SPECIAL REPORT

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THE NEW NORMAL

HOW COVID-19 IS IMPACTING THE FINANCIAL ADVICE INDUSTRY RIGHT NOW AND WILL FOR YEARS TO COME PAGE 8

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INSIDE
MAR. 30-APRIL 3, 2020

6 Editorial
8 Special Report
16 On Retirement

Cover photo-illustration: C.J. Burton

COVID-19 and the 401(k) market
Fred Barstein offers 12 predictions.
Page 17

Adapting to COVID-19
Scott Hanson shares best practices.
Page 18

EDITOR'S NOTE

Advisers' New Normal

We've put all our resources behind a special section this week that examines the "new normal" that COVID-19 has imposed upon the advice community and society at large. The editorial team has put together a cohesive series of stories that stay true to our core mission and avoid falling into the trap of bombast and overreaction.

I'm proud of the effort our team put forth to assemble this issue, and I want to highlight a few of the topics covered.

GEORGE B. MORIARTY

This event could change everything about the advisory profession, so we delved into several angles.

Bruce Kelly calls out an existential risk faced by all advisers as markets are roiled by the pandemic. Ryan Neal explores the effect the outbreak has had on practice multiples and what prospective sellers must do. Jeff Benjamin answers a burning question: Is there still a need for advisers to work in an office? From Washington, Mark Schoeff Jr. examines how regulators are monitoring industry activities from home. And on the investment side, Sean Allocca weighs in on the return of active investing.

I hope this helps you sort through this new reality, and, while you all find your own workflows, please let us know what aspects of the new normal outlined here have most or least affected you as this crisis unfolds.

We're looking forward to sharing your reactions in next week's issue. Stay safe.

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President Donald Trump signs Coronavirus Aid, Relief, and Security Act into law

Some advisers skeptical about huge stimulus bill

BY MARK SCHOEFF JR.

KEY POINTS

- President Trump signed $2.2 trillion relief act into law last Friday.
- Some advisers were skeptical the massive legislation would restart the economy.

A MASSIVE BILL designed to stem the economic hemorrhaging caused by the COVID-19 pandemic secured bipartisan House approval in a voice vote last Friday, but is getting mixed reviews from financial advisers.

The $2.2 trillion behemoth, the Coronavirus Aid, Relief, and Economic Security Act, is slated to send one-time payments of up to $1,200 to many individuals, boost unemployment benefits, provide loan guarantees and grants to large and small businesses, increase health care spending and reduce personal and business taxes.

The Senate approved the measure unanimously earlier last week. The bill then went to President Donald Trump ,who signed it into law last Friday.

The scope of the 883-page bill encompasses many dimensions of an economy that has ground to a halt during the coronavirus outbreak.

"That's the most fiscal stimulus I've ever seen," said Leon LaBrecque, chief growth officer at Sequoia Financial Group. "If it doesn't work, I don't know what would."

Andrew Schwartz, senior vice president of Madison Planning Group in White Plains, N.Y., has had five clients come down with the coronavirus. He supports the congressional response.

"It's something that needs to be done," Schwartz said. "If you want an engine to run, you have to give it fuel. Cash is the fuel that drives our economy."

ADVISERS SKEPTICAL

Other advisers are skeptical the legislation will restart the economy.

"The bill is not going to help corporate earnings," said Eric Powell, found-

CONTINUED ON PAGE 22

SEC makes it easier for mutual funds to borrow

BY EMILE HALLEZ

THE SEC MADE it easier last week for mutual funds to borrow money to meet a rush of redemptions sparked by the COVID-19 pandemic – something the regulator also did during the 2008 financial crisis.

The relief was one of several temporary measures issued Monday and Wednesday aimed at making life easier for mutual funds, investment advisers and publicly traded companies. Among the other measures were deadline extensions for public companies to file certain disclosures and allowing fund boards extra time to hold their required meetings.

By lifting restrictions, the Securities and Exchange Commission is helping fund providers and investment managers that have had to contend with liquidity constraints, or might have to deal with them soon. But the measures might have more to do with assuring investors, said Todd Cipperman, founding principal of Cipperman Compliance Services.

"Markets really aren't seized up. Funds, as far as I can tell, aren't having trouble selling securities," Cipperman said. The SEC is "concerned

CONTINUED ON PAGE 22

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Fund flows took hit in March amid turbulent markets

BY JEFF BENJAMIN

THE STOCK MARKET roller coaster in the midst of the COVID-19 pandemic continues to test the mettle of financial advisers and long-term investors.

Data through the end of February, when fears related to the virus were gaining traction in the United States and the S&P 500 Index had dropped 9.3% from the start of the year, show investors were still buying equity and bond funds.

According to Cerulli Associates, while more than $775 billion in assets were being wiped out of mutual fund strategies in February, investors added $15.2 billion in net flows into active and passive strategies.

MARCH MADNESS

Then came March, and a much more dire outlook for the economy and the financial markets related to the fast-spreading coronavirus.

According to the Investment Company Institute, for the week ending March 18, investors pulled $135 billion from stock and bond funds, which compared to $27.9 billion in net outflows the prior week.

While the S&P had only declined 1.9% between the end of February and March 18, the decline from the start of the year was in full bear market territory at 26.4%.

The S&P's most recent low was on March 23, when it registered a 31.3% decline from the start of the year. It has since rallied about 14% off that bottom, including a strong rally last week, through midday trading on Friday, March 27.

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Finra scraps 2020 annual conference

BY MARK SCHOEFF JR.

FINRA HAS CANCELED its annual conference, which was slated for May, in response to the COVID-19 pandemic.

The Financial Industry Regulatory Authority Inc. was set to convene the gathering May 12-14 in Washington, D.C.

The meeting typically draws hundreds of brokerage firm leaders, registered representatives, compliance experts and exhibitors. It features Finra executives and staff outlining regulatory priorities.

"We apologize for any disappointment or inconvenience this necessary decision causes," Finra said in an announcement on its website. "Your wellbeing is paramount, and we are taking the necessary precautions to mitigate any health risks, and with your safety in mind."

Finra said it will refund registration fees for people who already signed up for the event.

The broker-dealer self-regulator said it would encourage attendance at its small firm conference and regional member forums in the fall, if large gatherings of people are once again allowed by then. It also might schedule one-day conferences on specific topics.

Marlon Paz, a partner at Mayer Brown, encouraged Finra to reschedule the annual conference rather than nix it altogether.

"Finra's annual meeting is an extremely important opportunity for member firms to gain useful insights from Finra and to join small meetings – many times one-on-one – with senior Finra staff," Paz said. "I hope Finra considers postponing, rather than cancelling, as the benefit to the member firms is significant."

"I HOPE FINRA CONSIDERS POSTPONING, RATHER THAN CANCELLING."

MARLON PAZ, PARTNER, MAYER BROWN

The Finra annual conference is one of many financial industry meetings that have been disrupted by the coronavirus outbreak.

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Plan advisers fear fallout

BY EMILE HALLEZ

THE COVID-19 PANDEMIC could have a lasting effect on 401(k) plans, and that will have consequences for retirement advisers.

