** 1125 S. 103 St., Suite 580 Omaha, NE 68124	(402) 397-4700 bridgesinv.com	**22%**	$4,235.3	1,652	$4,124.6	1,562	$110.6	90	35
19	**Aureus Asset Management** 1 Winthrop Square Boston, MA 2110	(617) 728-8900 aureus-asset.com	**22%**	$2,835.5	550	$907.0	509	$1,928.4	41	12
20	**EP Wealth Advisors** 21515 Hawthorne Blvd., Suite 1200 Torrance, CA 90503	(310) 543-4559 epwealth.com	**22%**	$4,390.0	9,111	$4,290.0	8,959	$100.0	152	99
21	**IWP Wealth Management** 2719 E. Third Ave. Denver, CO 80206	(720) 328-9700 linkedin.com/company/ iwp-wealth	**20%**	$1,992.7	45	$211.5	13	$1,781.2	32	20
22	**Wealthquest Corporation** 50 E. Business Way, Suite 120 Cincinnati, OH 45241	(513) 530-9700 wqcorp.com	**20%**	$1,048.4	3,680	$1,044.4	3,666	$4.0	14	24
23	**Heritage Wealth Advisors** 919 East Main St., Suite 950 Richmond, VA 23219	(804) 643-4080 heritagewealth.net	**20%**	$1,642.2	1,030	$818.3	978	$823.9	52	25
24	**Stearns Financial Group** 324 W. Wendover Ave., Suite 204 Greensboro, NC 27408	(336) 230-1811 stearnsfinancial.com	**18%**	$1,310.3	2,115	$1,310.3	2,115	$0.0	0	29
25	**Interocean Capital** 980 N. Michigan Ave., Suite 1780 Chicago, IL 60611	(312) 648-1720 interoceancapital.com	**17%**	$1,947.3	2,739	$1,542.1	2,353	$405.2	386	16

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TOP FEE-ONLY RIAs BY STATE

STATES WHERE FEE-ONLY RIAs ARE HEADQUARTERED, RANKED BY TOTAL ASSETS

	State/Top 3 firms	# of fee-only RIAs	Total assets ($M)/ market share	Discretionary assets ($M)/ market share	Nondiscretionary assets ($M)/ market share
1	**California**	350	**$268,456.9**	$219,200.0	$49,256.9
1	Hall Capital Partners		13.5%	5.5%	49.2%
2	Comprehensive Financial Management		5.3%	6.5%	0.0%
3	Aspiriant		4.3%	4.5%	3.6%
2	**New York**	126	**$167,146.7**	$123,800.8	$43,345.9
1	Silvercrest Asset Management Group		11.4%	11.5%	11.0%
2	BBR Partners		9.5%	11.1%	4.9%
3	Tiedemann Advisors		8.3%	9.3%	5.4%
3	**Massachusetts**	116	**$115,634.5**	$102,622.0	$13,012.6
1	Appleton Partners		8.3%	9.4%	0.0%
2	Loring Wolcott & Coolidge Fiduciary Advisors		6.3%	6.9%	1.5%
3	Boston Private Wealth		5.9%	6.2%	2.9%
4	**Texas**	138	**$83,880.0**	$73,510.7	$10,369.2
1	Jasper Ridge Partners		23.8%	26.2%	6.9%
2	RGT Wealth Advisors		4.6%	4.8%	3.1%
3	South Texas Money Management		4.0%	4.5%	0.5%
5	**Ohio**	89	**$65,488.2**	$59,549.1	$5,939.1
1	Bahl & Gaynor		17.6%	18.0%	13.1%
2	Johnson Investment Counsel		16.3%	17.9%	0.0%
3	Truepoint		4.2%	4.5%	0.5%
6	**Illinois**	84	**$65,454.3**	$44,667.5	$20,786.8
1	Brownson Rehmus & Foxworth		16.6%	0.0%	52.4%
2	Savant Capital Management		8.2%	12.1%	0.0%
3	Altair Advisers		6.7%	2.7%	15.3%
7	**Pennsylvania**	98	**$48,986.4**	$41,880.3	$7,106.2
1	Miller Investment Management		5.0%	3.4%	14.3%
2	Wharton Business Group		4.8%	5.0%	3.2%
3	Sage Financial Group		3.8%	3.9%	3.1%
8	**Virginia**	86	**$44,566.7**	$37,642.8	$6,923.9
1	Sullivan Bruyette Speros & Blayney		7.9%	9.3%	0.5%
2	Wilbanks Smith & Thomas Asset Management		6.4%	7.4%	0.7%
3	Palladium Registered Investment Advisors		4.8%	5.7%	0.4%
9	**Washington**	69	**$43,244.2**	$38,726.9	$4,517.3
1	Brighton Jones		12.3%	13.3%	3.0%
2	Cornerstone Advisors		7.9%	8.8%	0.0%
3	Badgley Phelps Wealth Managers		6.1%	6.3%	4.1%
10	**Florida**	92	**$42,719.8**	$27,843.9	$14,875.9
1	WE Family Offices		17.3%	0.0%	49.8%
2	CV Advisors		11.9%	1.8%	30.6%
3	Water Oak Advisors		4.6%	6.6%	1.0%
11	**New Jersey**	69	**$39,964.5**	$30,285.6	$9,678.9
1	Pathstone		21.4%	12.3%	49.6%
2	Regentatlantic		9.0%	11.7%	0.4%
3	Massey Quick Simon & Co.		7.4%	6.6%	10.1%
12	**Georgia**	63	**$36,115.8**	$30,326.3	$5,789.4
1	SignatureFD		9.7%	9.1%	12.5%
2	Balentine		7.2%	7.1%	7.8%
3	Berman Capital Advisors		6.3%	2.9%	24.3%
13	**Colorado**	66	**$34,311.6**	$29,093.9	$5,217.7
1	Mercer Global Advisors		31.1%	35.5%	7.0%
2	IWP Wealth Management		5.8%	0.7%	34.1%
3	Colorado Financial Management		4.6%	5.4%	0.1%
14	**Missouri**	23	**$33,395.2**	$18,547.5	$14,847.7
1	Moneta Group Investment Advisors		60.7%	49.7%	74.4%
2	Plancorp		11.0%	18.9%	1.1%
3	Matter Family Office		7.3%	0.5%	15.8%
15	**Michigan**	58	**$31,025.3**	$25,921.1	$5,104.2
1	Zhang Financial		8.7%	5.3%	26.3%
2	Advance Capital Management		8.1%	9.6%	0.6%
3	Mainstay Capital Management		8.0%	8.9%	3.7%
16	**Maryland**	53	**$27,492.7**	$23,198.1	$4,294.7
1	WMS Partners		13.4%	11.3%	24.7%
2	Heritage Investors Management Corp.		8.4%	9.9%	0.4%
3	Pinnacle Advisory Group		7.1%	8.4%	0.0%
17	**Minnesota**	45	**$26,410.8**	$20,418.3	$5,992.5
1	Fiduciary Counselling		21.8%	12.1%	54.7%
2	Meristem Family Wealth		12.3%	7.4%	28.9%
3	Accredited Investors Wealth Management		7.1%	8.8%	1.3%
18	**North Carolina**	59	**$23,129.8**	$20,686.1	$2,443.7
1	Colony Family Offices		7.0%	7.6%	1.9%
2	Biltmore Family Office		6.9%	4.3%	28.5%
3	Smith Salley & Associates		6.0%	6.7%	0.0%
19	**Wisconsin**	45	**$22,149.7**	$20,914.4	$1,235.4
1	Orgel Wealth Management		18.9%	20.0%	0.0%
2	North Star Asset Management		7.1%	7.4%	2.1%
3	Pegasus Partners		6.3%	6.3%	7.2%
20	**Oregon**	40	**$20,735.7**	$20,068.4	$667.3
1	Ferguson Wellman Capital Management		23.9%	24.7%	0.0%
2	Becker Capital Management		19.1%	19.7%	0.0%
3	Vista Capital Partners		6.5%	6.7%	0.0%

