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THE ADVICE INDUSTRY'S AI OBSESSION

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Two Chicago RIAs combine into $8 billion firm.
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EDITOR'S NOTE

Inviting you IN

Whenever I'm asked what led me to join the team at *InvestmentNews*, I always point to the strength of its community.

When I was on "the outside," the combination of top-notch journalists, leading industry voices, and a dedicated reader base shone bright. From Mary Beth Franklin's indispensable work on Social Security, to Ed Slott on taxes in retirement, to Michael Kitces' look at FinTech, and many more voices, *InvestmentNews* delivers the expertise you need — which complements the excellent reporting and analysis done by our journalists: Bruce Kelly, Ryan W. Neal, Mark Schoeff Jr. and Jeff Benjamin.

GEORGE B. MORIARTY

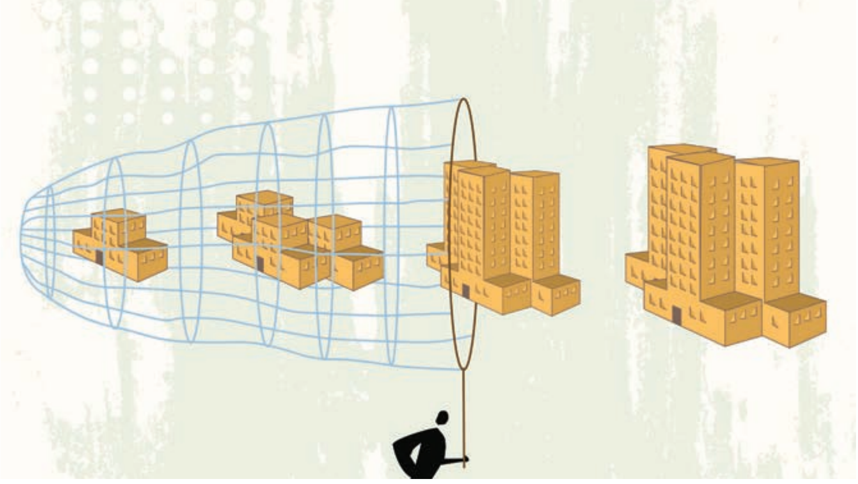
Then I walked in the door and saw that my view from outside understated just how powerful this community really is. The conversations in comment streams, the discussions and presentations at our events, and the insightful feedback we receive enrich the entire *IN* community.

So, you may say: "Great, George, you like community. What's your point?"

Well, Dear Readers, one of my primary goals for this year is to enhance the collective wisdom we already offer by more regularly including *IN* Voices in the weekly issues. In the Jan. 6 issue, we shared reader comments on the pros and cons of the SECURE Act. Next week, Mary Beth Franklin will address a slew of readers' questions about claiming strategies for Social Security.

We invite you to share your thoughts with us. Email your ideas to me or give me a call, if you'd prefer. You can even tweet. As the Twitterati say: My DMs are open :)

gmoriarty@investmentnews.com
Twitter: @geomoriarty



Envestnet takes stake in Dynasty Financial Partners

BY RYAN W. NEAL

TURNKEY ASSET management platform and adviser technology giant Envestnet is making a minority investment in registered investment adviser network Dynasty Financial Partners to launch a new product it calls the Advisor Services Exchange.

> **KEY POINTS**
> - The newly formed Advisor Services Exchange helps advisers focus more on clients.
> - The firms didn't specify when the exchange would launch.

With the Exchange, Envestnet clients can access some of the business development support Dynasty provides its members, including access to growth capital, business management tools, marketing and outsourced chief financial officer services.

When asked for details on the investment, a spokesperson on behalf of Envestnet said, "This is a non-material minority investment for Envestnet, and we don't have further details to share."

FOCUS ON CLIENTS

By offloading business development tasks, Envestnet head of wealth strategy, Aaron Bauer, believes the Exchange will help advisers focus more on clients.

"Through the Advisor Services Exchange, we believe Envestnet's clients will be able to save time on day-to-day business management activity, and bolster their services to deliver comprehensive, unified advice," Mr. Bauer said in a statement.

The firms did not specify when the exchange would launch, or how much it will cost advisers.

Envestnet serves more than 100,000 advisers at some of the largest banks, broker-dealers and RIAs. Dynasty counts 45 independent RIAs on its network, managing a cumulative $40 billion in client assets.

The two firms have long enjoyed a close partnership.

"When we founded Dynasty over nine years ago, Bill Crager and Envestnet were there for us in the early days and have been with us every step of the way as we have grown the business," Dynasty CEO Shirl Penney said in a statement.

INSURANCE EXCHANGE GROWS

Envestnet also announced the addition of O.N. Investment Management Co. to its Insurance Exchange, which provides advisers access to annuities on the Envestnet wealth management platform, and added TD Bank, Nationwide, First Citizens Bank and LightStream to its Credit Exchange, which enables advisers to offer pre-qualified loans to clients.

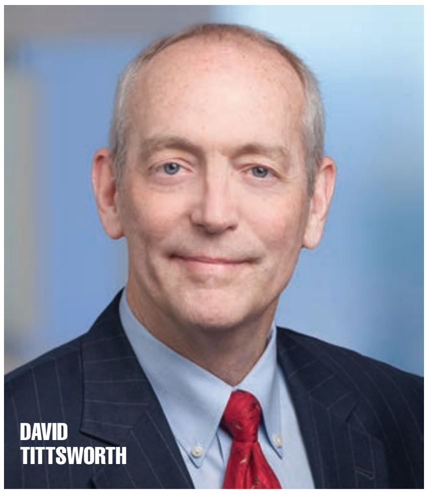
rneal@investmentnews.com
Twitter: @ryanwneal

David Tittsworth, longtime IAA leader, dies at 66

BY MARK SCHOEFF JR.

DAVID TITTSWORTH, the longtime head of the Investment Adviser Association, died last Wednesday.

In a note to its membership, IAA Chief Executive Karen Barr said Mr. Tittsworth, 66, had been in treatment for multiple myeloma, a type of blood cancer.



DAVID TITTSWORTH

"David will be remembered as a passionate, dedicated, articulate and effective advocate for the investment advisory community and for the importance of fiduciary advice," Ms. Barr wrote. "Our organization — indeed, the entire investment advisory community — owes a debt of gratitude to David."

One of the highlights of Mr. Tittsworth's 18-year career as IAA chief executive occurred in June 2012, when he was one of the witnesses at a hearing of the House Financial Services Committee.

The subject of the meeting was a bill introduced by the panel's chairman at the time, Rep. Spencer Bachus, R-Ala., that would have shifted regulation of investment advisers from the

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Finra outlines questions firms must answer on Reg BI

BY MARK SCHOEFF JR.

FINRA GAVE ITS MEMBER brokerage firms a spoiler alert last Thursday regarding the implementation of investment-advice reform this summer.

In its annual examinations priorities letter, the broker self-regulator outlined a list of nine questions it will use when reviewing whether a firm is adhering to Regulation Best Interest, a rule the Securities and Exchange Commission approved last year to raise the broker advice standard above suitability.

As the SEC did in its examination priority letter last Tuesday, Finra led with Reg BI, which must be implemented by June 30. Finra made it clear that Reg BI is at the top of its agenda.

NO GUESSING

But in contrast to the SEC, Finra provided more specific guidance on what it expects to see from firms. Brokerages won't have to wonder what to expect when Finra knocks on their doors to examine Reg BI compliance.

For instance, Finra will ask firms whether they have procedures and training in place to assess whether recommendations, including guidance on what type of account to open, are in a customer's best interest. Finra will probe whether the firm and its registered representatives consider costs and "reasonably available alternatives."

Finra will also assess firm policies on tackling conflicts of interest and delivering a new disclosure document known as Form CRS.

"The questions FINRA has laid out are comprehensive and cover the areas that firms should be addressing as they develop their policies, procedures, training and disclosure," said Emily Gordy, a partner at McGuireWoods and a former Finra senior vice president of enforcement.

EXAMS AHEAD

In the first half of the year, Finra said it will ask firms about the challenges they're facing with Reg BI, as it's known. But after June 30, compliance exams will begin.

"Rather than waiting, they're coming in early and saying we want to make sure you're ready to go on Day 1," said Marlon Paz, a partner at Mayer Brown. "It is

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REG BI COMPLIANCE

SEC won't offer any grace period for Regulation BI compliance

BY MARK SCHOEFF JR.

THE SECURITIES and Exchange Commission doesn't plan to let any grass grow under its feet when it comes to checking on the implementation of investment-advice reform by brokers and registered investment advisers.

In its annual examination priorities document released last Tuesday, the SEC's Office of Compliance Inspections and Examinations said it will check with brokers on their progress in implementing Regulation Best Interest, which is designed to strengthen the broker standard of care, before the June 30 deadline.

In July, OCIE will immediately start to probe compliance with Reg BI as well as with the customer relationship summary known as Form CRS, which is meant to illustrate for clients the differences in fees and services between brokers and advisers.

"After the compliance dates, OCIE intends to assess implementation of the requirements of Regulation Best Interest, including policies and procedures regarding conflicts dislclosures, and for both broker-dealers and RIAs, the content delivery of Form CRS," the priorities document states.

FAST FOCUS

The SEC approved the advice-reform rulemaking package containing Reg BI and Form CRS last June. Often when a new rule goes on the books, the SEC provides a grace period before examining for it, said Ivan Harris, a partner at Morgan Lewis.

"We typically don't see such an immediate focus on compliance with a new rule as we're seeing with Reg BI," Mr. Harris said. "Having OCIE focus on it is only going to put more pressure on firms to make sure they meet the compliance deadline. This sends a clear message that firms are expected to be laying the groundwork now for the effectiveness of the rule this summer."

SEC examinations this year will also target electronic investment advice, often called robo-advisers.

"The increasing rate of new formations of robo-advisers is a factor that's leading to the increased SEC focus," said John Lore, managing partner at Capital Fund Law Group.

When it probes automated investment

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Chasing big commissions is back in 2020

As 2020 opens a new year and decade, the broad financial advice industry is working to make it easier for brokers and financial advisers to sell high-priced, high-commission, complex products to clients, with the focus on tapping retirement accounts that hold trillions of dollars in investor savings.

Sadly, this is the opposite direction in which the financial advice industry needs to move. It's as if the industry wants to abolish the memory of the pain and destruction clients suffered in the wake of the 2008 financial crisis and the role played in that disaster by advisers who sold esoteric products that blew up, from hedge funds to real estate investment trusts.

As a result, the public's esteem and respect for financial advisers sank to new lows.

JUMP-STARTED BY DEREGULATION

Such alternative investment or complex products usually pay salespeople the steepest commissions. And it is apparent the financial advice industry, under a Republican regime that preaches deregulation, wants to jump-start the chase for commissions, even as many of the

CONTINUED ON PAGE 22

LPL integrates Envestnet MoneyGuide with ClientWorks

BY RYAN W. NEAL

LPL FINANCIAL IS integrating Envestnet MoneyGuide with ClientWorks Connected, improving the data flow between the popular financial planning software and LPL's brokerage platform.

With the integration, LPL advisers using MoneyGuide will be able to see real-time account values down to individual position levels and see real-time probabilities of the financial plan succeeding. Financial planning reports are automatically ported back to ClientWorks.

The integration will make it easier and more efficient to create and deliver planning, said Burt White, LPL managing director of investor and investment solutions, in a statement.