In coming months, there will likely be fewer 401(k) plans in existence, as businesses that sponsor them fold, advisers said. And for several reasons there will likely be a lower level of assets: Negative investment returns will erode balances; fewer people will have jobs, and therefore, retirement plans; and many plan participants could borrow from their accounts or take hardship withdrawals.

Retirement plan advisers could lose business. And with potentially smaller plan balances among their existing clients, advisers could see compensation reductions, depending on their fee arrangements.

STAYING AFLOAT

"We have to figure out how to pick up the pieces after the shakeout," said Jamie Greenleaf, lead adviser and principal at Cafaro Greenleaf. Some retirement plan clients that firms serve are struggling to stay in business, Greenleaf said.

Most clients will stay afloat, but the service they received from their advisers during a tumultuous time could make or break relationships, she said. Retirement plan advisers that are new to the business, have a limited number of clients or have a high concentration of customers in industries hit hard by the pandemic are at risk, she noted.

"There will be some advisers that don't survive this," she said. "Some of us more seasoned advisers might have an opportunity to pick up new business because of that."

In the short term, compensation could be affected. Advisers that charge fees based on plan assets could see less income, as assets could be lower. And those that receive per-participant fees could also be hit, as there could be fewer overall participants, given reductions in the workforce and early cash-outs.

Right now, as well as in the months ahead, plan advisers should be doing everything they can to assist clients, Greenleaf said.

"If somebody's not in the office … I don't know how they're going to sur-

CONTINUED ON PAGE 22

Wells Fargo drops $300 fee minimum

BY BRUCE KELLY

BACKING AWAY FROM a move it announced at the end of last month, Wells Fargo Advisors said it will suspend plans to impose a maximum $300 account fee on more clients.

Currently, Wells Fargo Advisors households can avoid the fee if they have $250,000 or more in retail brokerage assets. Wells Fargo Advisors intended to raise the minimum and charge the account fee to households with $500,000 and less in retail brokerage assets.

Expanding the households that could be charged the extra fee was unpopular with some of the firm's reps and advisers.

"We have suspended the household waiver threshold, effective immediately," company spokesperson Kim Yurkovich wrote in an email. "It's the result of the current environment and the desire to best serve our clients."

The firm allows its 13,512 reps and financial advisers limited discretion on whether or not to charge the fee.

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COVID-19 market dive could prompt more 401(k) cash-outs

BY EMILE HALLEZ

THE 401(K) WORLD is likely to see a lot of borrowing and hardship withdrawals very soon, largely by lower-income workers who do not have access to financial advice.

During market downturns, workers are more likely to pull money out of their retirement plans early, and the stimulus legislation signed into law Friday, which eases restrictions on accessing the money, will almost certainly increase that activity.

"This is a public health cataclysm and an economic cataclysm … almost everyone is going to be financially stressed," said Joshua Gotbaum, guest scholar of economic studies at The Brookings Institution. "They're going to want to take money from any source they have to pay the rent, to buy food, to pay for health care, etc."

In the current environment, that is appropriate, Gotbaum said. "We want people to have money to save to retire, but we want them to live long enough to retire," he said. "Given the deadliness of this virus, the first order of business is to take care of your health."

ECONOMIC RELIEF

The COVID-19 economic relief package waives the 10% penalty for early withdrawals on up to $100,000 for people who are diagnosed with the virus. That provision would apply to retirement plans and individual retirement accounts.

After the 2008 financial crisis, borrowing from 401(k) accounts increased by 25% by 2010, though it has tapered off over the past several years, according to data from two record keepers.

"In the years before the financial crisis in 2008, roughly 22% of participants had an outstanding loan," Rob Austin, head of research at Alight Solutions, said in a statement provided by a company spokesperson. "The percentage climbed over the next few years but didn't hit its peak [at about 28%] until 2010. It has been slowly decreasing since then and had just about returned to pre-2008 levels."

In 2007, about 11% of participants in Alight's book of defined-contribution business had initiated loans, and that rate increased to nearly 14% in 2010, according to the company. In 2019, by comparison, less than 11% of participants took out 401(k) loans, and less than 24% had loan balances.

19%
INCREASE IN RATE OF 401(K) LOANS IN 2009

Statistics from Vanguard's How America Saves report show a 19% increase in the rate of new 401(k) loans in 2009 and a 14% increase in 2010. Conversely, 2008 saw a decrease of 7% over the rate of loans initiated in 2007, Vanguard's data show.

It's not clear whether the COVID-19 pandemic and market dive will lead to the same level of borrowing activity, Austin noted.

"The immediate reaction, a lot of the time, from retirement plan providers is, 'Don't touch it,'" said Anastasia Krymkowski, associate director of retirement at Cerulli Associates.

'CONFLICTING PRIORITIES'

But for people struggling to pay their bills, "it's a matter of conflicting priorities," Krymkowski said. "We were seeing some of this even before the current pandemic."

Only about 35% of retirement plan participants have financial advisers, according to Cerulli's annual 401(k) survey.

Workers who are younger and less affluent are less likely to work

CONTINUED ON PAGE 21

Senators can't pin insider trades on their advisers

BY MARK SCHOEFF JR.

LAWMAKERS WHO ARE under suspicion of insider trading over stock sales they made following briefings about the potential catastrophic impact of COVID-19 can't rely on the fact that they use a financial adviser to escape scrutiny, experts say.

Sen. Kelly Loeffler, R-Ga., is one of the members of Congress who has drawn attention because she sold and purchased hundreds of thousands of dollars of stock following her participation in a Jan. 24 committee meeting with administration officials. Her market moves, outlined in a Senate disclosure, were first reported by The Daily Beast.

KELLY LOEFFLER

RICHARD BURR

In an interview on Fox News last Monday, Loeffler said that she and her husband, Jeffrey Sprecher, chairman of the New York Stock Exchange, have no discretionary authority over their accounts.

"I'm not involved in the decisions around buying and selling," Loeffler said in a transcript posted by her staff. "There's a range of different decisions made every day with regard to my savings and 401K portfolios that I'm not involved in. No longer do my husband and I have the ability to do discretionary trades, and that's why it's outsourced to third-party investment managers."

BLIND TRUST

But using a financial adviser doesn't go far enough to escape insider trading suspicion, said Thomas Gorman, a partner at Dorsey & Whitney. A "foolproof" defense would involve putting assets into a blind trust or using an automated trading program.

"There's no real assurance that she had no input" to her financial advisers, said Gorman, a former senior counsel in the Securities and Exchange Commission's Division of Enforcement. "This suggests that she maintained a modicum of control. If you did, that doesn't give you safe harbor. Not taking the safe approach raises real questions."

CONTINUED ON PAGE 21

Moody's takes bearish view of 3 big IBDs as market falters

BY BRUCE KELLY

THE DOUBLE WHAMMY of a broad sell-off in stocks and sharp declines in interest rates led Moody's Investors Service Inc. to revise or cut its outlooks and ratings earlier this month for three of the largest networks of independent broker-dealers: LPL Financial, Advisor Group and Cetera Financial Group.