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CONTINUED FROM PAGE 9
ners from three to 11. The youngest partner is 34-years-old.

Broadening ownership ranks, Mr. Feldman said, was part of the firm's internal succession plan, as well as a tool to retain top performers.

"The talented young team members of today will be the future generation of partners," Mr. Feldman said.

The criteria he used to identify next-gen partners included leadership qualities, the ability to grow the business, high-quality interactions with clients and staff, and specialized expertise.

There are several ways to turn next-gen advisers and employees into owners. The most common is when the current owner approaches a valuable employee and offers him or her a piece of the business. The next-gen adviser typically has to come up with a 20% down payment; the balance is usually financed by a loan furnished by the selling firm, a bank or other third-party lender.

Valuing the firm accurately is the last step in transferring ownership to next-gen advisers. To get the price right, sellers and buyers should refrain from using rule-of-thumb, ballpark valuations, such as basing a deal on a multiple of revenue or cash flow, Mr. DeVoe said.

"Multiples are the wrong way to value a firm," he said. "Doing so is using math a 10-year-old child can do in their head to value a multimillion dollar business."

Instead, it's vital to analyze the firm's future profit and growth potential, cash flow, management depth and processes rather than looking at a firm's books in the rear-view mirror. Just focusing on revenue, for example, doesn't tell you how fast the firm is growing, how much of the top line is being generated by one star adviser, or identify unseen risks. Two firms might have identical revenue streams but one might be growing twice as fast and getting sizable revenue generation and other types of contributions from a "team" of employees.

HIGH-GROWTH VALUE

"A buyer is willing to pay more for a high-growth company, and even more for a company that demonstrates a model for continued high growth," Mr. DeVoe said. "It's one thing to grow because of 'charisma.' But a more valuable business is one that can demonstrate that they've created a comprehensive, integrated, successful marketing machine. Similarly, a company that has all sorts of risks, such as no nonsolicit agreements, is dependent on a key person, or has a few large, concentrated clients, will receive a lower valuation. And rightly so."

RIA firms with $1 billion-plus in AUM are currently being valued between 6.5 and 9.5 times cash flow, Mr. DeVoe said. That compares with a valuation of 4.3 to 6.3 times cash flow for $100 million firms, and 5.5 to 7.5 times cash flow for firms with AUM of $500 million.

Many industry consultants recommend that all parties get their own independent valuation and finalize the closing price after negotiations. Others recommend hiring a reputable, independent consulting firm to do a single comprehensive analysis and come up with a valuation that all parties can trust and feel comfortable with.

To help make the deal more affordable, RIAs sometimes discount the value of the shares purchased by an internal successor, Ms. Oligino said. RIAs also divert funds from employee bonuses and dividends earned on the purchased stock to help successors pay back their loans.

Some firms share equity via employee stock ownership plans, or ESOPs. Others grant equity as part of a profit-sharing plan or overall compensation, or when performance metrics are met.

LARGER ENTERPRISES

One industry trend that calls for more comprehensive succession planning is the move away from founder-driven firms and book-of-business setups and toward larger enterprises run by a handful of high-level managers specializing in key areas, such as compliance, investment research and strategy, asset management, and business operations.

That's the direction Brouwer & Janachowski, a wealth management firm in Mill Valley, Calif., has moved in since co-founder Kurt Brouwer retired a few years ago. The firm, which has $1.7 billion in AUM, put its written succession plan into action and bought out Mr. Brouwer's 50% ownership stake.

"This type of enterprise is one that can live beyond its founder and grow," said Stephen Janachowski, 62, the firm's other co-founder, president and CEO. "It requires more advanced succession planning. I have five next-gen advisers now that own a piece of the business. And my plan is to broaden ownership."

Mr. Janachowski said he plans to work at least another 10 years and will eventually sell off his ownership stake to next-gen advisers.

"I want them to feel they have a vested interest in the company," he said. "I want to win their hearts and minds. I want them to feel and act like an owner rather than view it as just a job."

Adam Shell is a freelance writer.