"The demand for personalized advice continues to rise, making it more important that advisers have access to technology resources that can help them evolve their practices and increase value with clients," Mr. White said.

FINTECH TRIFECTA

This joins MoneyGuide with eMoney and an in-house solution as financial planning products that are integrated with ClientWorks. According to *InvestmentNews'* 2019 technology survey, nearly two-thirds of financial advisers use either eMoney or MoneyGuide for financial planning.

Robert Pettman, LPL executive vice president of investment product and advisory platform management, said the decision to include MoneyGuide was driven by LPL's strategy to offer advisers choice with technology.

"We're going to offer curated choice, but do it with deep integration that allows advisers to do it themselves," Mr. Pettman told *InvestmentNews*. "[MoneyGuide is] one of the more popular financial planning solutions that is available on the market today that we feel has a tremendous quality associated with it."

While a lot of people talk about traditional brokers needing to embrace financial planning, too many firms make it difficult, he added. Advisers don't want to be forced to learn a new product simply because their brokerage doesn't support one with which they are already comfortable.

"There are always firms pointing their fingers at advisers and saying they need to change," Mr. Pettman said. "It's up to the firms to change their infrastructures and make it easy for advisers to do these things."

NETFLIX-STYLE INTERFACE

The integration supports the full range of MoneyGuide's product suite, including the new Blocks feature that allows advisers to offer small pieces of financial planning to clients to do on their own time in a Netflix-style interface. Advisers can also use MoneyGuide's client portal or one of its more advanced programs like MoneyGuidePro or MoneyGuideElite.

VITAL FOR EFFECIENCY

Jonathan Bednar, an adviser with LPL-affiliated Paradigm Wealth Partners, said integrations like this are vital to make his practice more efficient. His firm currently uses eMoney because of the integration with ClientWorks, but has used MoneyGuide in the past.

"Now that Moneyguide Pro is integrated, the live feeds that it will provide the planning software will help keep projections and plans more up to date and with fewer broken links," Mr. Bednar said in an email. "Accurate data is very important with financial planning — it is not always perfect, but allowing this feed will help with issues like keeping data up to date and single sign-on."

Seacoast Investment Services Vice President Dennis Nolte said his firm began using MoneyGuidePro in the new year, and he believes the integration will make it much easier to download old information when joining LPL.

"With MGP now able to offer integration services (like eMoney) for assets held off the platform, MGP looks more attractive than it did last year," Mr. Nolte said in an email, adding, "And it's not owned by Fidelity!"

LPL is investing heavily in improving its technology for advisers. LPL CEO Dan Arnold believes improvements like integrations and paperless account opening can give advisers back at least an hour of each workday.

rneal@investmentnews.com
Twitter: @ryanwneal

Brokerage industry opposes Massachusetts fiduciary rule

BY MARK SCHOEFF JR.

BROKERAGE AND INSURANCE industry representatives last Tuesday criticized a Massachusetts proposal that would impose fiduciary duty on all financial advisers in the state, but investor-protection advocates are confident the state won't back down under industry pressure.

Massachusetts Secretary of the Commonwealth William Galvin held an all-day public hearing last Tuesday in Boston on the advice-reform proposal, which was first released in June. A revised proposal was released last month, and a comment period ended last Tuesday.

The proposed regulation would require all brokers, investment advisers and investment adviser representatives to "provide advice based on what's best for the customer or client, without regard to the interests of any other person," according to a comment request.

The measure would apply to any recommendation of investment strategy, the opening of accounts or the purchase of any security commodity or insurance product. Brokers, who currently adhere to the suitability standard, would be subject to the fiduciary duty that already governs investment advisers "when the broker-dealer or agent is acting like an investment adviser," the comment request states.

WILLIAM GALVIN

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diversity&INCLUSION

D&I takes work and courage

BY FRANK PARÉ

While I am not an expert on diversity and inclusion or an authority on what it will take to achieve greater D&I in our profession, I have had many discussions on the topic during my 30-year career and have studied some business cases and surveys.

I've never had to implement or lead a D&I strategic initiative to test my ideas, though; I'm offering my thoughts based on what I've observed in the hope that it might help move us from talking about diversity and inclusion, to doing it. In the words of Amelia Earhart: "The most effective way to do it, is to do it." It's important first to acknowledge and recognized the many individuals within our profession who have acknowledged the need for greater diversity within the profession and have worked tirelessly to affect change. However, I think they would also agree that there is still work to do, and it will take even greater courage to move forward.

William A. Galston, of the Brookings Institution, was recently quoted as saying, "There's a reason why 'Profiles in Courage' is a very short book. Courage is not the norm. It's the exception." Mr. Galston's quote applies to the fact that we've had some courageous folks working to increase diversity and inclusion in our profession, but we need more people to join to break through the status quo.

A 2018 survey

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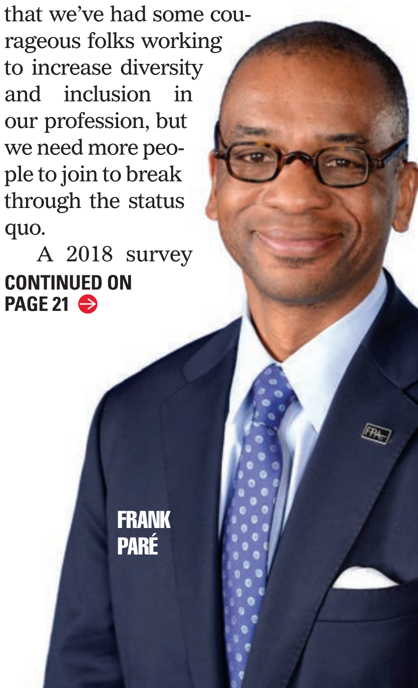

FRANK PARÉ

OPINION

EDITORIAL / LETTERS / OP-ED / GUEST BLOGS

Will Finra's rogue broker rule go far enough?

THE SECURITIES AND EXCHANGE Commission is about to consider a long-awaited rule proposal from the Financial Industry Regulatory Authority Inc. aimed at discouraging the hiring of registered representatives with lengthy disciplinary histories.

The discouragement would come in the form of higher capital requirements for broker-dealers that hire an above-average number of reps with a record of misconduct. Finra proposed such a rule last May, put it out for public comment over the summer, and voted in early December to forward its proposal to the SEC for approval.

Unfortunately, the final proposal — which reflects revisions Finra made based on the public comments received — has not been released to the public. Let's hope it goes far enough to protect the investing public and is sufficiently rigorous to put a measurable dent in the number of fines, censures and bars that Finra imposes on the registered representatives it oversees.

The securities industry often talks about the relatively low number of "bad apples" among the roughly 600,000 registered representatives in the U.S. On a sheer percentage basis, that may be true. But readers of *InvestmentNews* are all too aware that disciplinary actions and letters of acceptance, waiver and consent involving reps who churned accounts, forged client signatures or sold inappropriate and unsuitable investments are not especially rare. In fact, if the problem of rogue brokers was truly insignificant, there would have been no reason for Finra to propose its rule.

Aside from the industry's ethical obligation (as well as its own enlightened self-interest) to root out bad actors, there is also the public policy case. With the responsibility for providing sufficient income in retirement now falling almost entirely on individuals themselves, the financial professionals who provide guidance to retail investors saving and investing for their future have a critical role in the retirement security of millions of Americans. Because of their responsibility, they should be held to the highest standards of conduct.

To be sure, a rule aimed at hiking the capital requirements for firms that make a practice of employing brokers with red-dot-studded BrokerCheck records would hit where it hurts — in the corporate pocket. Hopefully, higher capital requirements and the inability to make withdrawals from those accounts without Finra's approval would make smaller firms think twice about hiring a questionable producer. If nanny-type rules cause disreputable firms to clean up their act or go out of business, so much the better for the investing public.

But the rogue broker problem won't go away if it is regarded solely as an issue among smaller firms. Many representatives with eyebrow-raising disciplinary histories are employed by or affiliated with midsize and large broker-dealers. Because of the size of the firms, however, these brokers constitute a small percentage of the total. As a result, the new rule — along with its capital requirements — likely would have little effect on any but the smallest firms.

THE PROBLEM WON'T GO AWAY IF IT'S REGARDED SOLELY AS AN ISSUE FOR SMALLER FIRMS.

Since Finra is a self-regulatory body, it is understandable and appropriate that the interests of the broker-dealer community are incorporated in its decision-making. The SEC, however, is charged with supervising capital market participants and the securities and investment instruments market, and protecting the investing public.

Because of its mandate, the SEC should review Finra's proposal carefully, with its public protection role in the forefront of its thoughts. If the agency believes there are ways to more fully protect investors from rogue brokers than those offered in the Finra proposal, it should act accordingly.

WE WANT TO HEAR FROM YOU. Send a letter to the editor with your thoughts about a story we've published, and include your name, title, company, address and telephone number for verification. Keep your letter under 250 words, and email it to George B. Moriarty at gmoriarty@investmentnews.com. All letters will be edited.

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Chief Executive Officer
Christine Shaw, cshaw@investmentnews.com

EDITORIAL
Chief Content Officer: George B. Moriarty
gmoriarty@investmentnews.com
Managing Editor: Paul Curcio
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212-210-0476
Business Solutions Manager:
Lauren DeRiggi, lderiggi@investmentnews.com
212-210-0154
Business Solutions Manager:
Judith Kelly, jkelly@investmentnews.com
212-210-0167
Business Solutions Manager:
John Shaughnessy, jshaughnessy@investmentnews.com
212-210-0112
Business Solutions Manager:
Jason Anciulis, janciulis@investmentnews.com
312-280-3115
Account Executive: Michelle Richard
mrichard@investmentnews.com, 212-210-0238
Manager US Event Sales:
Dan Rubinetti, drubinetti@investmentnews.com
212-210-0432
Business Solutions Manager & U.S. Events:
Sabrina Straub, sstraub@investmentnews.com
646-437-7956
Reprint Manager: Laura Picariello,
lpicariello@investmentnews.com 732-723-0569
Sales Operations Manager: Letitia Y. Buchan,
lbuchan@investmentnews.com 212-210-0451

ADVERTISING OPERATIONS
Head of Digital Advertising Operations:
Berta Franco, Berta.franco@bonhillplc.com
Sr. Digital Advertising Operations Manager:
Valdimir Severe, vsevere@investmentnews.com
Digital Campaign Manager:
Jess Friedman, jfriedman@investmentnews.com
Digital Ad Operations Campaign Manager:
Kimberly Hall, khall@investmentnews.com

AUDIENCE, MARKETING AND EVENTS
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Director of Events and Integrated Solutions:
Josh Brous, jbrous@investmentnews.com
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Social Media Manager: Scott Kleinberg
Content Producer: Letitia Bow

Executive Assistant to the CEO:
Irma Rodriguez, irodriguez@investmentnews.com
212-210-0430

PRODUCTION
Prepress/Production Director: Simone Pryce
Production Manager: Paul Vaccari

INVESTMENTNEWS OFFICES
Headquarters: 685 Third Avenue, New York, NY 10017-4024
Bureau office: Washington: 601 13th Street, N.W. Suite 900 South, Washington, DC 20005

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AI IN 2020:

ARTIFICIAL INTELLIGENCE? OR JUST PLAIN ARTIFICIAL?