Moody's analysis is a harbinger for the entire independent broker-dealer industry. Broker-dealers make money from charging clients fees on assets under management, so the sharp 30% decline in the broad market indices from the recent highs will have a harmful impact on firms' revenues in the near term. Broker-dealers also generate income from the spreads on client cash in margin or cash sweep accounts, so the Fed rate cut of 50 basis points this month is another negative for firms' bottom lines.

JUNK RATINGS

Moody's already rated all three broker-dealer networks as below investment grade, or junk. Private equity managers used junk bonds to finance and complete their recent acquisitions of both Cetera Financial and Advisor Group.

In a note March 17, Moody's said that while it maintained LPL's credit rating at Ba2, it changed its outlook on LPL to

CONTINUED ON PAGE 21

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Opinion

EDITORIAL / LETTERS / OP-ED / GUEST BLOGS

The time is now for advisers to demonstrate their value to clients

The market plunge caused by the COVID-19 virus has left an ominous cloud hanging over Wall Street. Many of the most pressing questions — like how long the pandemic will last or what the scope of the economic devastation will be — remain unanswered.

Advisers are right to worry about losing clients who decide to run for cover instead of weathering further market volatility.

Many advisers have drawn parallels to the financial crisis in 2009, which left investors and financial professionals shell-shocked and hiding under their office desks, at least anecdotally. While millions of Americans were affected, young and inexperienced investors were some of the hardest hit in terms of the indelible mark it made on their money psyches.

Young investors saddled with college debt were unprepared for the bottom to drop out in 2009. They watched as their investments, along with their home values, plummeted as stalwart financial entities imploded or were gobbled by competitors.

STILL SQUEAMISH

Millennial investors are still squeamish about entering equity markets — and for good reason. Researchers cite significant losses in the financial crisis as a reason this group tends to stay on the sidelines today and forgoes traditional financial advice. Only about 22% of millennial households worked with an adviser at the beginning of 2019, compared to 50% of baby boomer households, according to a Cerulli study.

The pandemic and the financial crisis, however, are different in an important way, and today's events can serve as a better lesson to teach the nation's less experienced investors. But advisers will need to make an effort with this group this time.

The coronavirus fallout isn't likely to create a fundamental mistrust in the financial system as was sparked by the financial crisis. Without having to defend the reputation of their very business, advisers can use the pandemic's impact as more of a lesson in the value of long-term investing and financial planning.

Advisers, who missed an opportunity to help young investors during the last recession, should consider filling the gap with financial guidance and reassurance this time around. Sadly, the data being collected today suggest the need could be great.

Roughly 30% of respondents in a recent survey by LendEDU, a student-loan marketplace, said they either lost their job or had their hours cut partially since the onset of the coronavirus epidemic. About 63% of the 1,000 people surveyed said they were worried that the pandemic would damage their retirement savings.

As retirement accounts plummeted over the past several weeks, the markets have become an intimidating place for the uninitiated. *InvestmentNews* retirement reporter Emile Hallez has found that the historic COVID-19 drop actually led some millennial investors to seek out financial advice (Page 14).

Many of these new customers are being referred by friends and family, and some are the adult children of current clients. Some are the same group that was once scared away from the markets in the previous downturn. The prospects are generally investors who have not sought out financial advice before — meaning they represent a new chunk of business.

EXISTING AND NEW CLIENTS

Now is when advisers need to demonstrate and carefully explain to existing and new clients the value they bring, along with their firms. It will require patiently listening and providing emotional support to clients with a lot of concerns in a frightening time.

Appreciating that capital is at a premium for millennials who are often saving for a down payment on a first home or starting a family will go a long way to understanding their particular fears for the future. Managing multiple life changes, young investors have a tremendous need for financial planning and can benefit from having the opportunity of longer time horizons.

Planners should think of their work as a valuable public service right now. For advisers reaching out to help folks in our current climate, don't forget the clients that have the most to gain.

TODAY'S EVENTS CAN SERVE AS A BETTER LESSON TO TEACH THE NATION'S LESS EXPERIENCED INVESTORS.

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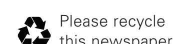

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THE NEW NORMAL

The global pandemic caused by the new coronavirus has deeply affected the lives and livelihoods of millions of people over the past few months. *InvestmentNews* has assembled a series of articles that explore the immediate and long-term consequences of this outbreak for the financial advice industry and for investors.

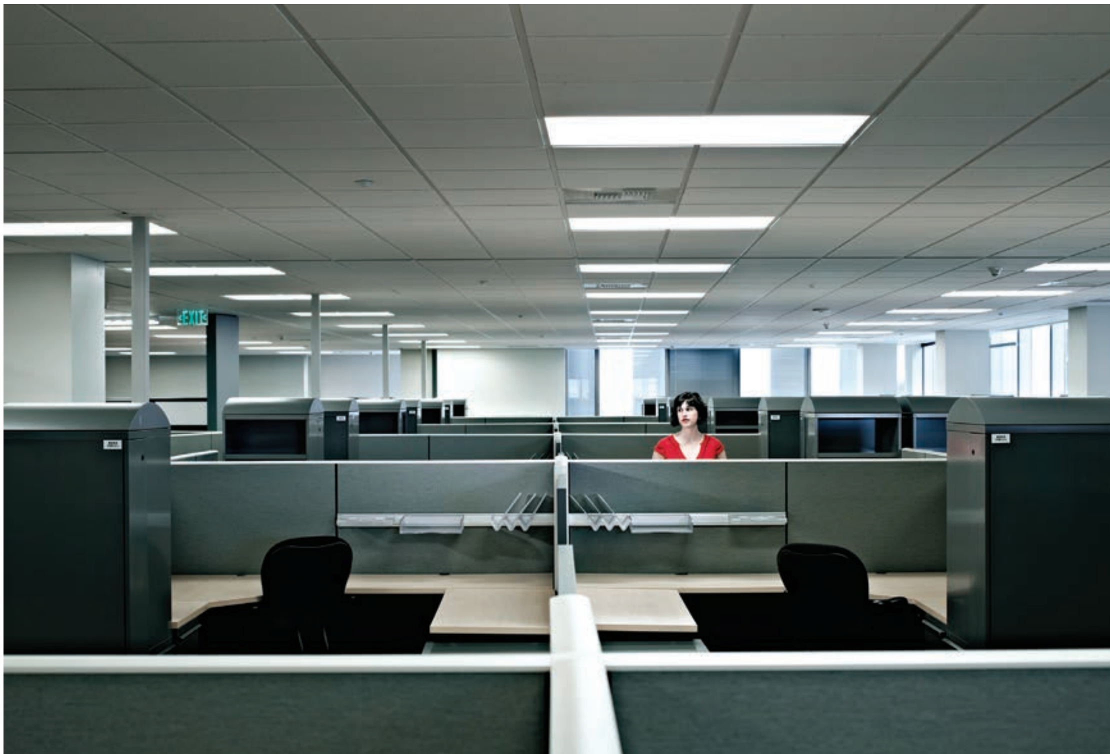
Communicate or get kicked to the curb
By Bruce Kelly
PAGE 10

Remote regulation to add new hurdles
By Mark Schoeff Jr.
PAGE 12

Investing styles will take on an active approach
By Sean Allocca
PAGE 12

Expect an influx of new clients
By Emile Hallez
PAGE 14

Lower valuations a reality for firms
By Ryan W. Neal
PAGE 14



ADVICE FIRMS WILL MOVE MORE WORKERS HOME

Office real estate will look expensive after firms discover how many jobs can be done remotely

BY JEFF BENJAMIN

At some point, ideally in the near future, the COVID-19 pandemic will pass and the financial services industry will be faced with the question of whether it makes sense to bring all those newly remote workers back into the office.