SELLING A PIECE OF THE ACTION

Coming up with a way to give employees an ownership stake in an advisory firm helps retain and attract top talent and can be the first step in creating a succession plan. Here are steps to take to achieve that goal:

- Identify key employees who could be part of a new ownership team.
- Approach targeted employees to see if they are interested in an ownership stake and willing to take out a loan, if necessary, to finance their stake.
- Arrive at a mutual decision on how the value of the firm will be calculated.
- Determine ways employees can finance their part of the purchase, possibly with the help of the firm.
- If part of a succession plan, figure out a timeline to transfer complete ownership to the new team.

57% PORTION OF AMERICANS THAT DOESN'T KNOW WHAT A 529 COLLEGE SAVINGS PLAN IS.

SOURCE: NEBRASKA'S NEST 529 COLLEGE SAVINGS PLAN, 2019

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Hints about 2020 COLA, premiums

Buried in the recent Social Security and Medicare Trustees' Report were some hints about the cost-of-living adjustments for Social Security benefits and increases in Medicare premiums we're likely to see in 2020.

MARY BETH FRANKLIN

ONRETIREMENT

The fact that the Medicare Part A hospital insurance trust fund is expected to be depleted in 2026 unless Congress acts before then stole the headlines. But the report also revealed that the basic Medicare Part B premium, which helps pay for doctors' fees and outpatient services, is expected to increase by $8.80, to $144.30 a month, in 2020. And more people are likely to pay high-income surcharges, officially known as income-related monthly adjustment amounts, or IRMAA, next year.

In 2018, approximately 3.7 million high-income Medicare beneficiaries, individuals with modified adjusted gross income above $85,000 and married copies above $170,000, paid IRMAA surcharges.

Medicare surcharges are based on the last available tax return, so 2019 premiums are based on 2017 federal tax returns. Medicare premiums and surcharges are normally deducted directly from Social Security benefits.

KEY POINTS

- Medicare Part B expected to increase by $8.80; more people may be subject to surcharges.
- The Social Security COLA is expected to increase by 1.2%.

SIX INCOME TIERS

There are six income tiers that determine Medicare surcharges. Currently, most retirees pay $135.50 a month for Part B premiums, but IRMAA surcharges range from $189.60 to $460.80 a month per person. High-income beneficiaries also pay an additional monthly surcharge for their prescription drug plans ranging from $12.40 to $77.40 on top of their monthly Part D premiums, which vary widely but average about $32 in 2019.

Initially, there were five income tiers that determined premium surcharges. The income tiers, first imposed in 2011, were never indexed for inflation. But that will change next year, which means more retirees may be subject to the IRMAA surcharges in 2020, the report said.

A new, sixth tier for very high-income retirees with individual incomes topping $500,000, and married couples with joint income exceeding $750,000, was added in 2019. The new top thresholds will not be indexed to inflation until 2028, the report said.

In addition, the trustees' report projected that the Social Security cost-of-living adjustment will increase by a modest 1.2% in 2020 — less than half the size of this year's COLA. A 1.2% COLA would increase the average retirement benefit by about $17, to $1,478 a month in 2020, and boost the maximum benefit for someone who retires at the full retirement age by about $34 to $2,895 a month. The 2020 COLA will be announced in October.

"A very low COLA would increase the risk that higher Medicare Part B premiums for 2020 will consume the entire amount of the COLA for millions of low-benefit Social Security recipients," said Mary Johnson, policy analyst for The Senior Citizens League advocacy group.

Even though Social Security recipients received a 2.8% COLA this year — the highest since 2012 — the inflation adjustments have averaged a meager 1.4% over the past decade. There was no COLA in 2016, followed by a 0.2% increase in 2017 and a 2% increase in 2018.

Ms. Johnson forecasts that more retirees will be affected on a recurring basis if COLAs continue to remain low because the Medicare trustees estimate that the basic Medicare Part B premium will grow to $226.30 per month by 2028.

The disconnect between rising Medicare premiums and virtually stagnant Social Security benefits is one of the reasons that health-care costs top the list of retirees' biggest fears.

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

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Reverse mortgage lenders pivot as sales falter

BY GREG IACURCI

THE REVERSE MORTGAGE market is evolving for the first time in a decade, as the industry pivots to address sagging sales and what it sees as a new opportunity presented by baby boomers retiring.

Reverse mortgages are a type of loan that allows seniors to tap their home equity, as a lump sum or line of credit, without having to make out-of-pocket payments. The market has been dominated by a single product, a home equity conversion mortgage, which is insured by the federal government and sold by approved lenders.

However, sales have faltered following changes the federal government made in October 2017 that increased upfront borrowing costs and reduced borrowing limits. Sales of home equity conversion mortgages since October (the start of the government's fiscal year) are roughly 18,500 through April — on pace for a 42% decline from two years earlier.

42% POTENTIAL DROP IN HECM SALES THIS FISCAL YEAR RELATIVE TO 2017

"If there's an additional $8,000 to $10,000 to close on the loan, that's sticker shock," said Jamie Hopkins, director of retirement research and vice president of private client services at Carson Group.

The reverse mortgage market has been dominated by HECMs for roughly the last decade, Mr. Hopkins said. While there are no exact figures, he estimates HECMs represented roughly 98% of all reverse mortgages — meaning there was little product competition.

Lenders have shifted within the last year, introducing alternatives to home equity conversion mortgages.

Longbridge Financial is one such company offering a proprietary product, called Platinum, which it debuted in August. Prior to that launch there had only been one lender with a proprietary product, but there are now four such firms,

4 surprises emerged this tax season

GUESTBLOG
SHERYL ROWLING

We recently completed the first tax season following passage of the 2017 tax reform bill. There were sweeping changes, and most taxpayers — and their advisers — experienced many unforeseen surprises.

Surprise No. 1: Many taxpayers owed money or received smaller refunds than expected.

The new tax laws increased the standard deduction and lowered tax rates, but many taxpayers who were expecting sizable refunds were unpleasantly surprised come April 15.

MANY EXPECTING SIZABLE REFUNDS WERE DISAPPOINTED.

The primary reason for this was the government's reduction in withholding amounts. To provide taxpayers with "evidence" of big tax reductions (conveniently prior to the November midterms), wage earners brought home larger paychecks as a result of the lowered withholding. Unfortunately, many of these taxpayers did not experience a tax cut because of the reduction in itemized deductions as well as the loss of personal exemptions.

