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# HIGH ON THE HOG

**DONOR-ADVISED FUNDS THROW THEIR CHARITY WEIGHT AROUND** PAGE 8

# TopNews

ACCURACY / EXCELLENCE / FAIRNESS / IMPARTIALITY / INDEPENDENCE



Cover art: John Kuczala





## EDITOR'S NOTE

### What we're doing for you

When unprecedented becomes cliché, you know you're living in unique times. And we are.

Over the past week, we've seen some of the largest swings in market history, in both directions, and more than 30 states enter various states of lockdown. And New York City Mayor Bill DeBlasio has warned residents that there may be "shelter-in-place" restrictions imposed by the time you read this.

GEORGE B. MORIARTY

As I noted last week, it's important to keep your head when all around you are losing theirs, so today I want to let you know the steps *InvestmentNews* has taken both to be responsible and to continue to be your trusted resource.

Our company started a full work-from-home policy last Friday, so we aren't traveling into or around Manhattan. That will have no impact on your news, as you've read throughout the week. Further, we've made a PDF version of our print issue available to all readers for at least the next month, and our online archive is available at Investmentnews.com/issues.

In terms of coverage, we continue to focus on how the situation is affecting the advice community, what issues your peers are encountering, and putting these uncertain times in context.

You can access all our content on this topic directly from the navigation bar on the site.

Please be safe and stay well.


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# COVID-19 bill would ease retirement account rules

BY MARK SCHOEFF JR.

**KEY POINTS**

- Bill would waive 10% penalty on early withdrawals up to $100,000.
- Financial industry pushes for waiver of required minimum distributions.

AN ECONOMIC STIMULUS bill in response to COVID-19 is on a fast track in the Senate and includes provisions to suspend penalties on early access to retirement accounts.

Last Thursday, Senate Majority Leader Mitch McConnell, R-Ky., introduced the Coronavirus Aid Relief and Economic Security Act. The legislation is designed to help businesses and individuals harmed by the coronavirus outbreak and strengthen the health care system.

The bill would waive the 10% penalty on early withdrawals of up to $100,000 from a retirement plan or an individual retirement account for anyone who is diagnosed with the coronavirus, has a spouse or dependent fall ill, or has suffered a financial setback due to the pandemic, according to an analysis by the American Retirement Association.

The bill gives people taking the hardship distributions three years to pay tax on them and repay their plans.

"The Senate proposal strikes the right balance between helping those in immediate need with the longer-term retirement crisis where too many Americans lack adequate retirement savings," Paul Richman, chief government and public affairs officer at the Insured Retirement Institute, said in a statement. "IRI supports the efforts by Congress and the president to deliver substantial economic aid to Americans and we support efforts to permit targeted access to retirement accounts to those in significant need."

Empower Retirement, a retirement plan administrator, said Congress and the industry should work together in addressing those suffering due to the coronavirus.

"Empower believes that during times of hardship the public and private sectors should continue their longstanding collaboration and make every accommodation to help support the financial needs of individuals,"Edmund F. Murphy III, Empower CEO, said in a statement.

**$1 TRILLION COST**

The bill, which is expected to cost $1 trillion or more, is the opening marker in what Mr. McConnell hopes will be a quick negotiation with Democrats, who initially criticized it as too focused on corporate relief.

Mr. McConnell is seeking a final Senate vote by March 23. The measure would be the third that Congress has passed in response to the coronavirus outbreak.


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# Tax delay extends IRA contributions

IRAALERT
ED SLOTT

Now that Treasury Secretary Steven Mnuchin has extended the 2019 tax filing date to July 15, the deadline for making a 2019 contribution to an individual retirement account or Roth IRA is automatically extended to July 15. Normally there is no extension for making a prior year IRA contribution beyond the April 15 filing date for that year's tax return, even if the IRA owner files for an extension.

This will be extremely helpful. Many people make prior year IRA contributions at the last minute, even in normal times. Given the current dire circumstances, it might be tough to get those checks into IRAs if advisers' offices are either closed or working with skeleton crews.

**ONE ADMINISTRATIVE ISSUE**

If you have clients who will be making 2019 IRA or Roth IRA contributions after April 15 (but by July 15), make absolutely certain that the contribution is earmarked for 2019. Some financial institutions may have systems in place to code any IRA contribution made after April 15, 2020, as a 2020 IRA contribution. Watch out for this for your clients. Make sure clients mark their checks as 2019 IRA contributions.

*For more information on Ed Slott, Ed Slott's 2-Day IRA Workshop and Ed Slott's Elite IRA Advisor Group, please visit www.IRAhelp.com*


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# Advisers get bullish in a bear market

BY JEFF BENJAMIN

**WITH THE FAST-SPREADING** COVID-19 virus still gaining momentum across the globe, nobody yet is predicting a near-term end to the economic and stock market carnage. There are signs of hope, however, if financial advisers start realizing stocks are too cheap to ignore.

"Large-cap growth stocks are off 30% from their highs, and large-value is off 35%. It's really difficult not to buy at these levels," said Kevin Donohue, partner at Legacy Planning, in an interview last Thursday.

Mr. Donohue said he started moving client assets from fixed income to equities when the market decline reached 22%.

"We're taking a portion of fixed income — the safest stuff that has done the best — and layering it into some of the areas that have gotten crushed," he said.

## 'HUGE ADVANTAGE'

For perspective, Mr. Donohue cited the 2008 financial crisis, when four of his "most sophisticated and well-read clients wanted to go to cash the week before the market bottomed."

"We're not going to get the timing right, but we know the day the bottom comes people are going to feel terrible and not want to do anything," he added.

Blair duQuesnay, investment adviser representative at Ritholtz Wealth Management, is also promoting the "huge advantage for long-term investors."

"If you have a target allocation, you're probably out of balance, so take some cash off the sidelines and rebalance," she said. "You don't have to call the bottom of the market, but when it feels this scary it's probably a good time to invest."

Andy Panko, owner of Tenon Financial, is putting his money where his mouth is by loading up on equities and fully funding his own retirement account at these market levels.

"When things were down 20%, I got excited, when they got down by 30% from the peak [last Wednesday] I invested the full $6,000 limit into my IRA," he said. "I also just moved another slug of cash into a brokerage account waiting to invest at the next big downturn."

## RECOVERY EFFORTS

The general mood of advisers moving into stocks at the most dismal of times is borne out of experience and context.

Even though the S&P 500 Index

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# Annuities hard hit by virus, reducing retirees' options

BY EMILE HALLEZ

**THE FALLING STOCK** market would have been a great selling point for annuities. But, much like dry goods and toilet paper, the products are vanishing from shelves.

That isn't because consumers are clearing out the available stock. Instead, insurance companies — which are having to contend with unprecedented volatility and extremely low interest rates — haven't been able to adjust their annuities fast enough to keep them on the market.

"Short-term, we've seen a lot of product suspensions. The supply is shriveling up," said Tamiko Toland, head of annuity research at Cannex. "Between volatility and Treasuries rates, it would normally necessitate product repricing. And that can't be done as quickly as rates have changed."

With fixed-indexed annuities, for example, products are either being pulled off the market altogether, or insurers are removing versions of those products that are available with living benefits, Ms. Toland said.

"We are currently inundated with updates of this nature," she said. Instruments that insurers can buy to back the guarantees on their products are currently expensive, and budgets are low, she noted.

"COVID-19 is going to be a great educator about another black swan," she said. "Human society is more at risk globally than it has ever been."

## FALLING RATES

Over the weekend, the Federal Reserve chopped down its key rate by a full percentage point, setting it at zero to 0.25%, which is the same record low seen in the 2008 financial crisis.

That, along with the erratic stock market, would seem to make annuities a good option for people

CONTINUED ON PAGE 22

# How COVID-19 is challenging adviser technology

The financial adviser technology world hasn't been immune to the spread of the COVID-19 virus.

The normally swift-moving industry feels as if it has been brought to a grinding halt over the past few weeks.

The most obvious proof of this is the cancellation of Envestnet's annual Advisor Summit, which was scheduled for late April. Anecdotally, this reporter can attest to an email inbox, normally crammed at this time of year with announcements of new products and integration partners. But that, too, has fallen fallow.


The plight of a tech reporter is nothing in the face of the real hardship people are facing around the world. (I'm beyond grateful to still have a job, which can't be said for many of my friends, some of whom are in the service industry, and to have a beat to keep writing about — unlike folks making a living as sports reporters.)

Unlike school teachers and sports reporters, however, tech vendors have a unique advantage when it comes to carrying on business as usual through a prolonged global quarantine. Much of their work is already digital, and some companies (eMoney Advisor comes to mind) have long been using remote work capabilities, hiring talent from around the country, rather than just Silicon Valley or major cities.

## CHALLENGING TO ADD BUSINESS

"Technology already collaborates in a distributed environment, so working from home isn't an unusual aspect," said Gurinder Ahluwalia, CEO of 280 CapMarkets, a startup providing a digital marketplace for bonds. He notes that adding new business in the short term will be challenging.

But it's not *all* business as usual for the industry. Startups like 280 CapMarkets often rely on industry conferences to meet advisers and get out the word about their companies, and the belt-tightening in response to crashing markets is squeezing the flow of new business.

No one wants to purchase, onboard

CONTINUED ON PAGE 22

# Advisers should think twice before accepting ADV filing extension

BY MARK SCHOEFF JR.

**INVESTMENT ADVISERS** should think twice before taking the Securities and Exchange Commission up on its offer of a deadline extension for filing their annual registration forms, according to compliance experts.

On March 13, the SEC issued an order giving investment advisers a 45-day extension to submit their registration documents, or Form ADVs, because of the impact of the COVID-19 outbreak. The deadline extension can be applied to ADVs due on or before April 30.