After just a few weeks of adjusting to expansive work-from-home policies, employees and owners of businesses large and small are realizing that remote work could be part of the new normal in the post-coronavirus world.

"We are going to see a massive change in society postcrisis, and it will permeate every aspect of life," said Ric Edelman, executive chairman and co-founder of Edelman Financial Engines.

In addition to anticipating a greater appreciation of things we used to take for granted and speculating that "handshakes are gone forever," Edelman believes "the idea of working remotely will be huge."

"Corporations will discover the amount of money they're spending on expensive real estate can be sharply curtailed by remote work," he said. "We will also see business travel curtailed now that people are rediscovering the benefits of teleconferencing and that picking up the phone works just fine."

Mr. Edelman, known for his research into future trends, sees financial services as one of the industries that could benefit from more liberal use of remote-work habits.

"No question, the bulk of the American workforce will return to normal, but a great many in the service industry will be working electronically because their location doesn't matter," he said. "Many employers will discover what they thought was essential by having employees in the office isn't as important."

Jud Mackrill, chief marketing officer at Carson Group, where all 250 employees are now working from home in response to the pandemic, said the ability of people to work remotely will emerge as one of the "silver linings" of the deadly coronavirus.

EXPANDED EMPLOYEE POOL

"I definitely think some of our employees will continue working from home, and this will be a positive for the way we all work," he said.

Mr. Mackrill said that by being more open to the idea of remote employees, companies will expand their access to potential employees.

> "WE WILL ALSO SEE BUSINESS TRAVEL CURTAILED."
>
> RIC EDELMAN, EXECUTIVE CHAIRMAN, EDELMAN FINANCIAL ENGINES

"This will be a good opportunity for wealth management to embrace more diverse work styles," he said. "Just think about how it makes you a better recruiter of employees, because certain people don't want to relocate."

The adjustment to suddenly being thrust into remote work hasn't been free of glitches, but people are generally adapting.

At Fidelity Investments, where 90% of the global workforce is now working from home, Pam Holding, co-head of the equity division, is holding daily video conferences with more than 250 people on the line.

"The nice thing is, because we have a global investment organization, we've been able to learn a lot of great lessons and be prepared," she said.

There are also negatives to all this work from home.

Anthony Scaramucci, founder and managing partner of SkyBridge Capital, said he thinks "more gets done with face-to-face meetings." He also expects a painful impact on commercial real estate if companies use remote work as a reason to cut back on office space.

But Scaramucci also sees the advantages of having people work remotely, which all 52 SkyBridge employees have been doing since early March.

"We recognize through WiFi and VPNs, we can get access to work in our homes one step away from our beds," Scaramucci said. "A negative is everyone is home so we're learning about the WiFi capacity of Verizon and ATT, while every child in America is home watching Netflix."

Dani Fava, director of product strategy and development at TD Ameritrade Institutional, said that as advisers continue adapting to new ways to work and communicate, they will develop new habits and practices.

"The biggest behavior change is breaking old habits," she said. "Now that advisers have no choice, they're helping clients figure out how to use Zoom — and you can't go back to not knowing how to do that."

While she sees the advantages, Fava said that remote work is still limited when it comes to certain areas, such as training new employees.

A survey last week of 473 advisers who custody at TD found that 47% don't believe working from home will become the new normal, while 45% said it's the future and are looking forward to it and 8% see it as the new normal but are not excited for it.

PERSONAL INTERACTION NEEDED

Training, camaraderie and the need for personal interaction were all cited as downsides of remote work by John Moninger, managing director and head of retail sales at Eaton Vance.

"I'm just looking at the flow of emails today and it would be difficult for someone to jump right in while working remotely," he said. "But I do see some flexibility on the back end of this virus, and the acceptance of technology has grown exponentially."

Most people don't expect the financial services industry to permanently transition from its pre-coronavirus remote-work levels of 10% to 20% to current levels of between 90% and 100%. But professionals are recognizing some advantages and anticipating wider adoption across the industry.

"I believe this crisis has taught us how innovative, creative and resilient we all can be," said James Guarino, managing director at the advisory firm of Baker Newman Noyes.

"We have adapted to our new working circumstances in a relatively short period of time and the true leaders of our organizations have emerged and they are guiding us through these uncertain and precarious times," he added. "It is my opinion that the financial services profession will find a happy medium with regard to the choice of working from home or being physically present in the office."

"Much of what we do has a personal nature to it and this relationship is epitomized by face-to-face contact. This experience is challenging to replicate virtually," Guarino said. "Also, much of our work can be successfully accomplished remotely. I see a healthy mix of both service models going forward," he said.

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THE NEW NORMAL

COMMUNICATE OR GET KICKED TO THE CURB

Whether it's a call, text or email, checking in with your clients during this crisis could save your job

BY BRUCE KELLY

"What we've got here is failure to communicate," Strother Martin, playing a prison captain, tells an unruly inmate, played by Paul Newman, in the great 1967 drama "Cool Hand Luke" right after Newman's character steps out of line and gets whacked into a ditch.

As the health and financial crisis caused by COVID-19 continues to unspool, that's the same message both financial advisers and the broker-dealers and custodians that work with advisers should heed. Or risk getting whacked.

If, at this critical point, communication breaks down between an adviser and client, the adviser will get fired. And if there's a meltdown in the back office or service center of a B-D or custody shop, those firms will be kicked to the curb as advisers take their business elsewhere.

It really is that simple, and that critical, to advisers and firms right now. No one knows how this crisis will end. So pick up the phone. Listen. Communicate. Execute the plan. Repeat.

HAPPENING IN REAL TIME

The financial advice market knows this failure to communicate is happening in real time among its constituents. It happened 12 years ago during the credit crisis and market meltdown of 2008.

There's plenty of anecdotal evidence. Back in September 2008, when the last crisis was in full eruption after Lehman Brothers collapsed into bankruptcy, a colleague of mine fired his adviser when it became clear he was dodging his phone calls. A feisty soul, my teammate pulled multiple accounts from the broker and his firm, a major Wall Street bank, and never considered bringing his business there again.

"Communicate, communicate and then communicate some more," said Mark Casady, the former CEO of LPL Financial and now the general partner at Vestigo Ventures, an early stage venture capital shop focused on fintech. "Advisers can do this in calls, texts or emails."

'SMALL CHECK-INS'

"Customers want to know what their advisers think and why," Casady said. "They want to experience their advisers' confidence in the world returning to a more normal time. And small check-ins, like a simple message, count."