What is our opportunity? Advisers need to plan for clients' withholding and estimated tax payments. This will prevent unpleasant surprises and underpayment penalties.

Surprise No. 2: Itemized deductions weren't very useful.

With the increase in the standard deduction and the elimination or reduction of several itemized deductions, many former itemizers found they no longer had deductions in excess of the standard deduction.

What is our opportunity? We can help our clients to "bunch" deductions so they can at least itemize every other year.

Surprise No. 3: Qualified charitable distributions are much more useful than before. Clients over age 70½ who have IRAs can avail themselves of charitable write-offs — even if they don't itemize — by distributing their required minimum distributions (up to $100,000) directly to charity.

What is our opportunity? Identify retired clients who are claiming the standard deduction and still wish to contribute to charity.

Surprise No. 4: The qualified business income deduction is more complicated than we thought.

There were changes and clarifications made to the QBI rules throughout the tax season.

What is our opportunity? For extended or potential amended returns, check to make sure clients are taking full advantage of QBI deductions. At a minimum, all advisers should inform their clients that REIT dividends qualify as QBI — especially since many custodians missed this on their 1099s.

Sheryl Rowling is head of rebalancing solutions at Morningstar Inc. and principal at Rowling & Associates.

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said Christopher Mayer, chief executive of Longbridge. He estimates that proprietary loans represent about a quarter of all reverse mortgage sales today.

LOWER UPFRONT COSTS

Such loans often have lower upfront costs when compared with HECMs, as well as higher borrowing limits that can extend into the millions of dollars, compared with the roughly $726,500 HECM limit, experts said. While proprietary loans aren't insured by the Federal Housing Association as are HECMs, they're also nonrecourse loans, so borrowers can never owe more than the value of their house.

HIGHER INTEREST RATE

However, there are trade-offs. For example, proprietary loans with no origination costs are much less expensive upfront than HECMs, but often carry higher interest rates over the life of the loan — perhaps 5.75% or more compared with rates as low as 4% or 4.25% for HECMs, Mr. Mayer said.

Lower upfront costs may work better for seniors seeking to establish a line of credit that may or may not be tapped in the future, advisers said. That's because it wouldn't cost several thousand dollars upfront for a line of credit the client may possibly never use.

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"THE PRINCIPAL REASON [FOR SELLING A FIRM] IS MOST SMALLER FIRMS HATE THOSE MIDDLE- AND BACK-OFFICE CHORES, AND THAT BURDEN IS GETTING BIGGER EVERY YEAR."
— DAVE BARTON, CEO, MERCER ADVISORS

Legg Mason cuts staff 12% in revamp

BLOOMBERG NEWS

LEGG MASON INC. is cutting 120 employees, or about 12% of its staff, and streamlining its executive committee just days after adding investor Nelson Peltz to its board.

The cost-cutting steps are "critical to our ongoing growth," Joseph Sullivan, chief executive of the Baltimore-based asset manager, said in a memo to staff May 23.

Asset managers have taken aim at their employee ranks as they face unprecedented pressure on fees and substantial investments in technology. In recent months, BlackRock Inc., State Street Corp. and AQR Capital Management have announced staff reductions. In February, Legg Mason had announced reorganization plans, including unspecified job cuts.

At Legg Mason, almost 100 of the cuts will be staff in the U.S., according to Mary Athridge, a company spokeswoman.

EXECUTIVE COMMITTEE REDUCED

The executive committee reporting to Mr. Sullivan will be consolidated from eight to four members: Terry Johnson, marketing and distribution; Patty Lattin, head of human resources and facilities; Tom Merchant, general counsel and head of risk management; and Pete Nachtwey, chief financial officer.

Mr. Peltz and two other representatives of his Trian Fund Management will join Legg Mason's board after the $10 billion New York-based hedge fund acquired a 4.5% stake, the company announced May 21.

Mr. Peltz said then that he had three top priorities: "significantly reducing costs, driving revenue growth organically and through acquisition, and increasing profitability."

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Senior Safe fact sheet is issued

INVESTMENTNEWS

THE SECURITIES and Exchange Commission, the North American Securities Administrators Association and the Financial Industry Regulatory Authority Inc. have issued a fact sheet to help raise awareness of the Senior Safe Act.

The law addresses barriers that financial professionals face in reporting suspected senior financial exploitation or abuse to authorities. The fact sheet was issued on the first anniversary of the law's enactment to provide information on its immunity and training provisions, as well as additional resources from the SEC, NASAA and Finra.

Specifically, the act protects "covered financial institutions" and their eligible employees from liability in any civil or administrative proceeding for reporting a case of potential exploitation of a senior citizen to a covered agency. In a release, the agencies said this immunity can be helpful when a firm wants to report potential exploitation, but fears that the report could violate a privacy requirement.

The immunity provided in the act requires that employees receive training on how to identify and report exploitative activity against seniors before making a report.

Are China trade tensions a concern for your clients?

BY LIZ SKINNER

FINANCIAL ADVISERS need to be prepared to discuss China with clients, as the country will increasingly play a role in the global economy and will become more of an investment priority, according to a bonds expert.

"China matters a lot to the global economy," said Janelle E. Woodward, head of fixed income at BMO Global Asset Management, addressing the *InvestmentNews* Women Adviser Summit in Chicago on May 16. "It's approximately one-third of the global economy."

In recent years, advisers' clients have become more concerned with and alert to upheaval from geopolitical issues, she said. Ms. Woodward confirmed that conclusion when she asked the audience of about 200 advisers to raise their hands to show which concerns are top of clients' minds.

The U.S.-China trade dispute has heated up, with President Donald J. Trump announcing he'll boost tariffs on $200 billion of Chinese goods from 10% to 25%. China has responded with its own tariff increases and Chinese President Xi Jinping is reportedly considering further retaliation. The situation creates concerns beyond the immediate trade tensions, Ms. Woodward said.

'INDIRECT IMPACT'

"When it comes to China trade, what we are most worried about is the indirect impact, not the direct impact," she said in an interview. "What does it mean for business sentiment, consumer sentiment? What could escalation look like, and how does that unknown translate into lower capital expenditures?"