The SEC order states that disruptions caused by the coronavirus "may limit investment advisers' access to facilities, personnel, and third-party service providers" and cause them to delay filing Form ADVs and delivering them to clients.

An adviser who wants to take advantage of the deadline extension must notify the SEC via email at IARDLive@sec.gov and disclose on its website that it will be delaying its ADV filing, describe why it could not file its ADV on time, and indicate when it will be filing the paperwork.

That admission poses a danger for advisers because it may point to a problem with a firm's business continuity plans, said Brian Hamburger, chief executive of MarketCounsel, a business and regulatory compliance consultancy.

"That's not a good look for advisers," Mr. Hamburger said. "It doesn't breed confidence with the regulators. It certainly doesn't breed confidence with your clients while they are dealing with volatile markets. We're strongly recommending that our clients not take the offer by the SEC to extend their [filing and delivery] obligations."

**KEY POINTS**

- SEC order extends Form ADV deadlines to April 30.
- Advisers who take the extension must disclose the delay on the SEC's website.

### INVITES QUESTIONS

The Form ADV disclosures are due 90 days after the end of a firm's fiscal year. Most of them file the documents by the end of March.

If an advisory firm misses the deadline, it's inviting questions at its next SEC exam about why it happened and why it couldn't maintain its operations, Mr. Hamburger said.

The Investment Adviser Association recently told the SEC that its members were experiencing difficulties in meeting the ADV deadline. Collecting and confirming the required data had to be done while simultaneously dealing with client worries and other coronavirus disruptions.

"We are extremely pleased and we're grateful to both the commission and the Division of Investment Management for being so responsive to our concerns," said Gail Bernstein, IAA general counsel. "This is uncharted territory for all of us. [The SEC] is signaling flexibility. They are proactive and responsive to real concerns."

If advisers take advantage of the SEC's leniency, they'd better have a good reason – something that goes beyond having to work remotely, said Max Schatzow, a securities attorney at Stark & Stark.

### LOOKING FOR TROUBLE

"I wouldn't rely on the relief just because we've closed our offices due to the coronavirus," Mr. Schatzow said. "I would want to have more evidence to show why we were unable to meet the deadline."

If an advisory firm doesn't have the supporting evidence, it's looking for trouble.

"The next thing you know, you might be getting examined on your business continuity planning," Mr. Schatzow said.

The coronavirus can't become a blanket excuse. The SEC will look for something more specific, said Jason Ewasko, managing director at Cipperman Compliance Services.

"My interpretation is that the regulator is expecting advisers to be honest and have legitimate reasons as to why they're unable to file in a timely manner," Mr. Ewasko said. "Working from your home, in and of itself, is probably not enough. If you're fully able to, you should continue to file by the end of the month."

It's not clear whether the SEC has criteria for determining whether a firm's operations have been harmed by the coronavirus or whether it's based on facts and circumstances. An SEC spokesperson declined to comment.

In a note to clients last Monday, Bates Compliance suggested that acceptable reasons for asking for a deadline extension include that the firm is are working with a "skeleton staff" that is unable to collect the information, that critical staff is focused on the market or client calls, that staff members have fallen ill or that third-party vendors did not deliver needed information.

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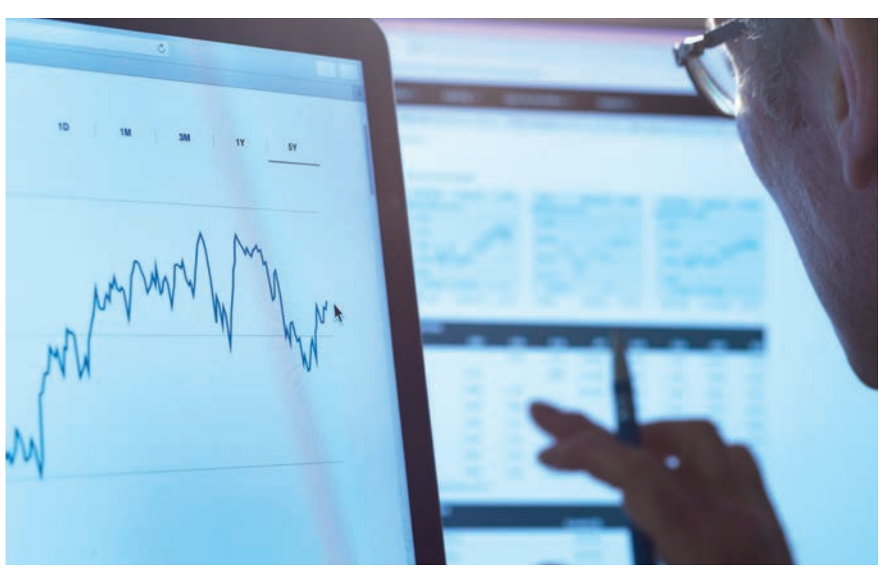
# How the COVID-19 market sell-off compares to previous slides

BY JEFF BENJAMIN



**THE COVID-19** pandemic is sending shock waves through the global financial markets, but veteran financial advisers can look back over previous crises to offer the kind of perspective that investors and even other advisers are searching for.

"People remember the 2008 financial crisis, but this is more similar to 1987 because of the velocity of the decline," said Rick Buoncore, managing partner at MAI Capital Management.

The S&P 500 Index, which has fallen by more than 26% since the start of this year in the wake of the fast-spreading virus, is still a long way from finding its footing, as illustrated by its 12% drop last Monday, which followed a near 10% spike on March 13.

Ken Van Leeuwen, founder of Van Leeuwen & Co., has been working in financial services since 1987, and he believes both investors and advisers are better equipped to handle this decline.

### 'PRETTY PATIENT'

"Some of my clients have been with me for 30 years and they're staying pretty patient, because I think people are more informed now than they were during past corrections," he said.

Even though Mr. Van Leeuwen admits the coronavirus and the economic fallout "came from out of the blue," he credits the media coverage and social media for helping investors to stay informed and keep things in perspective.

By contrast, he said, if investors and consumers in general had understood the potential risks facing the global economy during the 2008 financial crisis, their reaction could have resulted in bedlam.

"I think there would have been much more panic if people realized how vulnerable the banking industry was back then," Mr. Van Leeuwen said. "Maybe we're better off that we lived through a thing like 2008."

Dennis Nolte, vice president at Seacoast Investment Services, agreed that the volatility in financial markets is more extreme than anything in recent memory, but he said the fact that the key drivers are generally noneconomic makes this correction unique and in some ways more manageable from a financial planning perspective.

### 'BIG BEHAVIOR DIFFERENCES'

"This seems worse and it looks like there's no bottom in sight, but any client feedback thus far hasn't been about getting out of the market like it was in 2002 and 2009," he said. "As an adviser, we'd been advocating risk reduction since last February and March, and right now we're sitting tight, not buying, not selling. And any new rollover monies or taxable account monies people want to put to work we're sitting on until the volatility calms down. Big behavior difference for both this adviser and his clients."

Unlike the 2008 financial crisis or even the bursting of the dot-com bubble earlier in that decade, advisers say the current market pullback at least started independent of major economic weak-

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# Now's the time for advisers to think globally but act locally

The financial advice industry prides itself on its service to, and engagement with, its community.

A quick stroll through the mission statements of the major wirehouses, IBDs and RIA networks invariably presents the reader with a variety of statements about the importance of relationships and personalized support. The opportunity is always available to the adviser community to think globally — but act locally — and current events provide us all an opportunity to execute that mantra in a meaningful way.

This week's cover story by Mark Schoeff Jr. highlights the long-term efforts advisers make to provide clients with opportunities to support charities and manage their assets in a way that enables long-term, responsible charitable giving.

Mr. Schoeff reports on Page 8 that donor-advised funds have seen significant growth, particularly since new tax laws came into effect in 2017. Total contributions to DAFs grew by 20% in 2018 to $37.12 billion, according to the National Philanthropic Trust. Those donations represented 12.7% of all individual giving. A total of $23.42 billion was granted from DAFs in 2018, up from $19.7 billion in 2017. The total charitable assets in DAFs was $121.42 billion in 2018, up from $112.10 billion in 2017. The community's broad philanthropic efforts cannot be denied.

The topic was chosen well before any of us gave social distancing and COVID-19 a moment's thought. But now, amid the reality of a unique global challenge, the chance presents itself for advisers to take that global commitment and act locally. As UBS chief investment officer Mark Haefele tweeted last Thursday: "In Europe and the United States, it is now our turn to step up and follow the advice of authorities to protect our communities."

And we have seen the financial advice community begin to step forward.

## SUPPLYING FOOD

In Missouri, RIA Creative Planning increased its gift to Harvesters to $1 million. Harvesters serves a 26-county area of northwestern Missouri and northeastern Kansas, supplying food to more than 760 not-for-profit agencies, including emergency food pantries, soup kitchens, homeless shelters and children's homes.

XY Planning Network organized a pro bono effort to help those struggling as a result of COVID-19, and its effort drew 50 volunteers in the first hour. The group is offering free emergency financial advice to those who have lost income due to reduced hours or taken unpaid sick leave as a result of COVID-19, with all advisers on the platform available to meet virtually.

Similarly, Kevin Mahoney of the financial planning firm Illumint made an offer in a video posted on Twitter to provide pro bono advice to anyone who's been financially impacted by the coronavirus pandemic.

## SEVERE PERSONAL IMPACT

On a more personal but no less important note, Kitces.com senior research associate Meghaan Lurtz shared an exquisitely detailed look at the severe personal impact that crisis situations can have on advisers and clients. The research paper, available on the site, notes that a key to managing yourself and your clients lies in providing self-care and self-compassion while still caring for your peers.