"It's not more complex than that," he said. "That's how advisers build the relationship with clients and become their trusted adviser."

Casady said the situation in 2008-2009 was similar to the current problems. "The banking system was failing and the fundamentals were poor coming into the crisis," he said. "But this crisis is scary enough as it threatens our way of life and our mortality."

"I believe advisers have to get to this point with their clients," Casady said. "Sure, it's about their equity portfolios dropping but it's even more about their way of life changing. Engage your clients at this deeper level and you will have a raving fan of your services."

Firms that work behind the scenes for advisers — the custodians and broker-dealers who execute trades and send out account statements — also must be proactive, promptly taking calls from advisers and executing their orders. Custodians and broker-dealers can't put their advisers on hold and expect to retain their business once the coronavirus crisis passes.

A dozen years ago, the goal at LPL was to help financial advisers face their concerns and also keep their spirits up, said Casady, who retired from the industry's largest independent broker-dealer in 2017.

"Back then, the advisers would often call into LPL exhausted from the daily calls and constant energy drain of reassuring clients," he said.

Management owes it to their teams and advisers to lead by example and communicate during dire times, such as now.

"Clearly this is a difficult time for the clients we serve, between the violent markets, COVID-19 and the future unknowns," said John Hyland, managing director of Private Advisor Group, which is affiliated with LPL and has more than 600 advisers. "That has created tremendous levels of concern. Our executive team has been working hard to connect with our advisers to make sure they are OK, personally and professionally."

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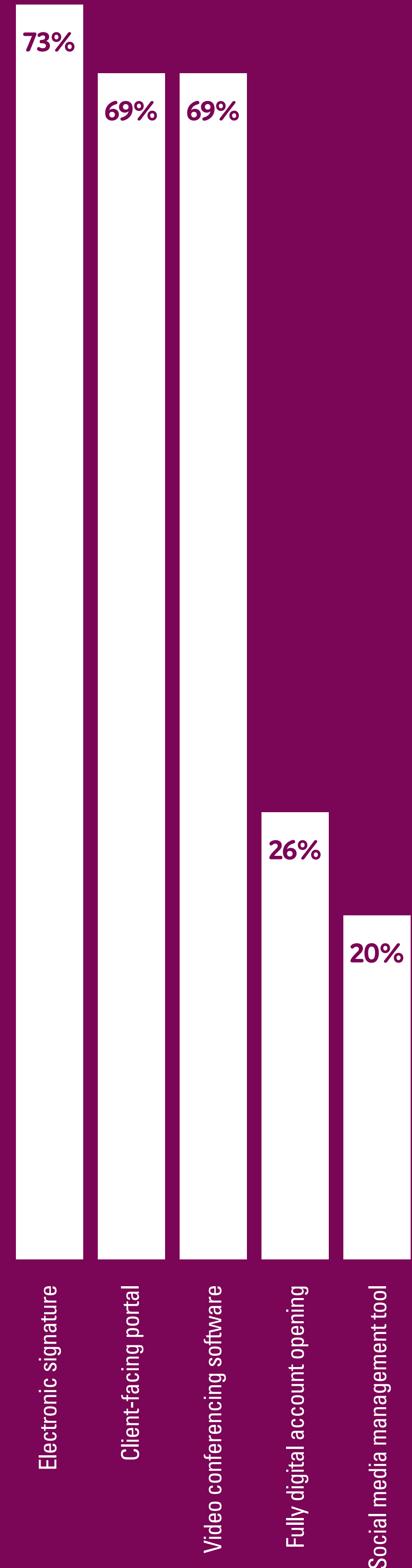

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REMOTE REGULATION TO ADD NEW HURDLES

Inspectors and advisers will depend more on digital documents and online discussions to prove their points

BY MARK SCHOEFF JR.

If securities regulators and advisers work from home for an extended period, it will change the look and feel of oversight and create drawbacks for both groups.

Over the last couple of weeks, headquarters staff at the Securities and Exchange Commission and the Financial Industry Regulatory Authority Inc. have been performing their duties remotely as a result of the COVID-19 pandemic. Both regulators have posted statements on their websites saying they are fully operational.

With many financial advisers and most regulators working from home, a regulator will most likely not be shuttering any financial firms. The SEC Office of Compliance Inspections and Examinations said last week it "has moved to conducting examinations off-site through correspondence, unless it is absolutely necessary to be on-site."

As they move toward remote operations, regulators are likely to rely more on email, telephone, video and online communications rather than face-to-face interactions with advisers. Although they have been working for years to be more streamlined and targeted in examinations and enforcement activities, operating remotely creates logistical complications.

For instance, if a document needed in an examination is missing, an SEC staffer can't just ask an adviser to retrieve it from their office down the hall. In an enforcement investigation, it could become much more difficult to arrange for an adviser and their attorney to be in the same room for an interview.

"There are inherent inefficiencies in working remotely," said Julie Riewe, a partner at Debevoise & Plimpton and former co-chief of SEC Enforcement's asset management unit. "It's not the same as being there in person. Those inefficiencies all add up over time."

If they're not in the same room as leaders of financial firms, it could diminish regulators' ability to gauge how serious the firm is about compliance.

"The intangible of getting the sense of the culture is difficult, if not impossible, to replicate over the phone," said Junaid Zubairi, a partner at Vedder Price and a former senior attorney at the SEC.

DEFENSE CHALLENGES

Mounting a defense during a remote enforcement case also could become tougher for advisers because they potentially lose some atmospherics that come from sitting across from investigators.

"You won't be able to have the in-person human touch to it," Zubairi said. "Not having that contact can be a disadvantage to the registrant."

Regulators are trying to move away from oversight being a binary choice — in-person or off-site — and shift to a combination of the two, said Valerie Mirko, a partner at Baker & McKenzie.

So far, the SEC is doing "an incredible job" of adjusting to remote regulation while ensuring markets operate smoothly and investors are protected, said Daniel Gallagher Jr., a former SEC commissioner. As an SEC member, he observed firsthand the problems the agency experienced during another turbulent time.

"As someone who lived through the financial crisis in '08, on the ground floor as an SEC staffer, I wish we had been so deft back then in our handling of things," said Gallagher, a partner at Wilmer Hale.

Perhaps the most important question facing the SEC is whether it can catch the next Bernie Madoff while conducting business from home. "Today, with the custody rule and other post-Madoff reforms in place, the Madoff fraud could be caught in a remote exam atmosphere," Gallagher said. "It's not ideal, but the SEC staff is resourceful and determined."

If it's difficult for SEC enforcement to show up at a place where a rip-off is occurring, they'll reach out to local authorities, Riewe said.

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INVESTING STYLES WILL TAKE ON AN ACTIVE APPROACH

Advisers will need to refresh their picking skills as industry moves away from passive management

BY SEAN ALLOCCA

As the COVID-19 virus upends global markets, advisers have adapted quickly to new realities like teleconferencing with clients and increased market volatility. The next transformation, however, may be a larger one: from buy-and-hold index funds to a more active style of portfolio management.