AI IS ONE OF THE BUZZIEST WORDS IN FINTECH. ARE THE AI CLAIMS REAL OR IS OUR INTELLIGENCE BEING INSULTED?

BY RYAN W. NEAL

IN RIDLEY SCOTT'S 1982 FILM "BLADE RUNNER," HARRISON FORD PLAYS A COP TASKED WITH HUNTING DOWN "REPLICANTS" —ARTIFICIALLY INTELLIGENT ANDROIDS NEARLY INDISTINGUISHABLE FROM HUMANS. SET IN A DYSTOPIAN VERSION OF LOS ANGELES, THE ORIGINAL FILM LOOKED INTO WHAT WAS THEN THE DISTANT FUTURE: NOVEMBER 2019.

While some facets of the sci-fi classic have come to pass, such as voice-command technology, and others are currently unfolding, such as the destructive effects of climate change, the dramatic AI advances that fool Harrison Ford still feel a long way off.

But that hasn't stopped AI from becoming one of the buzziest terms thrown around by technology and financial services experts. Fintech startups use the word to make products appear cutting-edge and established firms find they have to offer "AI" to remain competitive.

OUTRIGHT VAPORWARE

The products they are referring to as AI, though, are often little more than new data models or even just outright vaporware — technology sold on a conceptual level that hasn't been built yet, according to many technology leaders in the advice industry.

"There are a lot of packages out there that are more 'artificial' than 'intelligence'," said Raj Madan, BNY Mellon Pershing's managing director

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of technology. "It's not AI, just pure data analytics."

The challenges facing the advice industry when it comes to implementing AI are less about obtaining AI technology, and more about firms not having the kind of data needed for AI to operate efficiently. That said, AI is expensive to invest in and hard to define.

For example, "object character recognition," in which a machine can interpret text or images from an image or document, used to be considered cutting-edge AI, but is now commonplace. That doesn't mean there aren't promising developments out there.

GENUINE APPLICATIONS

Unlike other buzzy technologies like blockchain that have few proven cases of actual usage in financial services, there are genuinely practical applications for AI in this industry, said Mark Casady, general partner and founder at fintech venture capital firm Vestigo Ventures.

"AI is very investable right now," Mr. Casady said. "There are a lot of smart entrepreneurs that know how to use it."

Misconceptions abound, though, about what the technology is capable of, he said.

Some advisers think AI can be an all-knowing tool that can instantly generate new business or cure whatever ails a firm.

Other advisers jump on the idea of AI without understanding the kind of data the technology requires.

"This one-size-fits-all, this magic AI pill you throw and all of a sudden it produces results, it's just not true," said Doug Besso, HighTower's chief technology officer. "You need data, it has to learn from something."

Because the technology can be complicated, it's often difficult for advisers to distinguish which technology has promising business applications, and which has only promises.

"There's a lot of noise in the ecosystem and it's not easy; I struggle myself. There's a lot of opaqueness from a technology standpoint," said Ashish Braganza, LPL Financial's executive vice president of market intelligence, data and analytic solutions. "A healthy dose of skepticism is always good."

Academia distinguishes artificial intelligence by two categories: weak AI and strong AI. Strong AI typically refers to a machine that can apply intelligence to any problem, though some academics reserve the term for a machine that can experience consciousness, if such a thing ever becomes possible.

Weak AI is a machine that implements a limited mind-simulating human cognition by automating tasks and analyzing data. If the tool is focused on solving a single specific problem, it's often called "narrow AI," which is how academics typically define most modern applications of AI.

Digital assistants like Siri and Alexa are examples of narrow AI. These don't rise to the level of weak AI because they operate within limited, predefined rules.

Of course, most advisers aren't interested in academic debates on the definition of AI, Mr. Madan said. They just want technology that will effectively help them manage their businesses and grow revenue.

For many technology decision-makers in the financial advice industry, the most important part of AI is machine learning — when a machine can improve its functionality over time and adapt to changing circumstances without manual human input.

"If you throw a ball at someone's head, you're going to hit them in the head if they don't know to move their head out of the way," Mr. Madan said. Once it learns to avoid the ball, that's a form of intelligence, whether it comes from a person, animal or machine, he said.

MACHINE LEARNING

Pershing has succeeded in using machine learning to improve its ability to detect anomalies, Mr. Madan said. Beyond the most obvious cases of fraud detection and data security, the firm is looking at how AI can help advisers pick up on irregular client behaviors.

For example, if a client is suddenly downloading all of their statements or has stopped logging in to check trades as they normally do, it could be the sign of an attrition event. At the very least, the AI could signal to advisers that it's time to check in with that client.

Mr. Besso said his firm is experimenting with Salesforce's Einstein AI platform to see if detecting anomalous behavior can help prevent a client from leaving an adviser. The idea is to use the Salesforce client relationship management system to look for strange behaviors, such as slower response times to meeting requests or not opening advisers' emails.

Once a client starts withdrawing funds, it's already too late, Mr. Besso said.

The hope is AI can detect a pattern before that point.

"Getting clients is hard, so saving them [from leaving] would be much better," he said.

Instead of the nebulous term "AI," Mr. Braganza said the technology team at LPL prefers "AAAI," referring to Assisted Augmented and Autonomous Intelligence, to better articulate what the technology is capable of doing. Assistance technologies refer to programs like Alexa and Siri, while autonomous represents various forms of robotic processes that automated traditionally manual workflows.

The augmented category is what Mr. Braganza is most excited about today.

These are prescriptive technologies designed to help advisers by finding and recommending new opportunities, like the Next Best Action engine introduced by Morgan Stanley in 2018.

LPL is currently testing a tool with its internal sales team that can tell representatives who they should talk to, why, and provide them talking points before the meeting, Mr. Braganza said. Late last year, the firm implemented a new algorithm that can recommend products to end clients.

rneal@investmentnews.com
Twitter: @ryanwneal

"THIS MAGIC AI PILL ... IT'S JUST NOT TRUE."

DOUG BESSO
CHIEF TECHONOLOGY OFFICER
HIGHTOWER

WHERE AI IS AT WORK

While there is still a lot of smoke and mirrors and empty hype in the artificial intelligence marketplace, there is some real functionality coming to advisers from several providers. Here are three examples of AI technology in production today.

MICRONOTES
Combining AI with survey technology, Micronotes takes consumer data at banks and identifies patterns to send targeted questionnaires, including queries such as "Are you thinking of buying a house over the next six months?"

Using targeted questions, the surveys get much higher response rates than traditional marketing efforts, and leads are automatically pushed toward the relevant salesperson, or financial adviser in the bank's wealth management division. The software could work in brokerages and RIAs as well as banks, according to Mark Casady, founder of Vestigo Ventures, an investor in Micronotes.

ENVESTNET
Using data aggregation and analytics from its purchases of Yodlee and Wheelhouse Analytics, Envestnet has an application for financial institutions it calls AI FinCheck. As part of its FinApps suite of financial wellness apps, the digital assistant measures and monitors consumers' financial picture across spending, saving, borrowing, investing and financial planning.

The tool will recommend personalized actions that the consumer can take to improve or automate aspects of their financial life. Advisers can provide AI FinCheck to clients to deepen relationships.

SALESFORCE
Launched in 2016, Einstein was one of the first customer relationship management technologies to feature an AI component. The technology gathers client data from the CRM and combines predictive analytics, natural language processing and machine learning to search for new opportunities, such as, which clients might be open to a new product or most likely to leave the adviser.

Einstein can help advisers understand how clients feel using sentiment analysis of client communications. The technology also connects to digital assistants from Google, Apple and Amazon to give advisers voice command functionality.

— Ryan W. Neal

$30T HOW MUCH WEALTH MILLENNIALS WILL INHERIT OVER THE NEXT 30 TO 40 YEARS.
SOURCE: BLOOMBERG NEWS

Medicare and HSA accounts don't mix

A colleague recently told me he had enrolled in Medicare Part A hospital insurance when he turned 65, even though he continues to have group health insurance coverage through our employer. Why not enroll, he asked. Medicare Part A is premium-free. There's no downside to the added coverage at no additional cost, right?

KEY POINTS

- Turning 65 has serious implications for how HSA accounts should be funded.
- No recourse to contest penalties imposed by the IRS.

Not quite.

Although you can continue to take tax-free distributions from a health savings account for qualified medical expenses at any age, you can no longer make tax-deductible contributions to an HSA for up to six months before you enroll in Medicare. It's an increasingly common dilemma for people who continue to work past age 65 when they first become Medicare-eligible.

HSAs offer a triple tax break when paired with a high-deductible health insurance plan. Contributions are tax-deductible, savings grow tax-free and distributions are tax-free when used to pay for qualified medical expenses during your working years and beyond.

HSA SCENARIOS

Stockpiling tax-free HSA funds is a great way to minimize future income taxes, and in some cases, reduce income-based Medicare premiums in retirement.

Normally, you must enroll in Medicare during the seven-month initial enrollment period that begins three months before your 65th birthday or face lifelong delayed enrollment penalties.

The only exception is if you continue to be covered by group health insurance policy from your current employer or your spouse's current employer. Group health insurance must cover 20 or more workers to qualify for the exception. Retiree health benefits don't count as insurance for Medicare purposes.

MARY BETH FRANKLIN

ONRETIREMENT

Many older workers, like my colleague, prefer to delay enrolling in Medicare penalty-free while they have group health insurance at work so they can keep funding their HSAs. In 2020, individuals can contribute up to $3,550 to an HSA or up to $7,100 for family coverage. In addition, individuals age 55 and older can contribute an extra $1,000 in catch-up contributions.

Once they retire, they can use their HSA funds tax-free to pay for all qualified out-of-pocket expenses not reimbursed by other insurance, such as deductibles, copays, co-insurance, dental and vision expenses, insulin and diabetic supplies, over-the-counter drugs and prescription medicines. They can also use HSA funds tax-free to pay for both Medicare Part B and Part D premiums, but not for supplemental Medigap premiums.

The big gotcha for older workers is Medicare's six-month retroactive rule.

Individuals who are receiving Social Security benefits will be automatically enrolled in Medicare Part A and B upon turning 65. Those not receiving Social Security must take steps to enroll in Medicare when they are first eligible or when their employer health insurance ends.

They should stop contributing to an HSA up to six months prior to enrolling in Medicare, according to Center for Medicare Advocacy, as the Internal Revenue Service will consider an individual to have had Medicare coverage during those retroactive months.

The Center for Medicare Advocacy offered this example: If you turn 65 in March 2020 and plan to retire in June 2020, stop contributing to your HSA in February 2020, the last month before Medicare eligibility begins. Or if you turned 65 in March 2019 but don't plan to retire until July 2020, you should have stopped contributing to your HSA in December 2019, six months before your employer-provided group health insurance ends and retroactive Medicare eligibility begins.

POTENTIAL FOR PENALTIES

So, what's the big deal? Ralph Coppola, a financial adviser with Ivy Wealth Management in Rhode Island, said he couldn't find any details on the amount of the potential penalty or how it would be applied.

"Medicare beneficiaries who continue to contribute funds to an HSA may face IRS penalties including payment of back taxes on their tax-free contributions and account interest, excise taxes and additional income taxes," according to the center's excellent article on HSAs and Medicare beneficiaries.

"Individuals have no recourse to contest the penalties after they've been imposed by the IRS," the center added. "However, steps can be taken to prevent penalties for ineligible contributions."