A final example that stood out was Downtown Josh Brown's tweet last Thursday morning in response to reports that the government will write a check to each U.S. adult: "Many of my followers do not have an immediate need for this cash right now. Please reply with the best place to donate that money to that will have the most IMMEDIATE positive impact."

Five hours later, that tweet had generated 400 comments offering alternatives.

**XY PLANNING NETWORK ORGANIZED A PRO BONO EFFORT TO HELP THOSE STRUGGLING AS A RESULT OF COVID-19.**

As Coretta Scott King said, "The greatness of a community is most accurately measured by the compassionate actions of its members."

Given the good fortune many in our industry have enjoyed, now is time for the advice community to help fill a gap that is having a massive impact on entire communities, not just those who might be clients.

**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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# A BETTER WAY

EASY TO SET UP AND ACCESSIBLE TO A BROADER RANGE OF INVESTORS, DONOR-ADVISED FUNDS HELP CLIENTS ACHIEVE CHARITABLE GOALS AND GIVE ADVISERS SOMETHING TO TALK ABOUT

BY MARK SCHOEFF JR.

A Fortune 500 executive client of Dan Rinzema's had a lot of appreciated stock on his hands and felt charitably inclined. So Mr. Rinzema, chief client officer at Greenleaf Trust, turned to a donor-advised fund to help the client with both his tax and giving needs.

The increasingly popular vehicle allows investors to make contributions of cash or appreciated assets – such as public securities, private stock, real estate or art – that qualify for a charitable tax deduction. Once assets have been put in such a fund, investors can make grants to the charities of their choice.

Donor-advised funds facilitate large donations that exceed the higher standard deduction ushered in by the 2017 tax reform law and qualify investors for a tax deduction equal to the fair market value of the donation.

Using a donor-advised fund enabled Mr. Rinzema to "match a high-deduction year with a high-income year" and help the executive avoid capital gains taxes by gifting appreciated stocks, as opposed to cash. Just as importantly, the client can dole out charitable contributions from the DAF.

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OF
GIVING

CONTINUED FROM PAGE 9

"They allow us to create impact in the community the way the client wants, while ensuring tax efficiencies," Mr. Rinzema said.

The funds are touted as a way to strengthen client relationships because they allow financial advisers to start a conversation with clients about strategic charitable giving, even if the clients only make modest contributions.

Donor-advised funds have also generated some controversy because of their opacity. Donations can be made anonymously from the vehicles, and there's no payout requirement or deadline.

One reason the popularity of DAFs has spiked in recent years are changes introduced by the 2017 tax reform law.

Under that measure, the standard deduction doubled to $12,400 for individuals and $24,800 for couples. The higher ceiling, combined with the elimination and reduction of many itemized deductions, has made it more difficult to earn a tax break for charitable giving.

A donor-advised fund often is used to combine several years' worth of contributions into one donation that will qualify for a tax break in a particular year.

Katharine Earhart, co-founder of Fairlight Advisors, helped clients decide to bunch three years of donations into a $75,000 contribution to a donor-advised fund. It is housed at the East Bay Community Foundation, where the clients can help direct it toward charities in the San Francisco area.

While the clients are making distribution decisions on charitable donations, the fund is getting bigger.

"It's sort of like a charitable piggy bank where assets can continue to grow tax-free," said Ken Nopar, senior philanthropic adviser at the American Endowment Foundation, a large DAF.

The timeline from a charitable notion to a donation is fairly short when using DAFs, said David Bennett, president of the Community Foundation Research and Training Institute.

"Compared to a private foundation, it's a lot easier to set them up and get them going," Mr. Bennett said. "Most people can easily achieve their charitable goals through a DAF."

Donor-advised funds also make charitable giving more accessible to those who do not have high net worth, Ms. Earhart said. "It's a perfect strategy for the mass affluent and the affluent."

### RAPID GROWTH

The widespread use of DAFs is evident in their rapid growth. Total contributions to DAFs grew by 20% in 2018 to $37.12 billion, according to the National Philanthropic Trust. Those donations represented 12.7% of all individual giving. A total of $23.42 billion was granted from DAFs in 2018, up from $19.7 billion in 2017. The total charitable assets in DAFs was $121.42 billion in 2018, up from $112.10 billion in 2017.

The NPF, which estimates there were about 728,563 donor-advised fund accounts in 2018, called them the most active and fastest-growing philanthropic vehicle.

"They're absolutely taking off," said Ann Gill, chief philanthropic officer at Vanguard Charitable.

Vanguard, Fidelity and Schwab sponsor donor-advised funds through their charitable organizations. Fidelity Charitable announced in February that donors recommended a record $7.3 billion in grants from their DAFs housed at Fidelity. Also in February, Vanguard Charitable said it had issued $10 billion in grants since its inception in 1997.

Ms. Gill touted the low cost, ease of use and flexibility of DAFs. But their value to financial advisers can also be measured in how they shape client relationships by catalyzing a discussion about what they want to do with their money.

"It takes the conversation to a deeper level," Ms. Gill said. "You're able to connect with them on an emotional basis. They're not just talking about rebalancing their portfolio."

Ms. Earhart encourages advisers to help their clients "prepare a philanthropic budget," she said. "Ask them: What causes are you passionate about? It gives you another way to talk to your clients and get to know them."

## DAFs ARE EASIER TO ESTABLISH, ADMINISTER THAN PRIVATE FOUNDATIONS

But foundation advocates say they allow more sophisticated philanthropy than a DAF

Timothy French is a big fan of donor-advised funds.

The vehicles enable investors to group charitable donations they would give over several years into one lump sum that qualifies them for a tax deduction at a time when the increased standard deduction has killed most itemized deductions. The money in the DAF can then be granted at the direction and pace suggested by the donor.


TIM FRENCH

"We recommend them fairly extensively," said Mr. French, managing director and chief client officer at Altair Advisers. Clients "use the DAF to lock in their deduction and then they can take their time to determine who they want to be the ultimate beneficiary of the funds from the DAF."

Unlike a private foundation, a DAF does not require filing IRS paperwork to set it up nor does it require an annual Form 990 tax return. Foundations must have a board with legal authority and require an annual 5% payout.

"The DAFs are absolutely easier [to establish] than the private foundations," Mr. French said.

Financial advisers often reflexively favor DAFs over foundations without looking into foundations, said Page Snow, chief philanthropic and marketing officer at the Foundation Source, a provider of support services for foundations.

"For advisers, a DAF is the default recommendation because they're comfortable with them," Ms. Snow said. "I don't think advisers really understand the differences between the two so that they can advise the client on the best [choice] for their tax, charitable giving and family situation."

Foundations offer more flexibility than a DAF, Ms. Snow said. A DAF is a single account within a larger charity. A foundation can be used for more purposes.

For instance, with a foundation, a donor can give to families or individuals in need or set up a scholarship program in which they select the recipients themselves. Donors can run their own charitable programs through a foundation, such as providing textbooks for schools.

A foundation can hire staff and pay for expenses associated with charitable endeavors.

More ambitious giving is better served by foundations, Ms. Snow argues.

"If you have a bigger DAF, you're going to want to do more sophisticated philanthropy" that can be accomplished through a foundation, she said. A DAF cannot be converted to a foundation.

There were about 728,563 donor-advised funds in 2018 compared to 80,000 independent private foundations, according to the National Philanthropic Trust. But foundations had $873 billion in assets compared to $121 billion held by DAFs.

Ms. Snow said it's a myth that foundations are the domain of the ultra-wealthy. For instance, there is no minimum asset requirement to establish a foundation. She also asserts that they're not significantly harder to manage than a DAF.

"We've made running a private foundation as easy as running a DAF," Ms. Snow said.

*— Mark Schoeff Jr.*

**$37.12B**

TOTAL CONTRIBUTIONS MADE TO DONOR-ADVISED FUNDS IN 2018

### IMPORTANT OUTCOME

Helping a client determine where to direct his or her charitable contributions is one of the most important outcomes of such conversations, said Peter Lipsett, vice president of DonorsTrust, a donor-advised fund. For instance, clients who are more conservative in their political views might want to contribute to Mr. Lipsett's fund, which he said does not give money to any organization that takes money from the government.

"The more financial advisers understand that there's this broad spectrum of providers for DAFs out there, the more their advice can go beyond tax savings to actually helping the client figure out the guidelines they have for their philanthropy," Mr. Lipsett said.

Critics of donor-advised funds say the vehicles are opaque, allowing those making contributions to hide behind a veil of anonymity, increasing the chances for self-dealing or contributions to radical organizations.

But advisers and other experts say anonymous donations are rare.

"I've worked with hundreds of DAFs; I've seen that one or two times," Mr. Bennett said.

Another criticism is that there are no rules governing when payouts must be made. Money can sit in DAFs for years without being granted.

**'INSUFFICIENT DATA'**

"There's insufficient data on a per account basis because the sponsoring organizations only have to file reports on an aggregate basis," said Ray Madoff, a professor and director of the Forum on Philanthropy and the Public Good at Boston College Law School.

Regulatory or legislative changes may be coming in this area. Recently, the California legislature considered a a bill that would require DAF payout rates.

Vanguard Charitable makes donors distribute at least $500 every three years. If they are inactive, the organization will grant 5% on their behalf.

## "THESE ASSETS ARE INCREDIBLY DIFFICULT TO VALUATE ACCURATELY."

RAY MADOFF, PROFESSOR AND DIRECTOR OF THE FORUM ON PHILANTHROPY AND THE PUBLIC GOOD, BOSTON COLLEGE LAW SCHOOL

"I would not be surprised if we see some kind of minimum payout requirement for DAFs," Mr. Bennett said.

Unlike donations to a foundation, which produces a tax benefit on a cost basis, DAFs provide a tax break at the fair market value. This creates a problem when much of the giving to DAFs is in the form of appreciated assets, which can be complex, rather than cash, Ms. Madoff said.