The direct impact of the announced tariffs on growth will be about 1% for China and 0.1% to 0.2% for the U.S., she said.

Ms. Woodward said one area of the fixed-income universe her firm likes going forward is investment-grade credit, in part because it is defensive in the context of the current economy.

Among the other sessions at the daylong summit, advisers received succession-planning guidance and tips for attracting more client assets. Another theme was the link between improving financial literacy and boosting diversity in the advice industry.

Improving financial literacy leads to more people knowing about the career of financial advice, which is especially important because there are not enough newcomers to the field, said Jennifer Bacarella, director of firm development at Sigma Financial Corp.

The Chicago event is the second of six Women Adviser Summits this year. The first was in Huntington Beach, Calif., in March.

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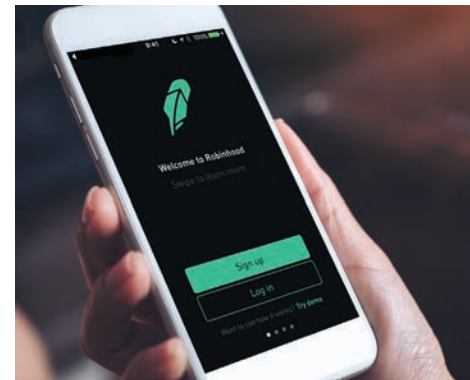
Robinhood is set to raise at least $200M in funding

BLOOMBERG NEWS



ROBINHOOD Markets Inc. is close to securing at least $200 million in fresh funding, according to a person familiar with the matter. The round is said to value the company at between $7 billion and $8 billion, although the details could change.

The cash infusion is coming from existing investors, said people familiar with the deal, all of whom asked not to be identified because the details are private. The talks are ongoing, but the company's valuation could climb to as much as $10 billion, these people said, adding that the numbers are subject to change until the deal is closed.

A Robinhood spokesman declined to comment.

The startup, which offers free app-based trading, last raised money in mid-2018 at a valuation of $5.6 billion. In addition to the new funding, the company is working on launching its retooled cash management service later this year, the people said, after it temporarily shelved the product following a backlash over how it was marketed and whether it would be insured.

The tech website The Information first reported some details of the deal.

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Sometimes a sale is the best transition plan

Now employees: The three former minority owners of Duckworth Wealth Advisors: Elizabeth deSousa (left), Mark Doran and Kara Duckworth.

BY JEFF BENJAMIN

SUCCESSION

WHEN KARA Duckworth and her father, Michael Duckworth, began looking for ways to transition ownership of the advisory firm they launched in 1998, selling the business was not what they had in mind.

"We were originally going to do an internal succession plan to buy my dad out," said Ms. Duckworth, who was one of three minority owners of Duckworth Wealth Advisors.

Under the guidance of David DeVoe, managing director of the investment bank DeVoe & Co., the Duckworths realized a more efficient succession strategy was to sell the $165 million firm to pay Mr. Duckworth for his majority stake.

While the idea of joining a larger firm and working under new owners didn't initially appeal to Ms. Duckworth or the two other minority owners of the Newport Beach, Calif.-based advisory firm, it began to make sense once they considered the big-picture perspective.

'NOT WHAT WE LOVE DOING'

"We decided that an internal succession meant more time spent on things like operations and compliance, which is not what we love doing," Ms. Duckworth said. "But we wanted to continue to grow the firm, and I was basically running the business and handling all the HR and compliance."

Consolidation in the registered investment advisory space has occurring at a record pace for the past several years, so it's old hat to the most active buyers. But for sellers, especially those who didn't set out to sell, the process can be a bit daunting.

"It was surprising what an emotional process it was," Ms. Duckworth said. "It was sort of like professionally dating and trying to see if there's a cultural fit. We had to decide who the people are we want to work with every day."

The entire process, which started with a list of seven potential buyers that was quickly narrowed to three, took about 18 months and resulted in a sale to Mercer Advisors in April 2017, at a time when Mercer was just ramping up its acquisition activity.

Mr. Duckworth, now 72, stayed on for a year after the sale to help with the transition.

Two years after the sale, with Ms. Duckworth and her fellow minority partners Elizabeth deSousa and Mark Doran now Mercer employees, nerves have settled and everyone seems happy with the deal.

During the transition, which included relocating to a nearby Mercer office, all 40 clients made the move over to Mercer.

"Our clients were a little nervous about the change at first, because change is hard and we were going from a small boutique wealth management firm to a much larger entity, but they trusted us," Ms. Duckworth said. "Since then, we've had very positive feedback."

Mercer Advisors, which has 41 offices and 11,000 clients, and manages $16 billion, has acquired 21 registered investment advisers over the past few years. But the Duckworth deal was among its first.

> **"OUR CLIENTS WERE A LITTLE NERVOUS ABOUT THE CHANGE AT FIRST."**
> KARA DUCKWORTH, FORMER MINORITY OWNER, DUCKWORTH WEALTH ADVISORS

GROWING BURDEN

"There are a variety of reasons for selling a firm, but the principal reason is most smaller firms hate those middle- and back-office chores, and that burden is getting bigger every year," said Mercer CEO Dave Barton.

"As firms grow, all the middle- and back-office functions grow, too, so advisers find themselves serving clients 50% of the time instead of 100% of the time like they want to," Mr. Barton said. "That's the No. 1 reason I hear for selling a firm."

Ms. Duckworth admits that removing the business operations part of running an advisory firm was an attractive piece of the deal, but said she has also enjoyed other benefits of scale.

"We saw a huge depth of resources, including an internal law firm that prepares estate planning documents, a tax practice and an investment committee," she said. "Mercer's size gives them access to investment options we didn't have as a smaller RIA."

With the move behind her now, Ms. Duckworth is still impressed with the amount of work and due diligence it involved, which is something she said advisers should be prepared for if they're thinking of selling as a succession plan.

"You definitely need to have time allocated to the due diligence process, and make sure your financial information and client data have been carefully analyzed before starting," she said. "Think about what you want your career to look like in the future because you need to be so sure this is the right thing, so you can be all in."