An individual beneficiary can withdraw any contribution made while ineligible for an HSA without penalty if they withdraw the contribution by the due date of the tax return for the year the contributions were made and withdraw any income earned on the withdrawn contributions and include the earnings on their tax return.

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

Mary Beth Franklin, a certified financial planner, is a contributing editor for InvestmentNews.
mbfranklin@investmentnews.com
Twitter: @mbfretirepro

Of promissory notes and Ponzi schemes

INVESTMENTNEWS

PROMISSORY NOTES and Ponzi schemes are the leading products or schemes that are likely to trap investors in 2020, according to the North American Securities Administrators Association.

Filling out the top five likely investor traps are real estate investments, cryptocurrency-related investments and social media/Internet-based investment schemes, NASAA said in a release.

The organization of state and provincial securities regulators in the United States, Canada and Mexico, said its top-five list is based on investor complaints, ongoing investigations and current enforcement trends.

The most common telltale sign of an investment scam, said Christopher W. Gerold, NASAA president and chief of the New Jersey Bureau of Securities, is an offer of guaranteed high returns with no risk, who noted that many of the threats facing investors involve private offerings, which are exempt from federal securities registration requirements and are not sold through public stock exchanges.

Millennial investors love ESG

INVESTMENTNEWS

A survey of millennial investors around the world found that some 77% of them say that environmental, social and governance concerns are their top priority when considering investment opportunities.

The global poll of 1,125 millennials, conducted by deVere Group, a British advisory firm, found that ESG concerns topped traditional factors such as anticipated returns (cited as most important by 10% of those polled), past performance (7%), risk tolerance (4%) and tactical allocation (2%) when making investment decisions.

Millennials are those roughly age 20 to 40.

InvestmentNews

WOMEN to WATCH

March 12, 2020 | Ziegfeld Ballroom | New York City

JOIN US ON MARCH 12, 2020 AS WE RECOGNIZE AND CELEBRATE WOMEN TO WATCH CLASS OF 2019.

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AIG Financial Distributors

Jessica Fitzgerald
Senior vice president
Morgan Stanley

Heather Goodbody
Senior vice president and private wealth adviser
Goodbody & Associates

Sylvia Guinan
First vice president - investments
Wells Fargo Advisors

Page Harty
Partner, Director of SignatureWOMEN
SignatureFD

Lori Johndrow
Founder and senior financial adviser
Johndrow Wealth Management

Renée Kwok
CEO
TFC Financial Management

Frieda Lewis
Chief commercial diversity officer
Broadridge Financial Solutions

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Judith Lu
Founder and CEO
Blue Zone Wealth Advisors

Judith Mcgee
CEO and chair
McGee Wealth Management

Elizabeth Bloomer Nesvold
Managing director and head of asset and wealth management
Silver Lane Advisors

Shannon O'Mara
Associate director of credit research
Loomis Sayles & Co.

Laila Pence
CEO and president
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Paige Pierce
CEO and president
The Pierce Group

Nancy Prial
Co-CEO and senior portfolio manager
Essex Investment Management

Katrina Scott
Chief investment officer
Mariner Wealth Advisors

Susan Theder
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Advisor Group

Christina Townsend
Director and head of platform strategy for advisor solutions
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Amy Yun Zhang
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Ex-Ladenburg chairman files suit to stop merger

BY BRUCE KELLY

A YEAR AFTER cutting ties with Ladenburg Thalmann Financial Services Inc., Dr. Phillip Frost, formerly its chairman and largest shareholder, has filed a suit against his old firm as it is poised to merge with Advisor Group.

KEY POINTS

- Dr. Phillip Frost seeks monetary damages.
- Mr. Frost seeks cancellation of the 2018 sale of a substantial portion of stock.

In a lawsuit filed last month, Mr. Frost and a trust he controls contend that Ladenburg's board's decision to enter the merger fails to take into consideration obligations owed to them as noteholders of the company, according to a filing with the Securities and Exchange Commission.

The lawsuit seeks monetary damages, a halt to the merger and the cancellation of the 2018 transaction in which Mr. Frost and his related trusts sold a substantial portion of their shares of common stock to Ladenburg, according to the filing.

WITHOUT MERIT

A spokesman for Ladenburg released the following statement in response to the lawsuit: "We believe that Dr. Frost's claims are without merit and we intend to defend them vigorously. Because this is an ongoing legal matter, we will not be commenting further at this time."

A spokesman for one of Mr. Frost's other companies did not comment.

Mr. Frost's is not the only lawsuit challenging the merger. The company faces five other shareholder suits.

ANNOUNCED IN NOVEMBER

Advisor Group, which is majority-owned by private equity manager Reverence Capital Partners, announced it was buying Ladenburg in November. Each share of Ladenburg's common stock will be converted into a cash payment of $3.50 a share. The total enterprise value of the deal is about $1.3 billion. Last December, Ladenburg said that it had repurchased close to 51 million shares from Mr. Frost. The selling price was $2.50 per share.

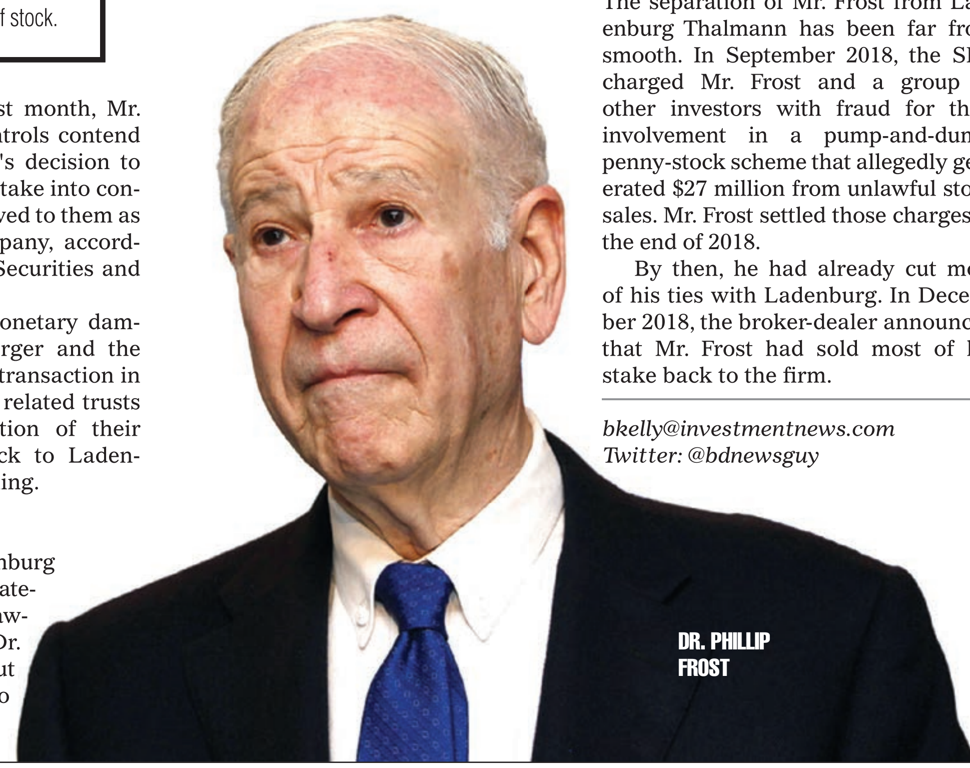
The combination of Adviser Group and Ladenburg Thalmann creates a giant firm with more than $450 billion in assets under management, $3 billion in annual revenues and nearly 11,500 advisers.

ACRIMONIOUS SEPARATION

The separation of Mr. Frost from Ladenburg Thalmann has been far from smooth. In September 2018, the SEC charged Mr. Frost and a group of other investors with fraud for their involvement in a pump-and-dump, penny-stock scheme that allegedly generated $27 million from unlawful stock sales. Mr. Frost settled those charges at the end of 2018.

By then, he had already cut most of his ties with Ladenburg. In December 2018, the broker-dealer announced that Mr. Frost had sold most of his stake back to the firm.

bkelly@investmentnews.com
Twitter: @bdnewsguy



DR. PHILLIP FROST

Oppenheimer to pay $3.8 million over UIT charges

INVESTMENTNEWS

THE FINANCIAL INDUSTRY Regulatory Authority has ordered Oppenheimer & Co. to pay more than $3.8 million in restitution to customers who incurred "potentially excessive sales charges" caused by early rollovers of unit investment trusts (UITs).

Finra also fined the firm $800,000 for failing to reasonably supervise the early UIT rollovers,

Since UITs offer investors a stake in a fixed portfolio of securities that terminates on a specific maturity date, often after 15 or 24 months, they generally are intended as long-term investments and have sales charges based on their long-term nature, Finra said in a release. Rolling over a UIT before its maturity date can result in increased sale charges over time, raising suitability concerns, Finra added.

From January 2011 through December 2015, Oppenheimer executed more than $6.4 billion in UIT transactions, of which $753.9 million were early rollovers. Finra found that the firm's supervisory system did not involve the use of automated reports or alerts and was not reasonably designed to supervise the suitability of those early rollovers.

$6.4B
AMOUNT OF UIT DEALS OPPENHEIMER EXECUTED FROM 2011-2015

"As a result, Oppenheimer did not identify that its representatives recommended potentially unsuitable early rollovers that, collectively, may have caused customers to incur more than $3.8 million in sales charges that they would not have incurred had they held the UITs until their maturity dates," Finra said.

Chicago-area RIAs combine to create $8 billion advisory firm

BY JEFF BENJAMIN

TWO ILLINOIS-BASED registered investment advisers are combining to create an $8 billion advisory firm that will operate as Savant Capital Management.

Rockford, Ill.-based Savant, founded in 1993, has $6 billion in client assets and is acquiring Lincolnshire, Ill.-based Huber Financial Advisors, which manages approximately $2 billion in client assets.

The two firms combine for more than 200 employees and 17 offices, mostly in the Chicago area. But there are no immediate plans for consolidating offices, according to Brent Brodeski, Savant co-founder.

Even though the two firms are headquartered only about an hour apart and are familiar with one another, Mr. Brodeski said the "partnering" of the two firms brings together unique strengths.

He cited, for example, Huber's special expertise in the area of adviser training and development, as well as behavioral finance.

'SIGNIFICANT ALIGNMENT'

"Huber has also had success in the custodial referral programs," Mr. Brodeski said. "And we've got an accounting firm where we do a couple of thousand tax returns a year.

"We also have deep business succession planning expertise. At the end of the day, there is significant alignment around culture, philosophy, and geography," he said.

Huber, founded in 1988, will integrate its leadership team into Savant's executive team, expanding to 70 the total number of employee-owners of the combined RIA.

The deal, which is expected to close by the end of March, will be Savant's tenth transaction in its 27-year history.

Six of those deals were done prior to a 2016 recapitalization that sold minority ownership of Savant to The Cynosure Group, a Utah-based family office and private equity investor.

"Savant is one of the major leaders in the Midwest and is continuing their brand reach and footprint with the purchase of Huber Financial Advisors," said Carolyn Armitage, managing director at Echelon Partners.

jbenjamin@investmentnews.com
Twitter: @benjiwriter

UBS wealth-unit revamp gathers pace

BLOOMBERG NEWS

UBS GROUP PLANS to cut as many as 500 private banking jobs as the lender moves forward with a wealth management overhaul aimed at strengthening regional units and speeding up decision-making.