"These assets are incredibly difficult to valuate accurately," she said.

Regardless of how the assets are priced, when a client decides to put them in a DAF, they no longer belong to the client and often leave an advisory firm's control.

"It's not your money anymore," said Richard Pon, owner of an eponymous CPA and advisory firm. "I have to keep reminding people of that."

**MANAGING THE MONEY**

Many community foundations as well as the large brokerage DAF sponsors will let advisers continue to manage the money in a client's DAF if it is large enough.

But advisers say they will recommend a DAF to a client if it's the best way to facilitate – or launch – their charitable giving, even if it reduces their assets under management.

"That's a great conversation to have with people," said Gavin Morrissey, managing partner at FSA Wealth Management. "You're not selling. This is precisely an advisory situation. If you're chasing money over a DAF, you have to rethink the way you're running your practice."

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# Market drop could cause some to postpone retirement

It was a small survey by national polling standards, but a significant one.

A random online survey of 380 Americans ages 55 to 60 conducted earlier this month found that recent stock market volatility had not yet rattled Americans close to retirement age, with 96% of respondents saying that it has not affected their retirement plans.

But the survey also found that another 10% drop in the market would have a profound impact on the way that near-retirees view retirement and the economy at large, according to SimplyWise, a new online site providing retirement planning advice for consumers. Four in 10 respondents said they would delay their retirement if the market dropped another 10%.

MARY BETH FRANKLIN

**ONRETIREMENT**

The survey was conducted during the first week of March, before the S&P 500 index plunged nearly 12% on March 16 in the index's worst single-day performance since 1987.

Of those survey respondents who said they would stay in the workforce longer, more than one in three said it would be for at least five years. On average, those putting off retirement said they would work an additional 4.9 years.

Older people are already working at record levels, with more than 10.3 million people age 65 and older in the workforce, according to the U.S. Bureau of Labor Statistics. Separately, a poll from the Associated Press-NORC Center for Public Affairs Research found that 23% of workers said they don't expect to ever stop working.

**KEY POINTS**

- Four in 10 respondents said they would delay their retirement if market dropped another 10%.
- 23% of workers said they don't expect to ever retire.

## PRESERVING NEST EGGS

Working longer can be a good solution to prevent a shrinking nest egg from being tapped too soon, allowing investments to recover and extending the life of a retirement portfolio. Working longer also allows workers to save more for retirement and reduce the number of years they are dependent on withdrawals from those savings.

But working longer isn't the only adjustment that Americans said they would contemplate in response to a more prolonged stock market rout.

About a quarter of those surveyed by SimplyWise said they would consider claiming Social Security benefits earlier than they had originally planned in response to a severe market downturn. And that could be a costly mistake.

About one-third of Americans already claim Social Security at the earliest possible age of 62, permanently reducing their monthly retirement benefits and curtailing potential survivor benefits in the case of some married couples.

The decision on when to claim Social Security benefits is based on several factors, including the year you were born, your marital status, your health and your overall finances. People who were born between 1943 and 1954 have a full retirement age of 66. Claiming benefits at the earliest age of 62 reduces their benefits by 25%.

The full retirement age increases by

two months for every birth year between 1955 and 1960, which means a decision to claim early would result in an even larger reduction in benefits for those with a higher full retirement age. For example, someone who was born in 1960 or later can still claim Social Security retirement benefits as early as age 62, but their benefits would be cut by 30%.

In addition, people who claim Social Security before their full retirement age and who continue to work are subject to earnings restrictions. In 2020, if you are under full retirement age for the entire year and you earn more than $18,240, you would forfeit $1 in Social Security benefits for every $2 earned over that limit.

**FRA BENEFITS**

In the year you reach full retirement age, there is a more generous earnings test. You can earn up to $48,600 in 2020 in the months before your 66th birthday and you would forfeit just $1 in benefits for every $3 over that limit. Once you reach full retirement age, the earnings cap disappears, so you can earn as much as you like without reducing your Social Security benefits. And, any benefits forfeited due to excess earnings would be restored in the form of larger monthly benefits.

For those people who are willing to delay claiming Social Security benefits until age 70, there is a huge bonus. They earn an extra 8% per year for every year they postpone claiming benefits beyond their full retirement age up to age 70. But it makes no sense to delay claiming beyond age 70 as the delayed retirement credits end.

Individuals with a full retirement age of 66 can increase their monthly benefits by 32% for the rest of their lives by waiting until they're 70 to claim Social Security. As a more dramatic illustration of the value of waiting, the difference between collecting reduced benefits at age 62 versus maximum benefits at age 70 can mean a 76% increase in benefits for the rest of your life.

**$18,240**

EARNINGS LIMIT FOR THOSE WHO CLAIM BENEFITS BEFORE FRA BUT CONTINUE TO WORK

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

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**990** NET GAIN OF REGISTERED INDEPENDENT ADVISERS IN 2019.
**SOURCE:** INVESTMENTNEWS RESEARCH

## Financial advice industry shuffles conferences

BY BRUCE KELLY

**WITH THE CENTERS** for Disease Control and Prevention advising last Sunday that no gatherings with 50 people or more be held for the next two months due to the COVID-19 virus, the financial advice industry went back to work last Monday with a broadly different travel calendar.

LPL Financial told its advisers it was pushing back its top producer meeting, called Summit, to October from the end of this month.

"Given the current and rapidly changing environment, we don't believe we can ensure a positive experience for you and your guests in March," wrote Andy Kalbaugh, managing director of national sales and consulting, in an email.

Firms were making changes to meetings and conference schedules well before the CDC's advisement, however. Financial adviser technology giant and turnkey asset management platform, Envestnet Inc., said it was cancelling its annual Advisor Summit conference due to concerns about the coronavirus.

On March 13, Raymond James Financial Inc. said in a statement that firm-hosted conferences were cancelled or postponed until at least the end of April. That included the well-attended meeting for its independent broker-dealer, Raymond James Financial Services Inc., which was scheduled to kick off April 20 in Orlando, Fla.

**KEY POINTS**
- COVID-19 outbreak has caused multiple industry conference postponements.
- Firms started changing plans before CDC guidance.

### ADVISER SUMMIT

HighTower Advisors, in accordance with CDC recommendations, has decided to postpone its financial adviser summit in Nashville in April, according to spokesperson Patricia Buchanan. The firm is looking to schedule the conference sometime during the week of Oct. 19 in a location still to be determined.

Meanwhile, regulators and trade groups are also revising their conference schedules.

Finra is canceling or postponing all events scheduled through April 6, including its west region member forum on March 26 in San Francisco and the diversity summit on April 1 in New York, according to its website.

The Securities Industry and Financial Markets Association said it was canceling three conferences this month, including its popular compliance and legal meeting in the middle of the month, and pushing back to June a financial management education day from the end of April, according to its website.

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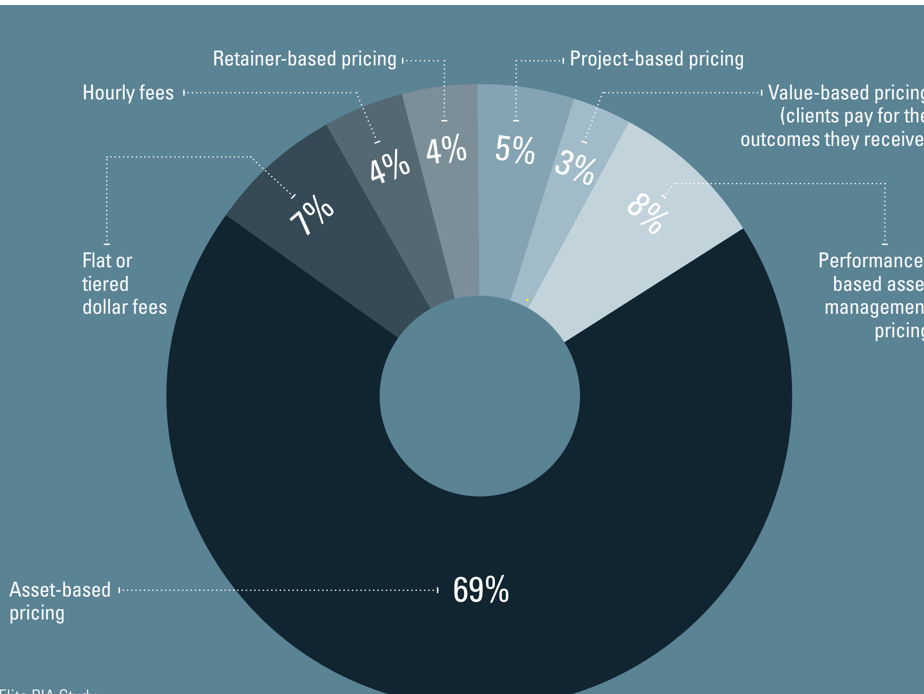
## WHAT WILL MAKE UP FOR DECLINING COMMISSIONS?

Advisory firms overwhelmingly expect asset-based pricing to make up most of the lost revenue in a zero-commission environment over the next three years.*




Source: InvestmentNews Research 2019 Elite RIA Study
**Results expressed as a percentage of lost commission revenue.*

## Envestnet cancels Advisor Summit Conference


BY RYAN W. NEAL

**FINANCIAL ADVISER** technology giant and turnkey asset management platform Envestnet Inc. is cancelling its annual Advisor Summit conference due to concerns over the spreading COVID-19 virus.

The Envestnet conference was scheduled to be held April 29 and 30 in Austin, Texas.

The city of Austin has already cancelled the massive South by Southwest music event, which was originally scheduled to begin March 13. Envestnet was hoping the situation would improve by the time of its conference in late April, according to a statement published on the Advisor Summit conference website.

### REFUNDING FEES

Envestnet is refunding registration fees for all attendees.