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El-Erian to lead Queens' College in 2020

BLOOMBERG NEWS

MOHAMED EL-ERIAN, chief economic adviser at Allianz SE, has been named president of Cambridge University's Queens' College.

The son of an Egyptian diplomat, Mr. El-Erian was an undergraduate at Cambridge in the late 1970s, where he studied economics. He also holds a doctorate from Oxford.

Mr. El-Erian served as a deputy director at the International Monetary Fund from 1995 to 1997, before a stint at Pimco and Harvard Management Co. He rejoined Pimco, then the world's largest bond fund, and became chief executive and co-chief investment officer before stepping down in 2014. He's also a columnist with Bloomberg News.

The university is made up of 31 autonomous colleges where students live, eat and socialize. Queens' College, founded in 1448, is home to the Mathematical Bridge across the River Cam.

Mr. El-Erian will take up the position at Cambridge in October 2020. The new role will involve running the college as well as representing it at a university-wide level.

5

Reason #5 of 76

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Reading the Signs of the Global Financial Crisis

How independent analysis can reduce risk and present opportunities

On Friday, September 12, 2008, the storied investment banking firm Lehman Brothers enjoyed an "A" credit rating from a prominent agency. On Monday, September 15, the firm filed for bankruptcy protection. More than a decade later, investors and financial institutions still feel the fallout from the financial crisis. The precariousness of Lehman's financial condition was due in large measure to its highly leveraged capital structure consisting of securitized mortgages and other real estate instruments. Chris Dillon, now an investment specialist in the T. Rowe Price Multi-Asset Division, recalls how the firm's fixed-income team saw the possibility of problems in the mortgage market as early as 2005 and 2006, and how it began to take steps to de-risk portfolios. Below, he explains how it was done — and how the firm approaches risk and opportunity on behalf of investors today.

CHRIS DILLON
investment specialist in the Multi-Asset Division
T. Rowe Price

INCSS: What made the T. Rowe Price team concerned about the securitized mortgage market in the years leading up to the financial crisis?

CHRIS DILLON: Many analysts looked at the growing level of securitized, mortgage-related debt and felt it posed little risk because most people consider paying their monthly mortgage bill a high priority. The thinking was that, even if defaults rose, they would be manageable and that home prices would keep rising, as they had for many years. But our fixed-income analysts kept asking themselves "what if" questions — what if home prices stalled or declined, what if default rates increased, what if homeowners simply walked away from their homes and their mortgages? What if firms that had highly leveraged capital structures couldn't meet liquidity calls? We weren't saying those things would happen, just that they could. We became concerned that more and more risk was building up in the securitized world.

As a result, well before Lehman's bankruptcy and the convulsions in the securities markets, our fixed-income team had decided to de-risk portfolios. While we didn't know what might trigger a liquidity event or some other problem, or who might be affected most directly, we wanted to make sure that our investors' capital was being managed prudently in case a significant market moving event occurred. We also wanted to be positioned to take advantage of opportunities that crises often present. In such times, many investors become overly pessimistic. That affords investors with 'dry powder' and the experience to analyze the situation dispassionately and can result in an opportunity to buy undervalued assets.

INCSS: Is that what happened at T. Rowe Price in the wake of the financial crisis?

CHRIS DILLON: Essentially, yes. We were able to take advantage of the opportunities created by the market turmoil and the Federal Reserve's quantitative easing program, investing in credits we felt were being buffeted in price to perhaps an unwarranted degree. In the years after the crisis, out investors benefitted from the thorough work of our analysts and portfolio managers. Our investment professionals, rather than follow the crowd, had the conviction to pursue opportunities based on their disciplined, analytical research.

INCSS: You're now part of the multi-asset division, which oversees portfolios combining equity, fixed income and other investments. How does the multi-asset process work at T. Rowe Price?

CHRIS DILLON:
The firms' multi-asset division operates as an independent group which gives us the freedom to evaluate investments through a wide lens and make tactical investment decisions across our asset allocation portfolios. The process essentially involves three sets of capabilities.

First is long-term strategic portfolio design: constructing a portfolio that potentially gives you the highest expected return for the exposure to loss that you are willing to bear. Next is tactical asset allocation, which looks at the relative valuations of various asset classes over a 6- to 18-month horizon, their momentum, and various macro and market factors to make adjustments around the strategic design—aiming to add value over time.

The third component is security selection: We allocate to actively managed strategies because we believe our equity and fixed income portfolio managers can deliver alpha over time. We're increasingly developing strategies that select securities across asset classes and actively look for relative value across all markets globally. These are not big, sudden changes but incremental changes, because we are starting from a strong foundation in portfolio construction.

INCSS: Any recent examples of how the approach is working and how it has evolved?

CHRIS DILLON: Late last year, when many market observers were expecting the Federal Reserve to raise rates throughout 2019, our multi-asset team believed that the Fed would realize how much global liquidity was receding as a result of a higher U.S. policy rate as well as the contraction of its balance sheet. With less liquidity and other considerations negatively affecting U.S. equity markets during the fourth quarter, and with inflation concerns quickly receding as the year closed, we felt that a Fed pause was likely in 2019. This view then allowed our team to raise our equity market weights at the lows of late December. With the market up over 25% as May 2018 opened and that Fed pause priced in, we have since pulled equities back to an underweight, which we think makes even more sense with escalating trade tensions between the U.S. and China. ■

The views contained herein are those of speaker as of May 2019 and are subject to change without notice; these views may differ from those of other T. Rowe Price associates.

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401(k) advice from insurance agents may be illegal

BY GREG IACURCI

ROLLING MONEY out of a 401(k) plan to fund an insurance product, like an annuity or life insurance policy, can be a difficult, tense decision for retirees. After all, seniors are earmarking a large chunk of their nest egg.

These rollovers are often initiated at the advice of an insurance agent. And with increased frequency, the agents making those recommendations are breaking the law.

"We've seen an increase in Vermont, and I think across the country as well," said Michael Pieciak, president of the North American Securities Administrators Association and commissioner of the Vermont Department of Financial Regulation.

A recommendation to roll over money from a 401(k) plan involves two separate transactions: advice to take a distribution from the retirement plan and advice to park that money elsewhere.