UBS will split up the private banking business in EMEA, giving Caroline Kuhnert responsibility for central and eastern Europe and Ali Janoudi the Middle East and Africa. Christine Novakovic, who has led the entire region until now, will keep Western Europe. To speed up lending to rich clients, UBS also plans to manage loans originated in the wealth unit through a separate risk book in its investment bank.

The changes, outlined in a memo obtained by Bloomberg, are the latest steps in a broad reorganization of the wealth management business since Iqbal Khan came in to help lead it after his acrimonious split from rival Credit Suisse Group. He and co-head Tom Naratil were tasked with reviving the division as Chief Executive Sergio Ermotti looks to maintain the bank's edge and reinvigorate shares that have trailed rivals.

The jobs UBS is planning to cut represent about 2% of the workforce in its global wealth management. The bank slashed thousands of investment banking jobs over the past decade in a pivot toward private banking that has become a blueprint for rivals, including Credit Suisse. With more firms following in its footsteps, however, competition for clients is increasing. To counter that, Mr. Khan and Mr. Naratil are looking to do more business with each client and speed up decisions.

2%
PERCENTAGE OF GLOBAL WEALTH MANAGEMENT JOBS TO BE CUT

Mr. Khan pursued a regional strategy with some success when he ran the international wealth management unit at Credit Suisse, splitting his division into seven regions to boost local decision-making. Now he and Mr. Naratil are doing the same at UBS, some two years after the bank merged its Americas and global wealth units into a single business.

'QUICK WINS'

The changes to how it originates loans to rich clients dismantle a unit within wealth management called Investment Products and Solutions that was the primary engine for coming up with financing structures and investment products. The goal is to eliminate time-consuming negotiations between wealth managers and the investment bank and speed up approval of loans.

Mr. Khan had indicated that UBS could score "quick wins" by increasing lending, a strategy he also used at Credit Suisse. The bank reiterated a target of $20 billion to $30 billion in net new loans per year.

UBS has made other moves to streamline decision-making and remove management layers in the wealth unit. Bloomberg reported last month that UBS was planning to break up the ultra-high-net-worth business and move clients who don't need investment banking services into existing regional divisions, while those with more complex requirements will be served in the global family office unit.

Other management changes include:

- Paula Polito, head of global client coverage, will take an advisory role as divisional vice chair for global wealth management.
- Chicco di Stasi will lead structuring and origination outside of the Americas for GWM and act as a link between the investment bank and wealth management.
- Patrick Grob will lead distribution outside of the Americas for GWM.
- Paul Crisci will develop a private-markets strategy to be implemented across the bank.
- Mark Haefele will lead an expanded chief investment office that incorporates wealth planning and mandates.

Advisers welcome possible scrutiny of ESG investing

BY MARK SCHOEFF JR.

INVESTMENT ADVISERS SAY regulatory scrutiny of socially responsible investing could provide a stronger foundation for constructing portfolios.

A recent Wall Street Journal report indicated that the Securities and Exchange Commission has launched examinations of funds that claim they invest in companies that advance environmental, social and governance goals, such as promoting sustainable development, slowing climate change and increasing diversity and inclusion.

$17.67B

INFLOWS TO SOCIALLY RESPONSIBLE INVESTING FUNDS LAST YEAR

The agency is probing the criteria and methodology used to choose companies for ESG funds, according to the Wall Street Journal. An SEC spokeswoman declined to comment on whether the agency is conducting ESG exams.

Investment advisers are hearing more and more from clients who want to take an ESG approach to their portfolios. Some welcome regulatory interest.

"There is a lot of confusion and misunderstanding about what ESG investing is," said Allan Moskowitz, principal at Transformative Wealth Management. "The SEC might be doing us a favor. [It] could help clarify the criteria. There have to be ways of measuring different issues for different kinds of companies."

ESG reporting can be confusing, said Ashlee deSteiger, founder of Gunder Wealth Management.

For instance, there is no universally accepted way to quantify whether, and how, companies in different industries — such as banking and farming — operate sustainably.

The SEC might be able to help develop standard ESG definitions, reporting requirements and disclosures.

"It's paramount to do research that's valuable," Ms. deSteiger said. The ESG market "might have to step back and create a stronger foundation from a reporting standpoint."

Dan Slagle, founding partner at Fyooz Financial Planning, also wants a clearer definition of ESG. He is not concerned about having to answer to regulators regarding ESG investments.

"At the end of the day, you should be able to justify your ESG selections, whether it's with clients or the regulator," Mr. Slagle said.

OVERSIGHT UPSIDE

There may be an upside to regulatory oversight for the ESG industry, said Lance King, counsel at Seward and Kissel.

"It may be an opportunity for regulators to gain a better understanding of the different ways that firms invest sustainably to — among other things — mitigate risk," Mr. King said.

The Wall Street Journal article cited a recent Morningstar report showing that inflows to socially responsible investing funds grew to $17.67 billion through November of last year from $2.83 billion in 2015. Regulatory oversight won't slow ESG demand.

"Investors are increasingly clamoring for it," Mr. King said.

Many of the young professional couples with whom Mr. Slagle's firm specializes in working, want to integrate ESG into their portfolios.

"From a broader perspective, I don't think regulatory scrutiny is going to affect future ESG inflows," Mr. Slagle said.

How the SEC approaches ESG oversight will be important, Mr. Moskowitz said.

"Is it politically motivated, or are they really trying to help?" he said. "If the SEC is really trying to help, it's not a badthing."

mschoeff@investmentnews.com
Twitter: @markschoeff

Commissioners likely to approve annuity sales best-interest rule

BY MARK SCHOEFF JR.

KEY POINTS

- Rule outlines conflict-of-interest rules that would satisfy regulation.
- Consumer advocacy groups rejected the model rule.

EARLIER THIS WEEK, a committee of the National Association of Insurance Commissioners approved a revised suitability in annuity transactions rule that would require insurance sales professionals to act in the best interests of consumers when making recommendations to buy annuities.

The model regulation says the insurance salesperson must act "without placing the producer's or the insurer's financial interest ahead of the consumer's interest." The measure outlines care, disclosure, conflict of interest and documentation requirements that would satisfy the regulation.

Under the rule, an insurance salesperson would have to "identify and avoid or reasonably manage and disclose material conflicts of interest" and would have to maintain a written record explaining the basis for the recommendation. A customer would have to sign a disclosure document that outlines the products insurance agents can sell and how they're paid.

The rule contains a safe harbor that allows registered representatives of broker-dealers who sell annuities to be in compliance with the NAIC annuity rule if they are in compliance with the Securities and Exchange Commission's Regulation Best Interest, which is meant to raise the broker advice standard.

COULD TAKE MONTHS OR YEARS

The full NAIC is expected to approve the model rule next month. At that point, it will have to be adopted by individual states, a process that could take months or years.

The NAIC model regulation "will make a substantial improvement in the obligations of the [insurance] producer in making a recommendation," said Doug Ommen, Iowa insurance commissioner and head of the NAIC's Life and Annuities Committee.

The NAIC began working on the model rule in response to the now-defunct Labor Department fiduciary rule for retirement accounts. Now that the SEC has overtaken the DOL in setting advice standards, the NAIC is trying to stay in stride.

"It's in harmony with what the SEC did but goes a little further in providing clarity as to what the conduct standard actually is," Mr. Ommen said.

"IT'S IN HARMONY WITH WHAT THE SEC DID BUT GOES A LITTLE FURTHER."

DOUG OMMEN, IOWA INSURANCE COMMISSIONER, HEAD OF NAIC LIFE AND ANNUITIES COMMITTEE

'MORE HARM THAN GOOD'

But consumer advocacy groups rejected the model rule. The Center for Economic Justice and the Consumer Federation of America said in a Dec. 4 comment letter that the proposal "would do more harm than good by misleading consumers into expecting best interest recommendations that the standard does not deliver."

Supporters of the model rule said the disclosure and documentation requirements ensure that it is tougher than the suitability standard.

The rule has garnered insurance industry support.

"This is going to require producers to defend the basis for the products they're recommending," said Jason Berkowitz, chief legal and regulatory affairs officer at the Insured Retirement Institute.

Barbara Roper, director of investor protection for the Consumer Federation of America, said the use of the term "best interest" is deceptive.

"Given how intent the industry is on maintaining their abusive sales practices, and how willing state insurance regulators are to support them in that, the only answer for consumers is to stay away from these products entirely," Ms. Roper wrote in an email.

The current annuity suitability rule was adopted by over 40 states, Mr. Ommen said. The model rule should "be able to reach that level within a couple of years," he said.

mschoeff@investmentnews.com
Twitter: @markschoeff

Looking back on a year of great promise

When we look at back at the biggest changes in our industry's regulatory and legislative landscape in 2019, the headline items will no doubt be the SEC's Regulation Best Interest and passage of the SECURE Act.

We are pleased to have worked with the SEC to help shape Reg BI, which increases transparency and protection for investors while maintaining advisers' ability to effectively serve their clients.

More recently, the passage of the SECURE Act is a testament to the power of grassroots engagement. This crucial victory for Main Street Americans was achieved after a year-long engagement with lawmakers, during which our members at the Financial Services Institute met with their legislators to underscore the importance of this measure for their clients.

GUESTBLOG
DALE BROWN

With these victories capturing so much attention, it would be easy to think of other regulatory and legislative developments in 2019 as footnotes. We are continually mindful, however, that laws and rules passed by state lawmakers and regulators have just as profound an impact on our industry as the measures that grab the biggest headlines.

With that in mind, we are pleased to report meaningful on the following issues:

INDEPENDENT CONTRACTOR STATUS

Educating policymakers on the centrality of the independent contractor model to our industry is constantly ongoing, as new legislators are elected and court rulings create shifts in various independent contractor standards.

Our effectiveness in this mission of education was on display in the battle over California's Assembly Bill 5, which will reclassify hundreds of former contractors in the state as full-time employees in 2020. Thanks to our productive dialogue with legislators and our members' engagement, we secured a carve-out in the legislation for independent financial advisers.

STATE FIDUCIARY RULES

Several states advanced rules that demonstrated the damage that could occur if advisers are subjected to an inconsistent and confusing patchwork of different standard-of-care obligations across the country. Such an outcome would severely restrict investors' access to financial advice and cause excessive complications and uncertainty for advisers.

Massachusetts' Securities Division has proposed a rule requiring advisers to make only the "best available" recommendations to clients based on currently available information — without providing clear definitions and standards for such recommendations, nor identifying which body will make these determinations.

New Jersey is moving ahead with a rule that would create a fiduciary obligation for advisers who provide even a single recommendation to an investor, even for nothing more than a one-time transaction.

We remain dedicated to combating these proposals, and we were pleased to help defeat a similar rule in Maryland.

PUSHING BACK AGAINST REGULATION

The SEC's Share Class Selection Disclosure initiative represented the most harmful example of a trend that has been building for years — the tendency of the SEC and other regulators to substitute ad hoc enforcement actions for transparent and consistent rule-making procedures.

This practice makes effective planning and compliance vastly more difficult for advisers and firms across the country. We are leading the charge to end regulation by enforcement through ongoing constructive dialogue with regulators and by educating members of Congress on the threat it represents to our members' businesses.

Dale Brown is president and CEO of the Financial Services Institute.