"Our Advisor Summit is something we look forward to each year, and we know that this decision may disappoint you. We certainly are disappointed," representatives of Envestnet said in the statement. "While everyone at Envestnet would like to hold the annual Advisor Summit as planned, we know that this is the right decision. The health and safety of our employees, clients, sponsors, partners, and all involved with the Advisor Summit remains our top priority."

Envestnet is considering alternatives for attendees to access some conference content digitally, but no specific plans have been announced. The next Advisor Summit will be held in April 2021 in Nashville, Tenn.

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# Captrust stays hungry with purchase of $5.5B firm

BY JEFF BENJAMIN

**CAPTRUST FINANCIAL** Advisors has snapped up one of the largest firms it has ever purchased and tacked on $5.5 billion in new assets in the process.

The firm's second acquisition of the year, of Montgomery, Ala.-based Welch Hornsby, pushed its assets under management and advisement to roughly $370 billion.

Edward Welch, chief executive of the 32-year-old advisory firm, said the sale was not intended as a succession plan, but that "it certainly solves that issue."

Another bonus of the deal is that of selling at the top of the white-hot market for advisory firm consolidation.

The deal, in the works since June, officially closed Feb. 15, just ahead of the stock market pullback in response to the COVID-19 pandemic.

## GOOD FORTUNE

"Fortune smiled on us in that regard," Mr. Welch said, referring to the potential for valuations to fall in stride with the stock market downturn.

Welch Hornsby, which will operate under the Captrust brand, has offices in Alabama and North Carolina.

Like Raleigh, N.C.-based Captrust, the majority of the firm's assets under advisement are in qualified retirement plans. But the firm has $1.75 billion of discretionary managed assets, and 70% of its revenues are related to wealth management.

Mr. Welch said the sale to Captrust started nearly two years ago, when he was looking for sources of outside capital. That led him to some investment bankers, introducing him to about 20 different potential buyers.

"There's a lot of energy around this, and we're very excited," he said. "Captrust has built an incredible firm with rich resources for us to draw from, including an incredible tech stack and a robust trading platform that will free up our guys to be in front of their clients more than in the past."

Captrust did not disclose details of the transaction, but said firms that join usually receive a mix of cash and equity, with at least 50% of the deal being Captrust equity.

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# Business development companies under pressure from COVID-19 fallout

BY BRUCE KELLY

**DUE TO THE FAR-REACHING** impact of COVID-19, business development companies — one of the most popular alternative investments sold by independent broker-dealers — will feel increased stress due to levels of debt and loan covenants, according to a note issued by Fitch Ratings last Tuesday.

The credit rating agency "expects [BDCs] to mark their portfolios to fair market value on a quarterly basis to be an increasing pressure point, in light of falling asset prices resulting from the global coronavirus pandemic," according to the note.

## WIDE SPREADS

The very wide spreads on high-yield bonds are one reason for driving down the net asset values of BDCs right now, said one industry executive, who asked not to be named.

"Most of these BDC funds are levered up, perhaps forcing them to break covenants," the executive said, citing loan covenants, a promise in a bond issuance that requires borrowers to meet certain criteria. "And when loan covenants are broken, BDCs become forced sellers of assets. This is not a great market to be selling into. Can you imagine holding the debt of restaurants or energy companies now? That's not a great outlook."

Broker-dealers have sold more than $22 billion of nontraded BDCs since 2010, according to Robert A. Stanger & Co. One product sponsor and manager, FS Investments, accounts for roughly half of that total.

BDCs are essentially banks, raising capital from investors and making loans to private companies. The closed-end companies invest primarily in debt and equity of private firms.

## NEGATIVE RATING IMPLICATIONS

"Portfolio marks, on their own, are not necessarily indicative of the ultimate credit performance of individual loans, but unrealized write-downs can pressure credit facility covenants, including asset coverage requirements and minimum equity levels, all of which can have negative rating implications," according to Fitch.

While Fitch's note focused on traded BDCs; illiquid, nontraded BDCs were a popular alternative investment product sold by advisers after the credit crisis.

Like nontraded real estate investment trusts, many nontraded BDCs charged high commissions of 6% to 7%.

Fitch noted that one FS Investments BDC, the listed FS KKR Capital Corp., had the highest exposure to unfunded loan commitments, or contractual obligations for future funds, among the 11 BDCs it examined, but that exposure drops considerably for the company when joint ventures and unfunded equities are excluded.

"As the largest BDC complex in the market, FS KKR Capital is actively engaged with its portfolio companies to provide support during these challenging times," wrote a company spokesperson in an email.

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# GPB auditors to get back to work after postponement

BY BRUCE KELLY

**BELEAGUERED** investors who bought private placements managed by GPB Capital Holdings may be on track to get some clarity into the value of those funds.

On March 12, the company confirmed that auditors should get back to work around the start of next month. That's a turnaround from November, when GPB informed investors in its two largest funds that it was not going to meet a commitment to provide them with audited financials at the end of 2019.

At the time, GPB said its outside auditor had suspended work and the internal audit committee was resigning. GPB cited an investigation by an outside law firm — and other matters, including the indictment of the company's former chief compliance officer — as reasons for the suspension.

The company, which sold $1.5 billion in private placements starting in 2013, said it did not have an exact date for when the audits would be completed, but would keep investors informed.

## DECISION TO SUSPEND WORK

"As previously communicated, the auditor for the two partnerships which will become public reporting companies, GPB Holdings II and GPB Automotive Portfolio, had decided to suspend work on outstanding financial statement audits," the company said in a statement. "At this time an anticipated audit completion date has not yet been provided, but we will communicate further guidance as it becomes available."

Under Securities and Exchange Commission guidelines, the two GPB funds were supposed to file public financial statements by the spring of 2018. Although the funds are private partnerships, in 2017 both GPB Holdings II and GPB Automotive Portfolio crossed the threshold on size and on the number of investor partners, requiring them to file public financial statements with the SEC.

Last summer, the company said that GPB Holdings II and GPB Automotive Portfolio had seen declines in value, respectively, of 25.4% and 39%. But those valuations were not based on audited financials. The two funds raised $1.27 billion from investors and make up the lion's share of GPB Capital's portfolio.

**$1.27B**
AMOUNT RAISED BY GPB'S TWO UNAUDITED FUNDS

## DIFFICULTIES ENDURED

GPB and its investors have endured a cascade of difficulties. The company has been under investigation by the SEC and FBI. In October, the Department of Justice charged GPB Capital's chief compliance officer, who was also a former SEC examiner, with obstruction of justice relating to the SEC investigation of GPB.

The executive, Michael Cohn, allegedly stole information from the SEC before starting work for GPB in October 2018.

A spokesperson for the company, Nancy Sterling, said the company was "stunned" to learn of the charges against Mr. Cohn and replaced him with Aileen Doherty, an industry veteran.

GPB has been accused in multiple lawsuits of operating a Ponzi scheme that attracted approximately $1.5 billion from wealthy individuals to invest in auto dealerships and trash hauling limited partnerships.

GPB has denied the Ponzi scheme allegations.

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## Finra postpones in-person arb hearings due to coronavirus concerns

BY MARK SCHOEFF JR.

**FINRA HAS** postponed all in-person arbitration and mediation proceedings scheduled from now until May 1 in response to the COVID-19 outbreak.

The Financial Industry Regulatory Authority Inc. said in a posting on its website last Monday that parties involved in cases affected by the delay will be contacted to reschedule or to discuss remote hearing options.

The broker-dealer self-regulator noted that case deadlines will continue to apply unless both parties agree to extend them.

"We recognize that this decision may cause inconvenience and we do not make it lightly," Finra said in the announcement. "We are taking this preventative action out of an abundance of caution, in the interest of public safety. The well-being of our FINRA employees, arbitrators, stakeholders and communities is of paramount importance."

### MOVE MAKES SENSE

A former director of Finra arbitration said the move makes sense given how the pandemic is evolving. The regulator previously had postponed arbitration hearings in the wake of the Sept. 11, 2001, terrorist attacks and Hurricane Maria in Puerto Rico.

"The health emergency is inevitably going to impact arbitration participants across the board, so this action by Finra should not be terribly surprising or disruptive," said George Friedman, editor in chief of the Securities Arbitration Commentator.

Andrew Stoltmann, a Chicago securities attorney, said Finra had to take steps to avoid a situation where a "Typhoid Mary" was involved in an arbitration proceeding.

"If you find out a Finra arbitrator or staff member is infected with the coronavirus, it could expose Finra to legal liability," he said.

But Mr. Stoltmann, a member of the Public Investors Arbitration Bar Association, said the postponement of in-person arbitration hearings should be limited.

### 'SERIOUS ISSUE FOR INVESTORS'

"It's safe to say Finra gets the benefit of the doubt," he said. "But if they extend this out indefinitely, it's a serious issue for investors."

In a recent blog post, Mr. Friedman wrote that the coronavirus could force Finra to turn to online arbitration and videoconferencing.

**KEY POINTS**

- The regulator may offer parties online hearings as an alternative.
- Case deadlines continue to apply unless both parties agree to an extension.

Finra's offer of remote hearing options doesn't reassure Adam Gana, a partner at Gana Weinstein who has some arbitration cases in the pipeline that will have to be postponed.

"I'm not sure how remote options are going to help our clients," Mr. Gana said. "Justice delayed is no justice at all. Efficiency is the one true benefit of [the Finra arbitration system]. If it loses that, it's going to be a real problem."

Finra runs the arbitration forum where customer complaints against brokers and broker complaints against firms are heard. Almost every brokerage contract has a mandatory arbitration clause.

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## Finra clarifies where Reg BI supersedes suitability standard

BY MARK SCHOEFF JR.