As broad indexes slump, advisers could look to a more hands-on approach to selecting equities and also fully utilize techniques like rebalancing and tax-loss harvesting to garner additional returns for clients.

Picking winners in a down market, however, is a skill advisers haven't had to rely on in more than a decade.

"Bull markets make investment pros out of everyone," said Nick Hofer, president of Boston Family Advisors.

CUSTOMIZATION

One major advantage to active portfolios is that they can be customized to limit downside potential, he said, something that's much harder to accomplish with index funds.

"Clients hate losses more than they love gains," Hofer said, adding that active management will become the new norm in a bear market. "Complacency snuck up on a lot of advisers, and clients now realize the importance of proactive advisement — whether with investments or otherwise."

That could prove a boon for actively managed investment products that have waned in popularity compared with cheaper index funds.

Financial service firms, like the wealth management platform Oranj, already started pumping out more active management products. It recently expanded its model marketplace with active strategies offered by Allianz Global Investors.

ARE ADVISERS READY?

Clients may soon ask for actively managed strategies to beat slumping markets, but will advisers be ready?

"Advisers have not seen a significant market pullback since the financial crisis," said Gene

Goldman, chief investment officer at Cetera Financial Group. The uncertainties created by the coronavirus are increasing as the headlines get grimmer, he said, which means there's potentially more downside to come.

"The market is waiting for clarity on the virus," Goldman said, adding that a reemergence of active products could take place through the end of the year.

Actively managed mutual funds have performed well in recent downturns. About 52% of active U.S. equity funds beat their benchmarks during the recent drop-off, for example, compared to about 29% that beat their benchmarks during the rally ending Feb. 19, according to Morningstar data.

From the start of the downturn on Feb. 20 through March 16, a period in which the S&P 500 Index experienced a 29.3% decline, 42% of all active funds tracked by Morningstar outperformed their respective indexes.

A considerable upside in a market plunge is the ability to take advantage of asset allocation, said Charles Failla, a principal at Sovereign Financial Group. Moving funds from the less impacted sectors, like fixed income, into beaten-down sectors like equities is one way to buy at bargain-basement prices.

TIME TO REBALANCE

After the record bull market, asset classes that performed strongly, like equities, may have grown to represent a disproportionate share of the portfolio, Failla said. Portfolios created for a certain risk level may have taken on different risk profiles. Rebalancing is key during sell-offs, he said.

> "SERVICE THE HELL OUT OF YOUR CLIENTS."
> DENNIS NOLTE, VICE PRESIDENT, SEACOAST INVESTMENT SERVICES

As discount brokerage giants embrace zero commissions, clients will also benefit as advisers find new ways to manage portfolios — without having to worry about racking up additional fees. Cheaper approaches mean advisers can spend more time rebalancing portfolios or harvesting tax losses.

Dennis Nolte, vice president at Seacoast Investment Services, said advisers' most important job is to weather the storm and prepare client portfolios for when money gets back in motion.

"Service the hell out of your clients and retain their confidence, as much as possible," Mr. Nolte said. "Position clients for the inevitable pent-up demand after the bottom is in and folks feel safe to emerge from the darkness."

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THE NEW NORMAL

EXPECT AN INFLUX OF NEW CLIENTS

Spooked investors are seeking out financial advice for the first time

BY EMILE HALLEZ

The COVID-19 pandemic and a volatile stock market have wreaked financial havoc on countless people — meaning many investors are seeking out financial planners.

That's according to financial planners who said they have seen an influx of new clients as investments and retirement accounts tanked over the past several weeks. The new customers are generally people who have not sought out financial advice before, and therefore represent a new chunk of business.

"There has been an increase in prospective clients reaching out to advisers," said Evelyn Zohlen, president of Inspired Financial and national chair of the Financial Planning Association. "Folks who initially thought that they might like to manage their own finances and their own investing are reconsidering the advantage of having a professional walk alongside them."

That includes younger workers who have never experienced a full market cycle and those who have lived through multiple bear markets.

Roughly 30% of respondents in a survey by product comparison website LendEDU said they either lost their job or had their hours cut partially. Sixty-three percent of the 1,000 people surveyed in March said they were worried that the pandemic would damage their retirement savings.

When markets are up, many do-it-yourself investors become too comfortable in their own abilities and begin to think of themselves as experts, Zohlen said. That includes "self-starter independent technical types" like engineers, she noted.

For many of these new clients, there will be a need for financial planners and advisers to carefully explain the range of benefits in working with professionals, she said.

"There is a chance to do good old financial planning for someone who only thought of it as investments," she said. It also means patiently listening and providing emotional support, as these new clients will likely have a lot of concerns in a frightening time, Zohlen said.

"We are definitely seeing an influx," said Evan Beach, director of wealth advisory at Campbell Wealth Management. "People are definitely scared."

Planners should think of their work as a public service right now, Zohlen said. That can mean telling existing clients that they are available for any friends or family who are struggling, she said.

"That is a very soft pitch to somebody, and it falls on ears favorably," she said.

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LOWER VALUATIONS A REALITY FOR FIRMS

The coronavirus outbreak is impacting the structure of M&A deals

BY RYAN W. NEAL

Just a month ago, advisers nearing retirement looked to cash in on record-high firm valuations and record-level merger and acquisition activity.

Independent broker-dealers and registered investment advisers completed 139 transactions representing $781.1 billion last year, a 43% increase in the number of transactions and a 38% increase in assets compared to 2018, according to data from Fidelity Investments. There was every indication the rapid pace would continue through 2020, with seven RIA transactions totalling $6.2 billion in February.

Then COVID-19 came to the United States, bringing with it a stock market crash and voluntary self-quarantines.

The M&A market flipped upside down in a matter of weeks, and would-be sellers face a market they haven't seen in nearly a decade.

The most obvious impact is compressed firm valuations. With most firms' value tied to assets under management, the 23% drop in the S&P 500 Index is forcing some advisers to accept lower firm valuations. Even though client assets aren't completely tied up in equities, DeVoe & Co managing director David DeVoe said many advisers already are staring at up to 20% drops in revenue, and the situation may still worsen.

The pace of M&A is also expected to slow. Not only are buyers holding onto assets, but advisers are busy working with clients these days, said Scott Slater, vice president of practice management at Fidelity Clearing & Custody Solutions.

He also expects some advisers will stick it out a few years longer than planned to help get clients through the downturn, just like many did following the last global financial crisis.

PROLONGING RETIREMENT

The difference is fewer advisers have the luxury of sticking it out as they did in 2009, DeVoe said. The average age of firm owners is older, and many can't wait years for valuations to return to 2019 levels.

Beyond forcing some advisers to stick in the business longer than perhaps they wanted to, Smart Concepts Group founder and CEO Tom Titus said adviser character and client engagement will become more important than in the past.

"You're going to want to do business with people you believe created good foundations with clients," Titus said. Especially as a market correction makes investors more willing to change firms, buyers will be looking beyond just price. "You're going to care a lot about that client relationship and loyalty."