"I THINK IT'S A NONEVENT THAT CAUSED A KNEE-JERK REACTION SIMILAR TO WHAT HAPPENED IN THE FOURTH QUARTER OF 2018 WITH CHINA TARIFFS."

— ALLAN KATZ, FOUNDER OF COMPREHENSIVE WEALTH MANAGEMENT GROUP ON MARKET REACTION TO ESCALATING TENSIONS BETWEEN THE UNITED STATES AND IRAN.

Advisers utilize fund clones to help clients save on fees

BY JEFF BENJAMIN

AS PRESSURE on fees continues across the financial services industry, financial advisers would be wise to never assume that there's not a cheaper version of the same product.

Sometimes that can mean finding cheaper versions of the same index-tracking fund within the same fund family, as will soon be possible for three exchange-traded funds offered by State Street Global Advisors.

According to recent prospectus filings, SSGA is converting three index ETFs to turn them into cheaper versions of three existing index ETFs. This means savvy advisers will be able to save their clients some fees just by swapping out ticker symbols on any new allocations from clients who have been investing in the more expensive versions.

Starting Jan. 24, the plans call for cheaper but identical versions of the $306 billion SPDR S&P 500 (SPY), the $19 billion SPDR S&P Midcap 400 (MDY), and the $1.4 billion SPDR S&P 600 Small Cap (SLY).

The cheaper version of SPY, which tracks the S&P 500 and has an expense ratio of 9 basis points, will be SPDR Portfolio Large Cap (SPLG), a $3.5 billion ETF that charges 3 basis points.

SPLG currently tracks an index of 700 large-cap stocks, but it will start tracking the S&P 500 with the change.

CHEAPER VERSIONS

The clone for MDY, which charges 24 basis points, will be SPDR Portfolio Mid Cap (SPMD), a $1.9 billion fund that charges 5 basis points.

And the clone for SLY, which charges 15 basis points, will be SPDR Portfolio SmallCap (SPSM), a $1.6 billion ETF charging 5 basis points.

SSGA is currently waiving two-thirds of SLY's expense ratio to bring it in line with SPSM.

Matt Bartolini, head of SPDR Americas Research at SSGA, said the clone ETFs are designed for longer-term investors who might not be as concerned about the liquidity issues that could plague smaller funds.

He added that some large institutional investors and active traders will overlook higher fees on funds in exchange for their sizable options markets and liquidity profiles.

47.8M
DAILY TRADING VOLUME OF SPDR S&P 500 (SPY)

"Some investors also like the ability to be anonymous when executing larger block orders," Mr. Bartolini said. "What we're doing is providing products with a purpose. It's more a function of providing choice to investors. You might hold SPLG for a strategic allocation and SPY in your liquidity sleeve."

That's probably a handy tip for multibillion-dollar institutional traders. But for most financial advisers, the cheaper version will work just fine.

In terms of tradability, it would be difficult to do better than SPY's average daily trading volume of 47.8 million shares.

CLIENTS MUST BE MINDFUL

But at more than 708,000 shares, SPLG's average dialing trading volume is plenty high for most financial advisory clients.

"Anything under 100,000 shares in a day is something an investor wants to be mindful of, as long as your trade size can easily get executed in a given day based on historical trading volume," said Todd Rosenbluth, director of mutual fund and ETF research at CFRA.

"Tighter spreads are a byproduct of liquidity and trading volume,"he added.

There is some precedent for this kind of fund cloning.

In 2012, for example, BlackRock launched iShares Core MSCI Emerging Markets ETF (IEMG) as a 14-basis-point version of iShares MSCI Emerging Markets (EEM), which charges 68 basis points.

The original fund, which was launched in 2003, has $30 billion, while the newer, cheaper version has grown to $62 billion.

It's a similar story for the $74 billion iShares MSCI Core EAFE ETF (IEFA), which was launched in 2012 as a clone to $64 billion iShares MSCI EAFE ETF (EFA), which has been around since 2001.

PLAYING DEFENSE

The upstart version charges 7 basis points, which compares to 32 basis points for the original version.

SSGA also has some experience in fund cloning.

In 2018, it launched SPDR Gold MiniShares Trust (GLDM) as a 10-basis-point version of the widely popular SPDR Gold Trust (GLD), which charges 40 basis points.

The original version, launched in 2004, manages more than $43 billion in a category known for trading, while the newer version is at $1.1 billion.

In addition to acknowledging the distinct investor appetites that clone funds often target, Mr. Rosenbluth said SSGA might also be playing some defense, at least when it comes to the S&P 500-tracker SPY.

While SPY is still the largest and most popular ETF tracking the S&P 500, it has been steadily losing market share to the $130 billion Vanguard S&P 500 ETF (VOO), which charges 3 basis points, and the $200 billion iShares Core S&P 500 ETF (IVV), which charges 4 basis points.

According to Mr. Rosenbluth, five years ago SPY had 69% of the market share of market-cap-weighted S&P 500 index ETF assets.

That share dropped to 55% two years ago, and to 48% at the end of 2019.

jbenjamin@investmentnews.com
Twitter: @benjiwriter

Dimensional to slash fees on 77 mutual funds

BLOOMBERG NEWS

DIMENSIONAL FUND Advisors plans to reduce fees on 77 mutual funds, joining an industrywide push to lure customers with lower-cost investments.

Average management fees will be lowered 8% on an asset-weighted basis, the company said in a statement. The changes go into effect Feb. 28.

Asset management companies have slashed what they charge clients in an effort to compete with inexpensive index funds.

"WE EXPECT TO DO BETTER ... SO WE FIGHT FOR EVERY BASIS POINT."

GERARD O'REILLY
CO-CEO, DIMENSIONAL FUND ADVISORS

Fidelity Investments has introduced several zero-cost funds and Charles Schwab Corp. set off a shakeout in the sector last year by offering free stock trading.

"We expect to do better than benchmarks and peers, after fees, so we fight for every basis point," Gerard O'Reilly, Dimensional's co-CEO and chief investment officer, said in the statement.

Dimensional, which manages $579 billion in assets, said the new charges would apply to several of its most widely held funds, including those in the flagship core, value and fixed-income portfolios.

The company said it trimmed management fees or expense caps in 2015, 2017 and 2019.

Private equity is starting 2020 with more cash than ever

BLOOMBERG NEWS

PRIVATE EQUITY FIRMS are ready to pounce in 2020, armed with a record level of cash.

Firms led by Blackstone Group Inc. and Carlyle Group have amassed almost $1.5 trillion in unspent capital, the highest year-end total on record, according to data compiled by Preqin. While last year saw roughly $450 billion worth of private equity deals, M&A activity this year could be on a scale not seen since the financial crisis.

"We're entering the year with people feeling much better about the economic and geopolitical outlook than was the case a year ago," said Jason Thomas, global head of research at private equity giant Carlyle.

Below in the chart called "Dry Powder" is a look at industry figures for 2019, and what they could mean for the next 12 months.

Low interest rates, the rise of index-tracking funds and lackluster hedge fund performance have pushed investors to private equity in search of higher returns. Many firms — once known as leverage buyout shops — have opted to accumulate those assets as valuations soar and competition for deals grows.

One reason why firms can keep so much cash on hand ready for the right moment is because their investment options are expanding, said Kewsong Lee, co-chief executive at Carlyle.

Asset classes such as private credit and regions including Japan are opening up to private capital flows, he said at a conference in December. "It's not only private equity that keeps growing, but new asset classes are emerging within private equity," Mr. Lee said.

While deal activity was down slightly from 2018, last year's figures were still strong as firms continued to eye larger targets.

In what could be the biggest-ever leveraged buyout, KKR & Co. approached drugstore giant Walgreens Boots Alliance Inc. in November about taking the company private. One of the largest deals last year was the roughly $14 billion buyout of fiber network company Zayo Group Holdings Inc. by Stockholm-based private equity firm EQT and Digital Colony Partners.

MORE DEAL-MAKING

The cash on hand could mean even more deal-making in 2020, said Dave Tayeh, head of private equity in North America at alternative asset manager Investcorp.

"There are many tailwinds expected to drive healthy deal flow — from increased certainty around Brexit to continued low rates and ongoing technology disruption across sectors," Mr. Tayeh said by email. "But global trade tensions and high valuations will continue to have an impact on M&A."

While cash assets are at an all-time high, fund-raising has ticked down since the 2017 peak. The amount of capital raised by 2019 vintage funds, or those that began investing last year, was about $465 billion, according to data compiled by Bloomberg.

The sector has, however, remained popular among institutional and family office investors willing to trade lockups of committed money for as long as 10 years for the potential to earn stock market beating returns.

"From a fundraising perspective, we believe any prospective hesitation among experienced investors will be at least partially offset by the flow of new investors moving into the space — high-net-worth individuals and family offices in particular," said Andres Saenz, who leads EY's global private equity practice.

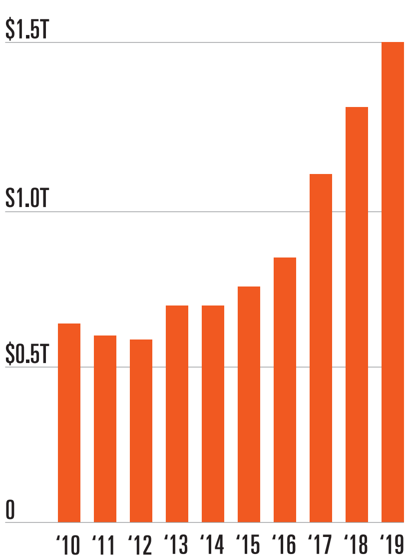
Over the 25 years ended in March, private equity funds returned more than 13% a year on average, compared with about 9% a year for the S&P 500 over the same period.

Firms may find it hard to replicate their past gains, however. The tide of new money has pushed up asset prices at the expense of returns — a pattern that's occurred across all areas of the market, said Jill Shaw, managing director at Cambridge Associates, which manages funds on behalf of wealthy families and pension, endowment and foundation clients.

The massive stockpile of capital is a concern and may push down investment returns, Bloomberg Intelligence analyst Paul Gulberg wrote in a July note.