**FINRA HAS PROPOSED** a rule that would clarify when the current suitability standard for brokers will be superseded by a new broker advice rule set to be implemented this summer.

On March 12, the Financial Industry Regulatory Authority Inc. filed with the Securities and Exchange Commission a proposal to amend the suitability rule as well as rules governing non-cash compensation for brokers.

The changes would make clear that the SEC's Regulation Best Interest for brokers will apply to broker recommendations for retail customers. But brokers would continue to adhere to suitability for transactions with institutional investors and in other circumstances.


### SUITABILITY RULE STAYS

"Finra does not propose to eliminate the suitability rule because it applies broadly to all recommendations to customers whereas Reg BI applies only to recommendations to 'retail customers,'" the rule proposal states. "Thus, FINRA's suitability rule is still needed for entities and institutions (e.g., pension funds), and natural persons who will not use recommendations primarily for personal, family or household purposes (e.g., small business owners and charitable trusts)."

The SEC approved Reg BI, as it's known, last summer as part of a regulatory package designed to strengthen investment-advice rules. It must be implemented by firms by June 30.

### PROPOSAL SENT TO SEC

Finra sent the rule proposal to amend suitability straight to the SEC without a comment period. If the SEC approves the rule, Finra said it will publish a regulatory notice within 60 days of the SEC decision. The rule would go into effect on the Reg BI implementation date.

Finra is trying to preserve certain aspects of the suitability rule instead of scrapping the standard, said Kurt Wolfe, a securities attorney at Troutman Sanders.

"They're almost trying to thread a needle," Mr. Wolfe said. "What they're saying is where Reg BI applies, it's the law of the land. For anything around the periphery, Finra rules still apply."

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# Getting Reg BI right benefits investors and brokers alike

Some misguided activists and policymakers are threatening a new federal investment advice rule that strengthens investor protections while preserving investor access to products and services and low-cost advice.

**GUESTBLOG**
**TOM QUAADMAN**

The SEC's Regulation Best Interest is a national standard that protects investors by obligating brokers to put the financial interests of their customers first. Reg BI also requires clear, concise disclosures regarding fees and conflicts of interest so investors can make informed decisions.

Reg BI was the culmination of a comprehensive, years-long effort by the SEC to enhance the standards of conduct for financial professionals and to protect retail investors, including younger investors who are just starting to save for a secure retirement. The U.S. Chamber of Commerce has long supported the SEC's taking the lead in developing a uniform best-interest standard of care for financial professionals, and it successfully led a challenge in the courts to overturn a Department of Labor fiduciary rule that would have made retirement more difficult for hard-working Americans by limiting choice and access to advice.

The SEC got Reg BI right because it carefully balances consumer protection with investor choice. For one, Reg BI includes a requirement that brokers act in the best interest of their clients.

## NEW TRANSPARENCY

Second, Reg BI requires valuable new transparency focused on ensuring that investors are informed. The new Form CRS summary is investor-friendly and will allow individuals to make more informed decisions when working with a financial professional. This additional disclosure and education supports consumer choice in deciding the best course of action for their long-term investment strategy, either a low commission brokerage account or an advisory account with ongoing fees based on a percentage of their account balance.

Finally, Reg BI, by strengthening the federal standards for brokerage advice, should give state regulators confidence that strong federal rules are in place and discourage the development of a conflicting patchwork of state regulations, which confuse investors.

Nonetheless, various states are pursuing investment advice regulations that would cause confusion and create headaches for consumers and financial professionals. Most recently, Massachusetts finalized a fiduciary duty rule that includes a number of problematic provisions at odds with Reg BI.

We believe that there should be one national standard and are weighing our options for next steps as additional states, such as New Jersey, seek to institute some variation of a rule that would also conflict with Reg BI.

The latest legal salvo in the fight against Reg BI is a lawsuit by seven states (plus the District of Columbia) to have the rule vacated. Apparently, these states have no qualms about diminishing investor protections and consumer choice.

**THESE STATES HAVE NO QUALMS ABOUT DIMINISHING INVESTOR PROTECTIONS.**

## ONGOING LAWSUIT

As part of the ongoing Reg BI lawsuit, former Sen. Christopher Dodd and former Rep. Barney Frank have joined with 10 other current and former lawmakers in filing an amicus brief challenging Reg BI. In the wake of the financial crisis, these two policymakers championed the Dodd-Frank Act, which included a provision granting the SEC discretion to study and address the rules governing broker-dealer and investment advisers.

It's time to put away our differences and allow the swift, smooth implementation of Reg BI this summer. The new national standard raises the bar for investor protection while preserving investor choice. For the sake of investors, it's important that Reg BI is implemented and that efforts in the states are shelved. A uniform, transparent and flexible rule will ensure brokers, investors and the U.S. economy flourish. It's important to consumers that we get this right.

*Tom Quaadman is executive vice president of the U.S. Chamber of Commerce's Center for Capital Markets*

# Future-proofing your business: An alternative approach to navigating the generational wealth transfer

Claims about the much-anticipated $30 billion "Great Wealth Transfer" expected in the next 30 to 40 years are worthy of a reality check: The GWT is certainly a major opportunity for financial advisors, but it's not a slam-dunk income stream—only advisors who understand its nuances and are prepared to put in the necessary legwork are likely to reap its benefits.

Regardless of how this watershed financial event unfolds, one important reality is that Baby Boomer clients will need sustained and evolving financial services for decades to come.[1]

No doubt you've put some thought into connecting with your next generation of prospective clients. Don't stop! Focus on directing resources, developing messaging, and creating a slightly different client experience for these future wealth creators and accumulators.

But don't forget about the other half of the equation: How your business should evolve in continuing to serve Baby Boomers. They may be rotating out of the workforce, but they're not retiring from financial planning.

## LIFE AND BUSINESS LONGEVITY

If you're an advisor serving Baby Boomers, your work is just beginning. Today's 65-year-olds can expect to live at least another 18 years, on average—women even longer[2]—and their financial needs are likely to undergo a major transformation.

Baby Boomers' income streams, philanthropic endeavors, spending, and health care costs will require increasingly sophisticated money management. Are you positioned to help your clients navigate the shift from the accumulation of wealth to retirement?

In addition to recruiting new prospective clients, future-proofing your business requires adapting to your existing clients' changing needs. Remember—a mere 5% boost in customer retention can add up to 25% to your profits.[3]

## ASK THREE SIMPLE QUESTIONS

Before you can pivot your business, you need to know which direction to go. Gather data by leading a conversation with your current Baby Boomer clients to understand their evolving financial-planning needs.

- Retirement goals checkup. Are your clients rethinking their plans? Baby boomers are the richest generation in the US, yet 53% of workers over 60 feel they need to postpone retirement.[4] Even if you and your client have already planned for travel dreams, passion projects, major purchases, and philanthropy, check in on whether goals or timeframes have shifted. Expectations and financial strategies may likewise need to adjust.
- Planning for health care. While the oldest Baby Boomers are now 74, the youngest are only 56. Even if your clients plan to continue accumulating wealth for another decade or more, now is the time to plan for their future health and long-term care expenses.

  The US Health and Human Services department estimates that today's 65-year-olds have a 70% chance of needing long-term care (LTC)—which can cost up to six figures a year.[5] Take the time to discuss cost of living and income changes, health care expenses, and insurance or financial products with LTC riders. Even the wealthiest clients may benefit from incorporating LTC provisions into their strategies.

- Estate planning. One sixth of Baby Boomers plan on spending their wealth on themselves, leaving nothing behind.[6] For the rest, as many as 94% will likely not turn to their main financial advisor for estate planning.[2]

  Make sure you and your clients are on the same page regarding estate planning. Ask about family members, philanthropic causes, and whether they plan on leaving any of their current assets behind. Broaching this topic is an opportunity to build bridges to the next generation while strengthening your relationship with the current one. If your clients haven't given thought to specific legacy goals, plant the seed.

Armed with this data, your next step is to consult with trusted Practice Management Consultants such as E*TRADE Advisor Services, who can help you make an informed decision about how to evolve your business and strategy.

## DON'T BET THE FARM

The Great Wealth Transfer is an opportunity for advisors, but the path wealth takes from one generation to the next can have unexpected twists and turns. After all, research shows that as many as 70% of intergenerational wealth transfers don't go smoothly,[2] and chances are the GWT won't play out as we expect.

You can't afford to ignore the next generation, but don't miss the enormous opportunity to continue serving and growing your existing relationships with Baby Boomer clients. Start the conversation with your clients and your practice–management resources to identify where you can solve for new, complex demands as the "wealthiest generation" and the "next generation" embark on massive life transitions. ■

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**"ETF INVESTORS MAY LOSE FAITH IN THE ETF PRODUCTS ... UNLESS POLICY MAKERS TAKE ACTION TO BREAK THE [ILLIQUIDITY DEATH] LOOP."**
PETER CHATWELL, HEAD OF MULTI-ASSET STRATEGY, MIZUHO

# Fear is a seller in a market downturn, but excitement buys

Have you ever tried to stay calm on a roller coaster? Your heart rate isn't going to slow down while you're hurtling along the track 100 feet above the ground. It's just not possible.

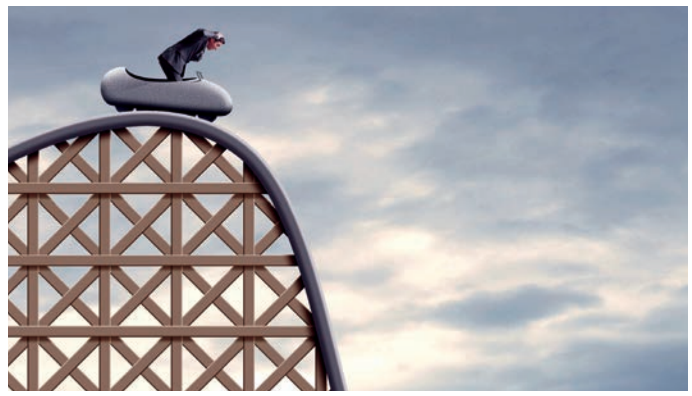
**GUESTBLOG**
**SARAH NEWCOMB**

The same is true when you're watching your life's savings evaporate while seemingly rational people talk about chaos, panic and plague. It's normal to feel anxiety.