Non-securities-licensed insurance agents — those who hold an insurance license but not a securities license — can recommend the second part of the equation without a problem. The first part is where these agents break state and federal law, according to regulators and attorneys. Agents may be able to legally recommend rolling from a cash or insurance position in a 401(k), but not from a securities product like a mutual fund, where the bulk of 401(k) assets are held.

The law applies not just to 401(k) rollovers but to all securities transactions, meaning recommendations to exchange variable annuities or variable universal life insurance policies may also be legally unsound.

LARGELY UNPUNISHED

While regulators, primarily at the state level, have been monitoring this activity and enforcing their rules, experts say such actions are rare and that culprits largely go unpunished.

Micah Hauptman, financial services counsel at the Consumer Federation of America, said this type of activity is often detrimental to investors, especially when retirees are advised to roll out of low-cost 401(k) investments into an expensive insurance product with a long lock-up period that's not in the customer's best interest.

$415B

AMOUNT INVESTORS ROLLED OUT OF 401(K) PLANS IN 2016

Absent increased scrutiny, the situation is poised to get worse as baby boomers continue hurtling into retirement. In 2016, investors rolled $415 billion out of 401(k) plans, according to a report by the Limra Secure Retirement Institute. The group estimated that figure would swell to $466 billion by the end of 2019.

"This is where a lot of harmful activity and harmful recommendations occur," Mr. Hauptman said. "It's an unpoliced market."

Securities and Exchange Commission rules forbid non-securities-licensed individuals from engaging in securities transactions. That gives the SEC power to bring a civil enforcement case against non-securities-licensed insurance agents, perhaps in the form of a fine, disgorgement or cease-and-desist order, said Christopher Petito, attorney at Willkie Farr & Gallagher.

However, the SEC doesn't go after agents for such violations, or will only do so in extremely rare circumstances, experts said. An SEC spokesperson didn't return a request for comment.

LIMITED AUTHORITY

The Financial Industry Regulatory Authority Inc. has limited authority in these circumstances. The group can go after the broker-dealer that executes a faulty rollover transaction, but not the non-securities-licensed individual who made the recommendation.

This leaves much of the enforcement up to the states. A handful have paid particular attention to this issue. For example, Iowa's insurance division issued a bulletin in 2011 laying out the licensing requirements for certain insurance and securities activities. Tennessee and Vermont subsequently issued similar guidance, in 2013 and 2018, respectively.

"It's [a problem] that regulators at the state level are working to expose and mitigate," Mr. Pieciak said.

Part of the problem, experts said, is the law's gray area. While states have tried outlining permissible and impermissible activities for insurance agents, the lines aren't always black and white, Mr. Pieciak said. Insurance companies accepting rollover money also bear some of the responsibility.

Many insurers have processes to review the source of funds and suitability of the transaction for the investor, Mr. Pieciak said. However, "you can only put so many processes in place at a company in terms of verifying information from a producer and providing that verification," he said.

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BLOOMBERG

Retirement bill would allow tax-free planning

BY MARK SCHOEFF JR.

RECENTLY introduced legislation includes tax incentives for financial planning related to retirement.

The provision, contained in section 113 of the Retirement Security and Savings Act, would permit employees to use pre-tax dollars through employer-based retirement programs to pay for investment advice regarding qualified plans. It also would allow retirement advice for investments held outside such arrangements.

The feature is one of more than four dozen in a bill written by Sens. Robert Portman, R-Ohio, and Ben Cardin, D-Md., that was released last month. The legislation is designed to help people save more for retirement and expand the number of businesses that sponsor plans.

The fact that the lawmakers promote financial planning around retirement drew praise from Chris Iacovella, chief executive of the American Securities Association, which represents regional financial services firms. The group highlights such policy in its own agenda.

"It's really good Congress is recognizing how important a sound financial plan is in times of volatility and uncertainty," he said.

But it's unclear how broadly the provision would apply and how it defines financial planning services, according to Maureen Thompson, vice president of public policy at the Certified Financial Planner Board of Standards Inc. Regardless, she's happy to see it's been included in an extensive retirement savings bill.

"We think it's important that Congress is focusing on the issue of retirement planning and looking at ways it can be more accessible," Ms. Thompson said. "It would be a helpful thing for people saving for retirement."

WHAT STANDARD OF CARE?

David O'Brien, principal at Evolution Advisers, would like to know more.

"We need to understand what services are eligible and the standard of care under which financial planning must be provided," he said. "Consumers should be able to know that the services will be delivered by a CFP professional and with a fiduciary duty."

Spokespeople for Mr. Portman and Mr. Cardin did not respond to requests for comment.

The bill was introduced just before another comprehensive retirement savings measure, the Setting Every Community Up for Retirement Enhancement (SECURE) Act, received overwhelming House approval last month.

Sens. Charles Grassley, R-Ia., and Ron Wyden, D-Ore., chairman and ranking member, respectively, of the Senate Finance Committee, have introduced the Retirement Enhancement and Savings Act, which closely resembles the SECURE Act, and have expressed a desire to move quickly on the House bill.

The Portman-Cardin measure could become part of the effort to move retirement security legislation, according to Mr. Iacovella.

"It's a natural complement to those bills," he said. The 417-3 House vote for SECURE "gives the Senate a lot of leeway to include a variety of bipartisan measures."

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LPL CUTS CHARGES

CONTINUED FROM PAGE 4

ETFs to 569, almost double what it currently offers.

LPL is focused on recruiting, and the reduction in charges on ETF fees on its corporate SAM and SWM platforms could make it more attractive. Some LPL advisers over the years also have questioned the pricing of certain mutual fund transactions, with trades of some funds more expensive than others.

"What you are seeing is us expanding our appeal across a broader market," said Rob Pettman, LPL executive vice president of products and platforms, in an email. "Our focus is on enhancing our advisory platforms overall and giving advisers the ability to choose which platform will work best for their clients and their business model. We think it's important to offer competitive platforms across affiliation models."

LPL in January said it was reducing fees for advisers with $25 million to $50 million in assets held in custody on the proprietary SAM platform to a flat eight-basis-point administrative fee.