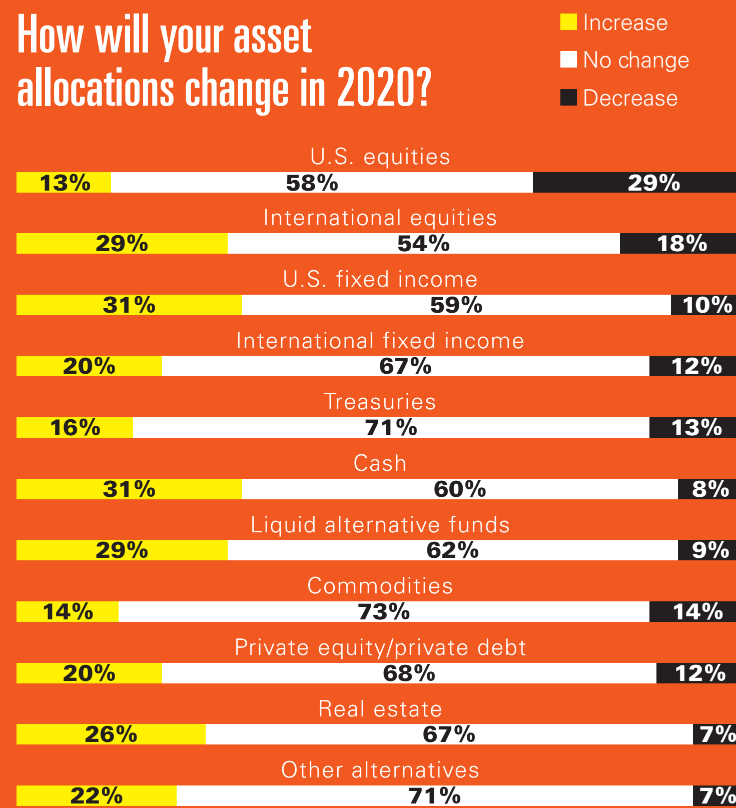
DRY POWDER

AVAILABLE CAPITAL AT THE END OF 2019 HIT A RECORD HIGH

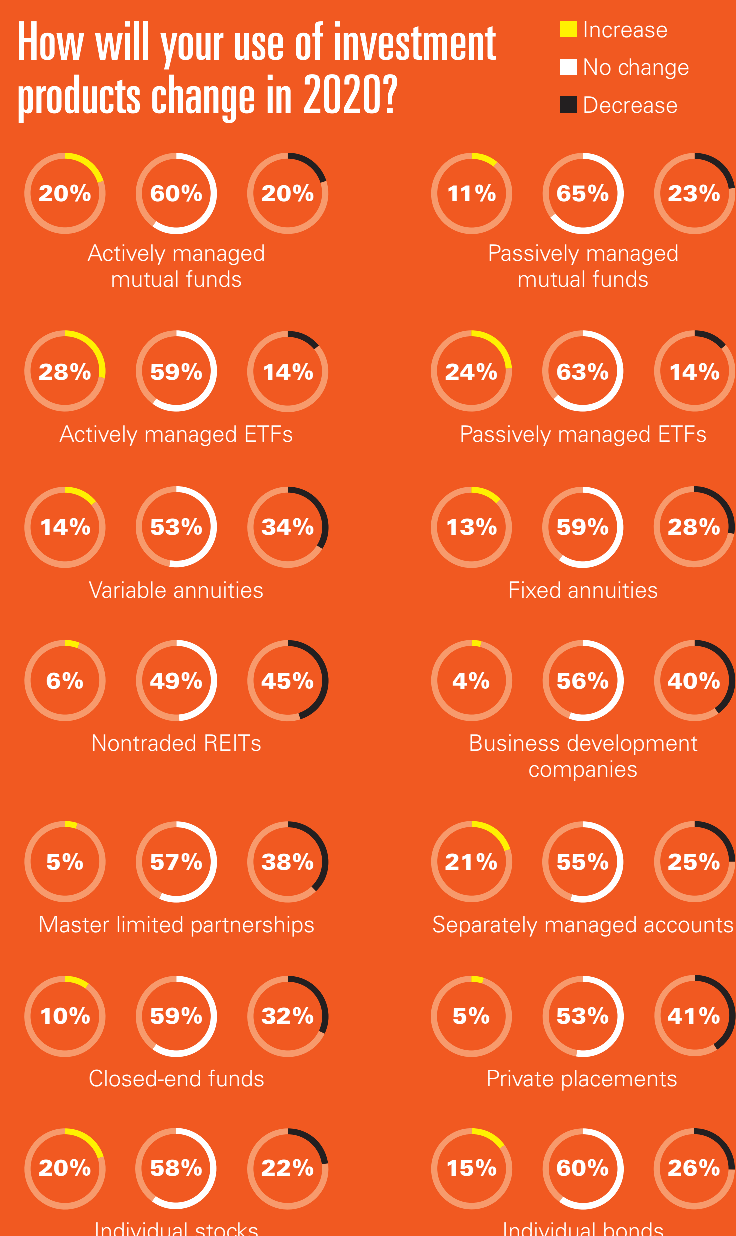


Source: Prequin
Note: 2019 data is based on year-end estimate

How will your asset allocations change in 2020?



How will your use of investment products change in 2020?



*InvestmentNews *2020 Outlook Survey*
Values may not add to 100% due to rounding.

2/3 NUMBER OF INVESTORS WHO FEEL THEY HAVE ACCESS TO INFORMATION NEEDED TO MAKE INVESTMENT DECISIONS
— FINRA INVESTOR EDUCATION FOUNDATION STUDY

Fiduciary advocate's website flags 'trusted' advisers

BY MARK SCHOEFF JR.

KEY POINTS

- Investor.com weeds through Finra and SEC regulatory disciplinary data.
- The site is powered by its Trust Algorithm.

A NEW WEBSITE is using regulatory data about financial advisers to go one step further than securities regulators' databases to help investors decide whom to hire.

The site Investor.com recently exited the testing phase of what it calls its Trust Algorithm, which is now available for public use. The mechanism scrapes background data on financial advisers from the Financial Industry Regulatory Authority Inc.'s BrokerCheck and the Securities and Exchange Commission's Investment Adviser Public Disclosure sites.

The Investor.com algorithm then sorts and weighs different variables to determine whether a financial adviser or firm earns a so-called trust badge. Advisers are considered trustworthy if they meet certain requirements, such as a limited number of customer disputes, financial disclosures and regulatory events.

Blain Reinkensmeyer, head of product at Investor.com, said the goal of the site is to help consumers press advisers about their probity.

"It's about empowering Americans to ask the question," Mr. Reinkensmeyer said. "Let's help Americans find an adviser they can trust. The data doesn't lie."

The site claims to use 23 million data points that are continually updated. Mr. Reinkensmeyer said his site provides better transparency and easier access to regulatory information than the regulators do themselves.

"We built Investor.com with a mobile-first mindset," said Mr. Reinkensmeyer, who is managing partner of Reink Media Group, a collection of financial websites.

Andrew Stoltmann, a Chicago securities attorney and member of the Public Investors Arbitration Bar Association, test-drove the site.

"It's definitely more user friendly than Finra's BrokerCheck," Mr. Stoltmann said. "It's laid out in a manner that people won't find opaque or confusing."

BUILDING TRUST

Mr. Reinkensmeyer does not hide the fact that the site is oriented toward helping investors find an adviser who adheres to fiduciary duty. The site says that 75% of investment adviser representatives earned the "trusted" designation, while 0% of broker-only registrants are labeled "trusted."

"I believe in fiduciary advice," Mr. Reinkensmeyer said.

Knut Rostad, president of the Institute for the Fiduciary Standard, gave praise.

"Its great potential to provide clarity in the marketplace is plain," Mr. Rostad said. The site "tackles misleading and muddled industry messaging on fiduciary status and what 'best interest' means. It goes beyond what BrokerCheck addresses."

'THE DATA IS OUT THERE'

But financial regulators already provide background on financial advisers that most consumers ignore, said Todd Cipperman, principal at Cipperman Compliance Services.

"The data is out there," Mr. Cipperman said. "The challenge is getting people to use it effectively. It's a good start. We'll see if there's a market need."

Mr. Cipperman cautioned that a financial adviser's disciplinary history is not enough to make a hiring decision. A qualitative assessment of an adviser's services and performance history is also needed.

"If you could be the Morningstar of investment advice, that would be great," Mr. Cipperman said. "The market for financial advice is incredibly opaque."

The site will need to generate revenue to stay afloat. One way it does that is to offer firms and advisers an opportunity to verify a trusted profile, which are then promoted by the site.

That might create a slippery slope, Mr. Stoltmann said.

"This is a commercial enterprise, and you question how independent it is when financial professionals are paying to have their profiles verified," Mr. Stoltmann said. "That's kind of murky waters. For this thing to work, investors need to trust Mr. Reinkensmeyer."

Mr. Reinkensmeyer said investors will "come before profit" and asserted that advisers and firms will not be able to buy a trust badge.

He acknowledges that the site may not attract any more traffic than BrokerCheck or IAPD.

"We don't know if it's going to work," Mr. Reinkensmeyer said. "We have to have the support of the fiduciary-first industry."

mschoeff@investmentnews.com
Twitter: @markschoeff

A resolution for a new decade of growth

GUESTBLOG
SCOTT HANSON

Have you set your business goals for 2020?

Try doing this.

If you want meaningful business growth, try identifying what you should stop doing before making a list of the things you want to accomplish.

My business partner of nearly 30 years likes to say, "What got us here will not get us to where we want to be, or we'd be there already."

It's a constant reminder that we can't rely on our previous methods or successes.

When we launched our RIA in 1993, we had a handful of clients, about $10 million under our care and one employee. Today, we have over 11,000 clients, 17 locations, $8 billion under management and well over 200 employees.

For our organization to grow, I've had to jettison activities while simultaneously adding new skills and embracing new responsibilities.

That's because I've found that one of the best ways to grow is to get rid of those activities that are not productive so that my time is spent on the things that directly lead to growth.

MAKE A LIST

Here's something I encourage you to do every year: First, make a list of each activity you complete on a weekly, monthly and annual basis. Write down everything you do repeatedly.

Next, identify the activities that are the most productive (i.e. lucrative or growth-focused) for your practice. For example, if you build your practice by developing relationships with centers of influence, list that as a "highly productive" activity. Conversely, if you purchase office supplies and open mail, list those as "unproductive activities."

Next, once you've listed all your activities, and you've arranged them according to their potential to create the most revenue and growth, go through the list and rank the activities on a scale of 1 to 5, taking into consideration both how much you enjoy doing them and whether you are any good at them.

BE BRUTALLY SELF-AWARE

For example, labeling a task a "1" means you neither enjoy doing that activity, nor are you any good at it. A "5" is an activity that you are both highly competent at and you thoroughly enjoy doing.

Lastly, rank all the activities, with the ones at the top being those which lead to growth and which you most enjoy doing, and the activities near the bottom being those you dislike doing and which don't lead to growth.

Surely, as a principal, there will always be some things that fall in the middle of your list, which you either dislike doing but must continue to do, or love doing but really don't serve you or your business.

Now, imagine spending 2020 doing the things that you love and that grow your practice, say, 80% of the time, while delegating the rest?

Simple as it may seem, I'm betting that if you complete this exercise, not only will 2020 be a good year for you professionally, but you'll be setting yourself up for faster growth in 2021 and beyond.

Scott Hanson is co-founder of Allworth Financial, formerly Hanson McClain Advisors, a fee-based RIA with $4.5 billion in AUM.

MASSACHUSETTS

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Mr. Galvin has indicated that Massachusetts is moving ahead with its rule because the Securities and Exchange Commission's advice-reform effort, highlighted by Regulation Best Interest to raise the broker standard, is too weak.

Industry opponents last Tuesday told Massachusetts to defer to the SEC. Reg BI must be implemented by June 30.

Dale Brown, president and chief executive of the Financial Services Institute, which represents independent broker-dealers and financial advisers, testified that the Massachusetts proposal was too broad in its application of ongoing fiduciary duty.

"It will discourage broker-dealers from serving Massachusetts clients – whether because of cost or because of the narrow availability of episodic, rather than ongoing, fiduciary duty," Mr. Brown said.

SMALL INVESTORS PRICED OUT

Kevin Mayeux, chief executive of the National Association of Insurance and Financial Advisers, said the Massachusetts proposal would lead brokers to switch from commission-based practices to a fee-based business model, which could price investors with modest assets out of the advice market.

In his testimony, he also expressed concern about the Massachusetts rule applying to insurance products, which "will likely result in increased costs to consumers of these products due to the costs of compliance with the additional regulations."