As investors, we're constantly told to remain calm during market turbulence. Anxiety lowers cognitive abilities, risk tolerance and confidence, so it's not the ideal emotional state for an investor. But trying to calm down when the markets are crazy might be ineffective advice.

According to Harvard researcher A. W. Brooks, the impulse to try to calm ourselves when we are anxious doesn't help us perform better. Ms. Brooks studied the effect of coping strategies on performance in high-anxiety tasks like singing performances, math exams and public speaking. In her experiments, she found evidence that people might have more success by "reappraising anxiety" instead of trying to calm down.

Anxiety raises your heart rate and creates a restlessness in the body. Excitement also raises your heart rate and creates a restlessness in the body. The two emotions feel strikingly similar, except that anxiety is felt as negative and can lead to negative outcomes, while excitement is felt as positive and can improve outcomes (at least on tests and karaoke challenges).



The idea is that if we can tell ourselves that we feel excited rather than anxious, we'll be better equipped to ride out stomach-lurching market drops. Whether it's a pandemic, political shift, technological breakthrough or something else, we will see black days, weeks or months in the market. As an investor, it's normal to get scared. Instead of staying calm, treat it like a roller coaster; turn the fear into fun.

## HOW TO DO IT

I used to hate roller coasters. To me, the experience was torture with absolutely no benefits. Why would a person put themselves into such a situation?

But my daughter is a thrill-seeker. So, when we went to a theme park, I was faced with a choice: Disappoint my daughter, or get on the most extreme ride of my life. Standing in line, I knew that if I was going to ride this ride, I needed to change how I felt about it — pronto. I decided to treat it as a test of courage, and I would not let the fear take over. Rather than block the experience, I would find the fun. In this excited mindset, I wasn't fazed to be ushered to the front. I strapped myself in and chose a song to play in my head, to focus my emotions. As we began the slow crawl to the first peak, I kept my eyes open and told myself, "I'm excited." At the summit, facing a near-vertical drop, I thought, "Bring it on!"

I screamed, I laughed, I screamed some more. I felt the intensity of emotion fill my senses. By the time the ride was over, I was truly enjoying myself, and I felt braver than ever before. Surprisingly, I was ready to ride again.

## EXCITEMENT SEES OPPORTUNITY

The technique I used was simply to tell myself I was feeling excited while I was feeling scared. This is one of the techniques that Ms. Brooks had her study participants use, and it's easier than you think. Because your body is already agitated, your brain will believe you. This has worked for me in situations as disparate as public speaking, exams, business pitches and, yes, investing my own money.

The difference between fear and excitement is significant. Fear looks for threats, and excitement looks for opportunities. When you are fearful, market drops trigger anxiety that would frighten the calmest among us.

On the flip side, when you are excited, your brain looks for opportunities and believes in optimistic outcomes. If you're excited about the market dropping, you'll search for discounts on companies and funds that you may have previously wanted to buy, but were overpriced, or out of your price range.

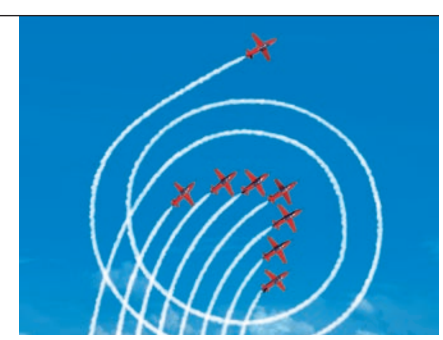
When the COVID-19 outbreak became a market scare, I had to fend off the urge to lower my portfolio risk exposure. I know better, but fear is a natural response to threat. So, I thought about the roller coaster. My inner monologue said, "Here we go, bring it on!"

And then an amazing thing happened: I started to feel calm. I felt amused by the five-figure drop in my balance in one day. I told my teenage daughter, who is trying to decide how to invest a small inheritance, "Listen, you need to pick some companies because I don't know when we're going to have a better opportunity to buy at great prices than right now."

Fear sells. Excitement buys. That's the power of anxiety reappraisal. Use it.

*Sarah Newcomb is a behavioral economist at Morningstar*

# One TDF series has outperformed others in market plunge



BY EMILE HALLEZ

**THE RECENT STOCK** market dive has wreaked havoc on target-date funds, but one provider's series has been considerably less affected than most.

Columbia Threadneedle's Adaptive Retirement target-date series saw less than half the amount of performance losses suffered by most other U.S. target-date mutual funds between Feb. 24 and March 12, amid a free-fall in global markets fueled by the spread of COVID-19.

In that time, 2020 vintages of U.S. target-date mutual funds returned -12.9%, on average, and a median of -12.1%, while 2055 funds saw returns of -24% on average, with a median of -23.8%, according to an analysis of data from Morningstar Direct. By comparison, Columbia's 2020 fund returned -5.2%, and it's 2055 fund returned about -13%, according to the Morningstar data.

"Our funds really do look nothing like any of the other funds in the [TDF] universe," said Josh Kutin, lead portfolio manager for the series. "[They] were built for this sort of environment."

The series is relatively new, with the first such funds launched in 2017. But the line of products is not the company's first. Its prior Retirement Plus line of target-date funds closed in 2012.

## NEW APPROACH

The newer series has a different approach to asset allocation than most other target-date funds. Rather than setting allocations to capital, the series has allocations to risk. It has four different configurations for its glide path, which the company can quickly switch between in various market conditions. And it did so after Feb. 28, Mr. Kutin said.

In February, the series was in its "neutral" glide path, with the 2020 fund having a 28% allocation to equity and its 2060 fund having 80% in equity and 65% in Treasuries, with the use of futures, Mr. Kutin said. It has since switched to a "capital preservation" assumption, with the 2020 fund now having just 7% of its assets in equity, and the 2060 fund having 20% in equity and 80% in Treasuries.

The firm's target-date series was based on a similar concept used in its Adaptive Risk Allocation Fund, which was designed to outperform 60/40 funds, he said. That fund launched in 2014. In bear markets, "that sort of risk-allocation approach inherently is going to do better," Mr. Kutin said. But because the target-date series can switch to more aggressive allocations in up markets, it can compete against more equity-heavy series, he said. The series uses its "highly bullish" glide path about 5% of the time, its "bullish" glide path about 20% and its "capital preservation" glide path 10% to 15%. More often, it uses its neutral market glide path.

In the 2008 financial crisis, target-date funds suffered considerable negative returns, and the products were criticized for the heavy losses in portfolios designed for near-retirees. Afterward, some products scaled back allocations to stocks, though the long-running bull market encouraged a handful to increase risk levels.

But TDFs for investors near retirement have experienced a smaller proportion of losses than longer-date funds over the past several weeks compared with 2008. The recent market plunge could result in some TDF managers revisiting their glide paths and scaling back allocations to stock, Mr. Kutin said.

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# Social Security closes all of its local offices

BY MARY BETH FRANKLIN

**THE SOCIAL** Security Administration announced that all local offices will be closed to the public for in-person services starting last Tuesday in response to the COVID-19 outbreak.

"This decision protects the population we serve — older Americans and people with underlying medical conditions — and our employees during the coronavirus pandemic," the agency said in a statement released last Monday. "However, we are still able to provide critical services."

If you need help from Social Security, the agency recommended that you first check out online service options at www.socialsecurity.gov/onlineservices. You can apply for retirement, disability and Medicare benefits online. You can also check the status of an application or appeal, request a replacement Social Security card and print a benefit verification letter from a laptop computer or mobile device.

If you already have an in-office appointment scheduled, SSA will call you to conduct your appointment over the phone instead.

You cannot report a death or apply for survivor benefits online.

In most cases, the funeral home will report a person's death to Social Security. If you want them to do that, you need to give them the deceased's Social Security number.

If you need to report a death or apply for survivor benefits, call 1-800-772-1213 between 7 a.m. and 7 p.m. Monday through Friday.

If you are getting benefits on your spouse's or parent's record, Social Security will automatically change any monthly benefits to survivor benefits after the death is reported. If you are getting retirement or disability benefits on your own record, you will need to apply for the survivor benefits. If you are not getting Social Security benefits, you should apply for survivor benefits promptly because, in some cases, benefits may not be retroactive.

## ADDITIONAL SERVICE

If you cannot complete your Social Security business online, use the agency's national 800 number (800-772-1213). It has many automated service options you can use without waiting to speak with a telephone representative. A list of automated telephone service is available at www.socialsecurity.gov/agency/contact/phone.html.

The SSA website also has a wealth of information online that will answer most Social Security questions without your having to speak to an SSA representative. You can also visit the agency's frequently asked questions page at www.socialsecurity.gov/ask.

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# SELL-OFF COMPARISON

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nesses and problems.

The flip side of that is that even something as mysterious and scary as a pandemic is easier for most people to understand than a complex financial crisis.

"Right now, people might have less fear because they understand the flu virus a lot more than they did the financial crisis," said Tim Holsworth, president of AHP Financial Services. "Most clients didn't even know what Lehman Brothers was before 2008."

## NO SPORTS ON TV

"It's no surprise to me that the stock market went down big [last Monday] following all the news over the weekend when people didn't have any sports to watch on TV," he added.

Julia Carlson, founder of Financial Freedom Wealth Management, said the mood feels more like the period following 9/11 than it does the financial crisis.