The coronavirus outbreak also is impacting how M&A deals are being structured. Sellers can no longer expect to see the same level of upfront cash as many deals in recent years. And with more leverage than they've had in years, buyers are looking for more protections against downside risk.

That doesn't mean advisers should accept a permanent price reduction for what will likely be a temporary situation for buyers, said Advisor Legacy director of M&A Todd Doherty. Sellers can structure a deal to capture upside as the market returns. "It doesn't need to look like a fire sale," he said.

> "IT DOESN'T NEED TO LOOK LIKE A FIRE SALE."
> TODD DOHERTY, DIRECTOR OF M&A, ADVISOR LEGACY

There is opportunity to show a firm's value beyond AUM and revenue. A firm that successfully shifted to working from home can prove to buyers it has a modern technology infrastructure, DeVoe said.

"The power to be flexible and agile and respond to unexpected situations … that's an asset," he said.

MERGER MANIA

While advisers may worry about the optics of selling a firm during a market downturn, Doherty believes it can be an opportunity if it's presented as a merger that brings additional resources to clients during a volatile time.

Even if valuations are no longer at all-time highs, there are still more buyers than sellers, low interest rates allow for more purchasing, and the technology and compliance outlook isn't getting any easier, said Advisory Legacy CEO Anthony Whitbeck.

"Every year you wait, your client base is a year older, and client age plays a significant impact on practice value," Whitbeck said.

The coronavirus pandemic could trigger more baby boomer financial advisers to finally retire, which could result in a dramatically smaller pool of attractive buyers in a few years. "There's almost more risk in delaying," Whitbeck added.

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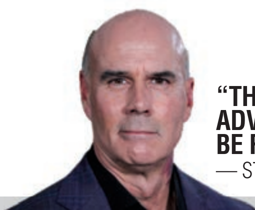
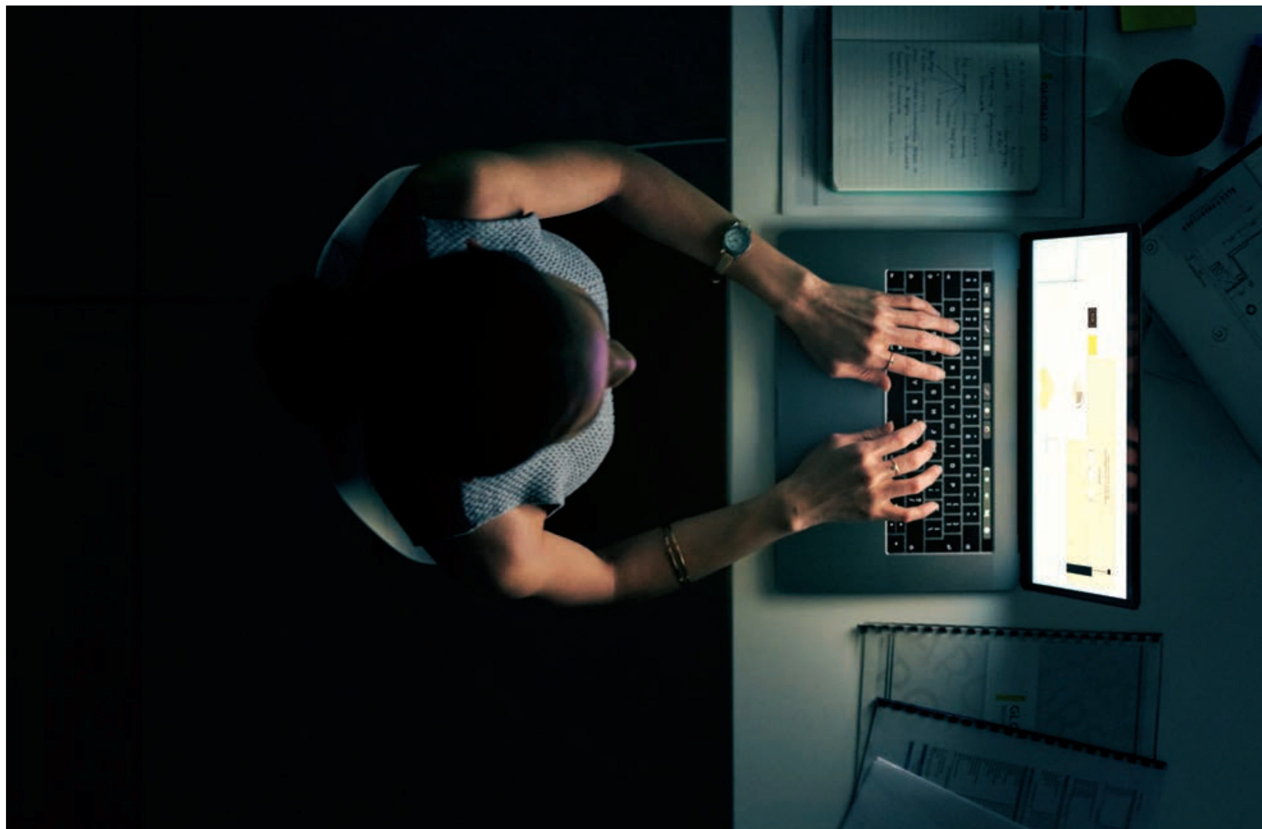


"THE CORONAVIRUS CRISIS IS A 9/11 MOMENT FOR THE FINANCIAL ADVICE INDUSTRY. OUR INDIVIDUAL AND COLLECTIVE RESPONSE WILL BE REMEMBERED FOR YEARS TO COME BY CLIENTS AND COLLEAGUES."
— STEVE GRESHAM, MANAGING PRINCIPAL, THE EXECUTION PROJECT



A dispatch from my bunker: Coping with the pandemic

Not too long along, I was traveling around the country nearly every week to present educational seminars about Social Security and Medicare to financial advisers and consumers. I remember thinking I would love a break in my hectic travel schedule so I could focus on my writing deadlines and other projects. Talk about answered prayers!

Like many of you, I am confined to my home and practicing "social distancing." It's not a hardship for me. I have been working from home for nearly a decade, so being homebound is not a major change to my routine although my daily exercise classes have been replaced with Jazzercise videos in my basement, and my retired husband is getting his workout by hauling 40-pound bags of mulch. We take long walks around our neighborhood where the streets are empty and the bike trails are full, waving to neighbors that we haven't seen in years.

MARY BETH FRANKLIN

ONRETIREMENT

I know we are luckier than many people, including public safety and health care workers who continue to report to work on the front lines of the coronavirus pandemic, and the many hospitality, retail and restaurant industry workers who suddenly found themselves without a job or a paycheck.

Thanks to technology, my colleagues and I can work remotely, starting our mornings off with a video conference. My computer screen looks like an episode of The Brady Bunch or Hollywood Squares filled with the faces of reporters and editors working at home from New York to Michigan and Maine to Maryland. Business casual tops meet pajama bottoms and sweatpants. Babbling toddlers and barking dogs provide background noise.

"Investors are concerned and scared and they should be," said Ken Unger, a 40-year veteran of the financial services industry who coaches high-level advisers through his Academy of Preferred Financial Advisors. "At this time, a financial adviser's leadership is not just helpful, it's critical."