Knut Rostad, president of the Institute for the Fiduciary Standard, doesn't expect Mr. Galvin to modify the proposal significantly based on industry pushback at last Tuesday's hearing.

"[Mr.] Galvin has a clear-eyed view of what needs to be done, which he's expressed in his proposal," Mr. Rostad said. "I cannot conceive of anything the industry could do to change [Mr.] Galvin's views that have been set out clearly for years."

Investor advocates assert that the Massachusetts proposal gets advice-reform right.

'A MODEL OTHERS COULD FOLLOW'

"If adopted without weakening amendments, your proposal would not only improve protections for the citizens of Massachusetts, it would provide a model that other states could follow to extend these protections to their own citizens," Barbara Roper, director of investor protection, and Micah Hauptman, financial services counsel, at the Consumer Federation of America wrote in a Jan. 6 comment letter.

Other states, including New Jersey and Nevada, are considering their own fiduciary proposals. Any state rule almost certainly will become the target of a lawsuit.

"The industry is adamantly opposed to a rule that would force to get serious about reining in harmful conflicts of interest to do what is best for the investor," Ms. Roper said.

There's no deadline for Massachusetts to promulgate a final rule. The proposal could be modified based on the input received at last Tuesday's hearings and in the comment letters, according to a spokeswoman for Mr. Galvin.

mschoeff@investmentnews.com
Twitter: @markschoeff

D&I TAKES COURAGE

CONTINUED FROM PAGE 4

from the CFP Board's Center for Financial Planning, "Removing Barriers to Racial and Ethnic Diversity in the Financial Planning Profession," noted clients' implicit bias as one of the factors contributing to the status quo. Specifically, the survey highlighted that clients had a preference for working with planners who had a similar background as them, despite there being no difference in skill sets between ethnicities. I get it. In a highly competitive environment, fear of losing a client is real, particularly for a smaller firm.

TIP OF THE ICEBERG

Having courage is acting on a principle that could result in losing clients who might not share the same principle. There are three overriding things firms can do.

First, adopt diversity and inclusion as a core principle versus a marketing and PR strategy. Core principles are like an iceberg: What the world sees is only the tip of something much deeper than photos and statements on a website.

Second, have a strategy in place that addresses how the firm plans to include the team, address internal and external pushback, be held accountable, and measure success.

As the country's demographic shifts take place, clients will pay less attention to D&I statements and more to what firms are doing to live their D&I core principle. Finally, recognize that once the new core principle is adopted, it will take time and require constant attention. The U.S. Armed Forces serve as an example. On June 12, 1948, President Truman signed the Women's Armed Services Integration Act ("The Act") into law.

The act allowed women to serve as full members in all military branches. A little over a month later, on July 26, he issued Executive Order 9918, ending segregation in the armed forces. The next day, the New York Times headlines read, "Truman Orders End of Bias in Forces and Federal Jobs." It's 71 years later, and efforts to create a more diverse and inclusive environment within the armed services continue.

The point is not to suggest 70 years as a time frame, but to illustrate that core principles should be enduring and not bound by artificial deadlines. In closing, as our profession celebrates its 50th anniversary this year, we are in a better place than in 1969 and an even better place than in 1948.

This is because of people who were willing to take a courageous stand and act. Yes, there is still a lot of work to do, and it won't be easy. Implementing diversity and inclusion is a lot harder than talking about it. However, I also believe that it is the right thing to do. We just have to have the courage to do it.

Frank Paré is founder and president of PF Wealth Management Group and was the Financial Planning Association's chairman in 2019 and president in 2018.

TITTSWORTH

CONTINUED FROM PAGE 2

Securities and Exchange Commission to the Financial Industry Regulatory Authority Inc., the broker-dealer self-regulator.

Investment advisers were adamantly opposed to Finra oversight, and Mr. Tittsworth became the central figure at the hearing, which lasted more than two hours. He took the vast majority of the questions from lawmakers, consistently asserting that most advisory firms were small businesses that would be hurt by Mr. Bachus' bill.

Mr. Tittsworth's testimony seemed to raise concerns about the legislation among Republicans. The Republican-majority committee never voted on the bill introduced by its chairman, and the measure died.

'A VALUED AND CHERISHED FRIEND'

Under Mr. Tittsworth's leadership, the IAA moved its headquarters from New York to Washington. He took over in October 1996, when the organization had two employees and 200 member firms that collectively managed $1 trillion in assets. When he left the IAA in March 2014, it had more than 500 member firms with a total of $12 trillion in assets, according to Ms. Barr's note. The organization now has 650 firms with $25 trillion in assets.

"Over the nearly two decades I worked with him, David became not just my colleague and mentor, but a valued and cherished friend," Ms. Barr wrote.

For the last five years, Mr. Tittsworth was counsel at the law firm Ropes and Gray, representing asset management firms. Prior to joining the Investment Adviser Association, he was a longtime Capitol Hill aide and served as counsel to the House Energy and Commerce Committee when it was chaired by the late Rep. John Dingell, D-Mich.

Outside his professional life, Mr. Tittsworth was a skilled pianist, sometimes playing at IAA conferences. He was also an avid cyclist and a deeply loyal fan of the University of Kansas basketball team. Mr. Tittsworth earned his bachelor's and law degrees from KU.

He is survived by his wife Christine.

mschoeff@investmentnews.com
Twitter: @markschoeff

FINRA

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a proactive approach to regulatory developments."

Finra reports to the SEC and has said it will defer to the SEC on interpretations regarding Reg BI compliance.

Elsewhere in the priorities letter, Finra indicated it will look closely at firm communications surrounding sales of private placements, or unregistered securities. It will also evaluate how firms use digital communications, such as texting, social media and collaborative software applications.

Brokerages should put a premium on technology governance, said Marianna Shafir, corporate counsel and regulatory adviser at Smarsh, a compliance software firm.

"They absolutely should be capturing and archiving electronic communications and supervising it," Ms. Shafir said.

Finra will also be keeping an eye on recommendations to put client funds into bank sweep account programs, where they often generate miniscule returns due to ultra-low interest rates. Finra warned firms to discuss alternatives to sweep accounts and not to imply they are equivalent to a checking or savings account at a bank.

Sweep accounts have "raised several concerns about firms' compliance with a range of Finra and SEC rules," the priorities letter states.

mschoeff@investmentnews.com
Twitter: @markschoeff

SEC

CONTINUED FROM PAGE 3

tools and platforms, the SEC said it will concentrate on "adherence to fiduciary duty, including adequacy of disclosures," among other areas.

That could present a compliance challenge for online investment advisers, Mr. Lore said. "It requires a deep understanding of the client's needs and objectives that is difficult to do in a robo-advisory," he said.

Once again this year, the SEC said it will target disclosures of fees, expenses and conflicts of interest, as well as the costs of investments such as mutual funds and exchange-traded funds. It highlighted its ongoing probe of financial incentives that promote the selection of high-fee funds.

"It does appear the focus on fees is not ending any time soon," Mr. Harris said.

In the priorities document, OCIE indicated that it examined 15% of registered investment advisers in fiscal 2019, down from 17% in fiscal 2018 but up from 10% in fiscal 2014. It noted that a government shutdown last January affected its statistics. The SEC said it has been able to make gains in adviser coverage through program efficiencies, realignment of internal staffing and investment in training.

The number of RIAs that OCIE oversees increased from 11,500 in fiscal 2018 to 13,475 in fiscal 2019, while RIAs' assets under management grew from $62 trillion to $84 trillion.

mschoeff@investmentnews.com
Twitter: @markschoeff

ON ADVICE

CONTINUED FROM PAGE 3

largest players in the industry are focusing on a business model of charging clients fees or cutting commissions to the bone.

The new SECURE Act is seen as a "big win for annuity providers," as Jamie Hopkins noted in a recent *InvestmentNews* blog. My colleague Greg Iacurci reported last August that "variable and indexed annuities are lambasted in some circles as being high-cost insurance products, with all-in annual expenses often exceeding 3% or 4%," or roughly double the cost of paying for an adviser and the investments in a financial plan.

Meanwhile, the chairman of the Securities and Exchange Commission, Jay Clayton, has recently made clear that he wants retail investors to have more access to private funds, including high-risk, high-commission private placements. The basic, and flawed, argument is that if big public pension funds can buy private equity and real estate, shouldn't retail investors be able to as well?

Pricing is a problem for retail investors who buy alternative investments. Broker-dealers typically charge an all-in, 10% commission for such products, the maximum under industry rules overseen by the Financial Industry Regulatory Authority Inc.

DECENT INTENTIONS

The annuity industries and Mr. Clayton no doubt have decent intentions for consumers and retail financial advisers. The Insured Retirement Institute, a trade group that promotes annuities, said the SECURE Act "expands opportunities for workers to obtain guaranteed lifetime income products" in a statement last month.

"Brokerage firms overwhelm clients with disclosure and persuade them with half-baked facts," she said.

There is room in 401(k)s for low-cost annuities that provide investors income for life, Ms. McClanahan said. "But complex variable annuities with high fees have no place in retirement plans."

In a phone interview last Tuesday, I asked IRI executives whether they had any concerns, now that the SECURE Act is in place, that the industry would see sales practice abuses with annuities.

The officials stressed that while the SECURE Act made it easier for retirement plan sponsors to include various types of annuities in company retirement plans, it did not erode investor protections.

"We think plan participants [investors] will continue to have significant levels of protection they currently have because the fiduciary level of the plan provider remains the same," said Paul Richman, chief government and political affairs officer at IRI.

HUMAN NATURE

That type of response fails to take into consideration Ms. McClanahan's point: Plenty of brokers will chase commissions and sell products that charge clients the steepest amount, regardless of whether the products are appropriate or suitable for clients.

When big commissions are dangled before their eyes, some brokers can't help themselves. For example, just last month, Next Financial Group was fined $475,000 by two states for a variety of shortcomings in supervision and compliance stemming from sales of non-traded REITs. Brokers typically garner a 7% commission for the sales of such REITs.

At the end of 2018, Finra reported it had uncovered deficiencies around variable annuities, including unsuitable and largely unsupervised recommendations related to annuity exchanges. Finra's report also detailed lax due diligence on private placements.

> **"HUMANS ARE LIKE ROACHES — THEY ... TAKE ADVANTAGE OF ANY SITUATION."**
> CAROLYN MCCLANAHAN, FOUNDER, LIFE PLANNING PARTNERS

The problem is some brokers and advisers can't help themselves when it comes to selling products with eye-popping commissions. And the higher the commission, the less likely investors will be able to have enough cash to put to work in any given investment to generate the targeted returns.

"Humans are like roaches — they are very innovative and take advantage of any situation in the best or worst way possible," said Carolyn McClanahan, founder of Life Planning Partners. "The problem with the various current regulators is that they don't quite understand how ill-equipped the public is when understanding the product they are getting, and disclosures do no good."

'HALF-BAKED FACTS'

Brokers generate steep commissions in such annuities transactions. Needless or abusive variable annuity exchanges have been a persistent problem for advisers and clients for decades.

Laws and regulation that prime the pump to increase the sale of high-commission products to retail investors are misguided, particularly as industry giants like the Charles Schwab Corp. are cutting commissions, for some trades, to zero. Clients should have the option to pay an adviser a commission for a transaction, but the charge should make sense and be fairly priced, not an incentive to sell the product.

bkelly@investmentnews.com
Twitter: @bdnewsguy