"Clients are shell-shocked and not panicking as much as not even knowing what hit them," she said. "As everyone tries to adapt to a new normal and working remotely, technology companies will benefit. Maybe working remotely will be so efficient that we continue this virtual work world long after this crisis passes."

On a practical level, even as both the virus and the market contagion unfold, watching traditional market data is a prudent strategy.

"What you are starting to see is that multiples are starting to reprice, and you have to think about where earnings are going to come in and where you see the S&P 500 is going to settle at before we say, 'Things are starting to look better now,'" said Victoria Greene, founding partner and portfolio manager at G Squared Private Wealth.

"People are confusing the panic they feel in their personal lives with their financial lives … but that should not derail your investment policy and long-term goals," Ms. Greene said.

Vance Barse, founder of Your Dedicated Fiduciary, said even those who have a perspective on prior market corrections and financial unrest will have to acknowledge the reality of wading into uncharted territory.

"I would assert that once the COVID fears subside and people leave their homes and start spending money again, this too shall pass," he said. "But in the meantime, we're living in world of unknowns. This is a global pandemic and people are being told to stay indoors, and we haven't had a situation like this before."

**"CLIENTS ARE SHELL-SHOCKED AND … NOT EVEN KNOWING WHAT HIT THEM."**

JULIA CARLSON, FOUNDER, FINANCIAL FREEDOM WEALTH MANAGEMENT

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## ADVISERS BULLISH

CONTINUED FROM PAGE 3

has lost everything it gained over the last three years, it is still coming off an historic 11-year bull market that has illustrated the resilience and upward bias of the stock market.

"It's fair to assume we could still drop a decent way from here," Mr. Panko said. "The markets lost more than 50% in the '08-'09 correction, and the more this plays out, there will be real long-term economic consequences for some businesses. But, I do think once the virus is under control and people start coming out of their houses again, the economy will come steaming back."

### LONGER-TERM FALLOUT

Mike Caligiuri, founder of Caligiuri Financial, is not only buying because things are cheap, he's also buying to position client portfolios for the potential longer-term fallout of the economic recovery efforts.

"I'm telling clients to buy into assets that will protect them against inflation, which means stocks and precious metals," he said. "The Fed is printing money and we're at a point of lunacy, because it means more loans, which will lead to significant inflation of consumer goods and housing."

**"THERE WILL BE ROLLING OPPORTUNITIES FOR WEEKS TO COME."**

PAUL SCHATZ, PRESIDENT
HERITAGE CAPITAL

Paul Schatz, president of Heritage Capital, said until the markets finally settle down the extreme "panic days" will likely continue.

But the turmoil also represents "golden opportunities," he added. "When we look back on this, we will see there wasn't a single amazing moment to buy. There will be rolling opportunities for weeks to come."

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## ANNUITIES

CONTINUED FROM PAGE 3

who are on the cusp of retirement and have serious concerns about starting to draw down their assets. But a potential lack of products, as well as the uncertainty of making a long-term financial decision amid economic, social and political turmoil, could mean that people don't begin buying annuities for some time.

"There is always a need for people to have guaranteed retirement income," Ms. Toland said. "The timing of their retirement might be skewed by this."

For investors who are panicking amid the volatility, buying annuities can be a better option than putting all of their assets in bonds, said Wade Pfau, professor of retirement income at The American College.

"They might still be able to lock in their goals, depending on how over-funded [their accounts] were," he said.

Research has shown that in down markets, people have more interest in annuities than they do during bull markets, he said.

"Nobody's tried to sell annuities in this environment before," said Scott Stolz, president of global wealth solutions in Raymond James' insurance group. "In the short run, as companies cut back [on products and rates] … you're probably going to see a blip before the product changes."

Carriers have generally given sellers a couple weeks' notice ahead of product changes, he noted.

"After that you're probably going to see a drop in sales with the new rates," he said.

### CHALLENGING TIMES

But the COVID-19 pandemic will almost certainly temper annuity sales expectations for 2020. Last year was a record for U.S. annuity sales, which were 3% higher than in 2018, at $241.7 billion, up from $233.7 billion, according to a report from Limra's Secure Retirement Institute. The increase was in part due to rising demand for a relatively new type of product, registered index-linked annuities. Those products became available in 2010 and haven't been tested in a financial crisis until now, said Todd Giesing, director of annuity research at the Secure Retirement Institute.

"We haven't experienced anything as significant as this," Mr. Giesing said of the COVID-19 effect on annuity sales in general. "It's going to be a very challenging time for manufacturers."

### NEED NOT GOING AWAY

Though the need for annuities is not going away, people who traditionally buy annuities — those in their early 60s — could be less likely to seek out the products in the short term, he said.

Some products, such as fixed-rate deferred annuities, could do well when things settle down, he said. There was strong demand for those products in 2009, when investors turned to them for fixed-rates and income guarantees, he said.

Demand for RILAs could be mixed, he said, as some investors will not want any downside risk, while others will seek the benefits of higher returns and some downside protection the products offer.

Sales will likely suffer for at least three to five months, Mr. Stolz said. But after that, investors could be eager to see products with "I think this will be good for annuity sales in the long run," he said.

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## TECH CHALLENGE

CONTINUED FROM PAGE 3

and undergo training on a new technology platform while the world around seems to be falling apart.

It's also halted the M&A market, which was flying at a breakneck speed before the coronavirus outbreak. Would-be buyers just three weeks ago now have reason to keep a much tighter grip on assets.

For larger vendors, moving hundreds of employees from an office to working remotely is still a challenge — even if the company is a cloud-based technology provider. The shift is also putting stress on domestic internet providers, hampering the work of some who rely on the high-speed connections an office provides, such as software developers and IT professionals.

### 'WILD RIDE'

For Orion Advisor Services CEO Eric Clarke, the coronavirus outbreak feels like a perfect storm hitting from all angles.

"It's quite a wild ride," Mr. Clarke said. "Nobody really knows what is going on with the virus. It feels very much like the 2008 correction to me."

While the company plans to continue pushing product development and innovation, he admits that some projects are taking a backseat as resources shift to supporting core products and service.

"You do have to pull back a little bit on those fringe or on-the-edge projects," Mr. Clarke said.

Orion was the subject of speculation about an upcoming sale, but those discussions are on hold for now. Mr. Clarke wouldn't comment beyond saying the current owners, private equity firm TA Associates, are "believers and backers in our business and that will continue," but does expect M&A activity to slow across the board.

However, Mr. Clarke did not agree that the coronavirus was drastically impacting business growth at adviser tech vendors. While some large enterprise deals have been delayed, Orion is still winning a couple of new contracts a day from independent advisers, Mr. Clarke said.

In fact, the Corona Crash of 2020 could be an opportunity for technology firms as advisers look for ways to manage client panic and keep them invested toward their goals through crazy volatility. Orion users are signing up to use the company's portfolio optimization, tax-loss harvesting and financial planning tools, Mr. Clarke said.

### PULLING THE TRIGGER

Similarly, Riskalyze co-founder and CEO Aaron Klein says the market crisis is driving advisers who had "new technology" on their to-do list to finally pull the trigger. Though the company has faced its own challenges and has had to postpone its own in-person training camps, Mr. Klein said Riskalyze has been flooded with phone calls from current customers and advisers looking to sign up.

"By virtue of what we do, we are behind the men and women who are on the front lines of this battle," he said. "There's a lot of tools out there that try to stoke fear by modeling horrible scenarios, and we're built around behavioral finance principles to try to stoke good decision-making."

"We didn't make our plan for 2020 based off of three weeks of data, and we're not going to undo our plan for 2020 based on three weeks of data," he added.

But even optimists like Mr. Klein are uncertain. Advisers have seen revenues drop 15% to 20% in just two weeks, and that could eventually lead some advisers to start cutting back their technology budget.

"It's a challenging time for the whole industry" Mr. Klein added. "We had a great week last week, but does that continue?"

All companies can do is focus on what they control within their own four walls — or within the walls of employees' home, as it were.

"To me, the calculus becomes — you're developing capabilities to improve adviser experiences. Why would you hold that back?" said Mr. Ahluwalia.

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## COVID-19 BILL

CONTINUED FROM PAGE 2

During the talks over the bill, financial industry trade associations are hoping to ease other retirement account rules. A group of 24 organizations sent a letter to lawmakers last Friday asking for a temporary waiver of required minimum distributions rules, an extension of filing deadlines for retirement plans, and relief for defined-benefits plans.

In a statement last Thursday, Sen. Ron Wyden, D-Ore., said he supports allowing retirement plan flexibility, including waiving RMDs for IRAs and 401(k) plans this year and allowing RMDs taken in 2019 to be put back into the plan.

Early withdrawals and loans from retirement accounts have been a concern for retirement savings advocates. As of the end of last year, about 23.5% of 401(k) plan participants had taken loans out against their accounts, according to Alight Solutions.

The coronavirus is roiling retirement saving best practices, which call for people to let money accumulate in their accounts.

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# 2020 IN Events Calendar

| | | |
|---|---|---|
| FUTURE OF OUR BUSINESS | June 4 | New York City |
| women adviser summit | June 30<br>**July 14***<br>**August 19***<br>October 1<br>October 20<br>November 18 | Boston<br>Huntington Beach<br>Chicago<br>Denver<br>San Francisco<br>New York City |
| WOMEN to WATCH | **June 23*** | New York City |
| INNOVATION SUMMIT & AWARDS | **July 23*** | New York City |
| RETIREMENT INCOME SUMMIT | **August 17-18*** | Chicago |
| EXCELLENCE IN diversity & INCLUSION AWARDS | September 15 | New York City |
| FUTURE OF FINANCIAL ADVICE | November 19 | New York City |
| ESG & IMPACT FORUM | December 2-3 | New York City |

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* New dates for events

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