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MID-CAP FUNDS

CONTINUED FROM PAGE 2

growth funds and a 12.7% increase in the S&P 500 Index, is a pleasant if somewhat mysterious surprise.

"I'm surprised and I'm not surprised, because we don't pretend to know when these categories are going to outperform other asset classes," said Edward Snyder, co-founder and president of Oaktree Financial Advisors, which has been equal-weighting mid-cap equities in client portfolios.

ALL ABOUT DIVERSIFICATION

"I honestly don't know why they're outperforming this year," he said. "But I don't need to know why. That's what diversification is about."

The mid-cap category's rally this year compares with its decline of 6.7% last year, when the S&P lost 4.4%.

The large-cap growth fund category was down just 2.1% last year, which made a case for active management in times of market volatility.

Small-cap growth funds are wedged between mid- and large-cap funds, with a 16.2% gain this year, and a 5.8% decline last year.

"Active managers that stayed risk-on into 2019 have been rewarded," said Todd Rosenbluth, director of mutual fund and ETF research at CFRA.

The mid-cap category is often overlooked or at least overshadowed by the higher-profile large-cap category and the generally higher-performing small-cap category. Its performance this year underscores the benefits of full diversification.

18.2%

PERFORMANCE OF MID-CAP GROWTH CATEGORY SO FAR IN 2019

'GET IGNORED'

"We know that mid-cap equities tend to get ignored by investors despite some very strong characteristics," Mr. Rosenbluth said. "This year the earnings projections have been better for mid-caps, and, in many cases, they also pay dividends, which offers an important income component when volatility strikes."

The standout in the mid-cap category both this year and over the trailing 12 months is the $815 million Morgan Stanley Institutional Discovery Fund (MACGX).

The fund, which has a 1.02% expense ratio and an 86% annual turnover rate, is up more than 33% this year and has a 12-month trailing return of 26.2%. Perhaps most impressive is the fund's 11.8% gain last year, which followed a 38.9% gain for 2017.

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SEC THORNY ISSUE

CONTINUED FROM PAGE 3

In pages 199 through 209 of the Reg BI proposal, there is a discussion of the "solely incidental" issue.

"We believe it is appropriate for the commission to again consider the scope of the broker-dealer exclusion with regard to a broker-dealers' exercise of investment discretion in light of both proposed Regulation Best Interest and the proposed Relationship Summary," the proposal states.

'INFORMAL INTERPRETATION'

Ron Rhoades, assistant professor of finance and director of the financial planning program at Western Kentucky University, is concerned the SEC will give brokers wide latitude to give advice without being fiduciaries.

"I think they want to formalize the informal interpretation they've had for several years," Mr. Rhoades said. "Pretty much any advice is acceptable — any level of advice does not require registration as an investment adviser."

Joel Wattenbarger, partner at Ropes & Gray, said the SEC is poised to weigh in on questions such as whether brokers can still fall under the "solely incidental" language if they exercise investment discretion on a temporary or limited basis.

"These are areas where the industry would like some clarity," he said.

The June 5 agenda says the SEC will "consider whether to publish" its interpretation of "solely incidental." It doesn't appear the agency will take comments on it.

"It certainly suggests they're proceeding with a final interpretation without engaging in a proposal," Mr. Wattenbarger said.

SEC chairman Jay Clayton asserts Reg BI raises the broker standard above suitability. Under the proposal, brokers and investment advisers would continue to be regulated separately, with advisers adhering to a fiduciary duty.

> **"THESE ARE AREAS WHERE THE INDUSTRY WOULD LIKE SOME CLARITY."**
>
> JOEL WATTENBARGER, PARTNER, ROPES & GRAY

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HIGHTOWER GROWTH

CONTINUED FROM PAGE 2

charge of a business that is far different from when the firm started in 2007. Back then, it was primarily focused on recruiting wirehouse brokers to operate as partners under the HighTower banner.

"What's changed over the last 16 months is the long-term ownership of the advisers to HighTower," Mr. Oros said.

In January 2018, a few months after private-equity shop Thomas H. Lee Partners said it was buying a big stake in the firm and also infusing $100 million of capital into the business, HighTower owned just 23% of the advisers' practices and revenue, Mr. Oros said.

That has increased substantially as HighTower is now in the RIA acquisition business. It now has 98 advisory businesses in 33 states.

A private company, HighTower does not disclose financial data including total annual revenue. But the firm is nearly complete in its change from a partnership to an acquisition machine.

"The business was originally partnerships who always had the right to get up and leave," he said.

After Thomas H. Lee's investment, HighTower management went back to the majority of the advisers and started talking to them about making a commitment to the firm for the long term, Mr. Oros said. Now it owns 80% of revenue, and over the next couple of months, expects to increase that percentage to 88%.

He declined to give the terms that HighTower is paying advisers for their practices, except to say that each of these conversations "is like a mini M&A transaction.

"Every deal is different," Mr. Oros said. "It's a split between cash and equity. We try not to be cookie cutter. Advisers see the long-term value here, and they want to participate in the equity. We hear that loud and clear."

Mr. Oros added that the other 12% of remaining revenue is split evenly between other partners the firm is talking to about buying out and advisers who pay a fee or rent the HighTower platform.

NATIONAL FIRM

With $68.6 billion in assets under advisement, HighTower is a national wealth management firm, he said.

"And the community is committed to each other for the long haul," Mr. Oros said.

BOB OROS

HighTower has made two acquisitions of large RIA firms this year, one in southern California and the other in Memphis, and expects more to come over the summer, he said.

"We have built a robust mergers and acquisition group with a dozen people," Mr. Oros said. "There's no doubt the market is seeing lots of activity around M&A."

But HighTower is also focused on growth of current advisers, he said. "The strategy is to maximize the organic growth potential of the firm," Mr. Oros said. Organic growth last year was 8% and annualized growth this year is 9%.

HighTower wants to provide scale and services, he said, such as its own TAMP — turnkey asset management program — and trust company.

"That's all on an optional basis," Mr. Oros said. "If the adviser wants [to leave their] brand as it is today, we can work with that. We don't want to change them."

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