Mr. Unger noted that clients need leadership, guidance and comfort in times like these.

"Retirees need to know their cash flow needs will be met and savers need to know that someday they will be able to retire," he wrote in an open letter to the financial advice industry. "We are not clairvoyants, but we can be hand-holders," he added. "We can share with clients that we are doing the best we can to communicate and understand their situation."

WHAT'S NEXT?

So what are you doing to guide, comfort and reassure your clients? Are you being proactive or merely responsive? What you do — or don't do — today can have long-term ramifications for your business. During the previous financial crisis in 2008, clients made decisions to switch advisers and financial providers 18 to 24 months after that crisis, according to George Walper, president of the Spectrem Group.

My best friend, a retired nurse who expects to be called back into service to administer COVID-19 tests, texted me that her daughter, a single mother of two young children, was just laid off from her hotel job. My older son, a DJ, had traveled to Texas to perform at several events that were cancelled after the South by Southwest festival in Austin was shut down, meaning he didn't get paid or get reimbursed for his travel costs. He's just one more victim of the gig economy.

"A FINANCIAL ADVISER'S LEADERSHIP IS NOT JUST HELPFUL, IT'S CRITICAL."

KEN UNGER, FOUNDER, ACADEMY OF PREFERRED FINANCIAL ADVISORS

These examples may offer a glimpse into the new realities for retirees: Discretionary funds they had earmarked for visiting bucket-list travel destinations, temporarily off-limits as a result of the worldwide pandemic and international border closures, could be shifted to support newly unemployed family members.

PUT LOSSES INTO CONTEXT

While current and near-retirees may feel most vulnerable to both the health threats of the coronavirus and the steep losses to their retirement savings, it's important to help them put their losses in context. It is unlikely that their portfolios are invested 100% in equities, so their personal paper losses are much smaller than the overall stock market decline.

In addition, those collecting Social Security have been assured by the agency administrator, Andrew Saul, that their benefits will continue uninterrupted despite the closure of local offices to protect both the agency's employees and beneficiaries

There is a difference between fear, which is a natural reaction to this scary situation, and panic, which can trigger irrational and possibly irreversible decisions. A valuable financial adviser will address their clients' fears and hopefully prevent them from hitting the panic button.

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

Mary Beth Franklin, a certified financial planner, is a contributing editor for InvestmentNews.

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12 ways COVID-19 could change the 401(k) market

After the 2008-2009 financial meltdown, there were massive changes in the 401(k) and 403(b) industry. More wealth managers began to see the defined-contribution market as a hedge for business as their individual clients pulled money out of the market.

GUESTBLOG
FRED BARSTEIN

They earned less from DC plans than from wealth management clients – with more liability. And DC assets, and therefore revenue, were down 40%. But people kept contributing to their DC accounts because of automatic deductions from payroll and because savers were reluctant to stop funding their retirement.

The financial crisis showed the value of professional management, with products such as target-date funds proving their mettle over investors' homemade portfolios. And some, though not all, active managers fared better than index target-date funds. The crisis also highlighted the fact that target-date funds were not created equally, exposing 2010-vintage funds that were loaded with equities to boost returns and then fell below the indices.

Yes, plan sales dried up for a while, but retirement plan advisers used the crisis as an opportunity to reach out to clients and participants more than usual. RPAs prospected new plans where an adviser, at worst, had been absent, and at best had been silent during the crisis, dealing instead with wealth management clients.

FEWER FIDUCIARIES

In 2009, fewer advisers were able or willing to act as fiduciaries, which provided more opportunities to specialists. RPAs continued to focus on high fees, especially those charged by firms that only dabbled in DC plans.

After the crisis, there was a surge of wealth managers who began to focus on DC plans. Today's elite RPAs – who were all blind squirrels at one point in their careers – saw their DC business blossom in part because of the longest bull run in history. And those plan participants who stayed the course saw great dividends.

What changes to the DC market can we expect as a result of the current crisis?

Much depends on the market fallout and economic impact. But it's hard to imagine that we have seen the worst of it because businesses in many sectors, even beyond the obvious ones, such as travel and energy, will be affected.

Here are a dozen predictions:

1. Active managers that have done a good job preparing for a downturn will see a resurgence as investors shy away from index strategies and active target-date fund managers that have taken too much risk.

2. More wealth managers who have been looking to expand to or enter the DC market will focus on DC plans as a hedge to their individual investor business.

BONUS PREDICTION: THERE WILL BE LESS HANDSHAKING.

3. The move to flat-fee payments will accelerate as a hedge against drastic market downturns. Yes, flat-fee advisers lose the upside when markets improve, but the argument that fees should rise with assets is getting harder to make.

MORE FOCUS ON PARTICIPANTS

4. The focus on participants will increase. Workers will have more money in the market than ever, and they will need guidance and advice. Because of that, RPAs who already have a participant advice model will benefit. That will also lead to more RPAs affiliating with or selling to aggregators. Further, wirehouses and broker-dealers that have been creating tools to serve participants will retain current advisers and even attract some specialists.

5. With more people working remotely during the crisis, many will continue to do so, at least part-time. As a result, there will be more opportunities to access and interact with them digitally.

6. Savvy advisory firms will hire younger advisers to act as financial coaches and mentors to participants, not just to help with retirement planning but with overall management of finances and benefits. The current "eat what you kill" cold-calling model is unattractive to most younger workers.

7. Specialists will take business from DC plan dabblers, especially from those who have grown during this historic bull market. Savvy dabblers who are not willing to focus on DC plans will either partner or sell their DC practice to specialists, while protecting their wealth management and IRA opportunities.

8. Managed accounts will expand dramatically, especially among older workers or anyone with a significant account balance. More plans will use managed accounts as their default.

9. More plans will use target-date funds. Currently, less than half of smaller employers offer them, according to the most recent Society for Human Resource Management benefits survey.

10. Benefits firms, which might not be hurt as much as those that charge asset-based fees, will continue to aggressively buy and build retirement practices. They might even look to start their own pooled-employer plans (PEPs) for their brokers.

11. PEPs will be more attractive to plans, regardless of size. There's safety in numbers, and the desire to outsource work and liability will become more attractive as companies are forced to streamline all processes and cut costs.

FURTHER CONSOLIDATION

12. Look for further consolidation. Money managers will buy up competitors, in line with Franklin Templeton's recent acquisition of Legg Mason. At the same time, more money managers will look to participate in the even more attractive and sticky retirement market. Record-keeper consolidation will also accelerate, as retirement plans move to RPA specialists, who will continue to inherit record keepers when they take over plans. Those specialists have the resources to consolidate their books of business or at least limit the record keepers they sell going forward.

Bonus prediction (and my personal favorite): There will be less handshaking.

Fred Barstein is founder and CEO of The Retirement Advisor University and The Plan Sponsor University. He is also a contributing editor for InvestmentNews' *Retirement Plan Adviser newsletter.*

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How advisers can adapt to COVID-19

GUESTBLOG SCOTT HANSON

With major changes and challenges occurring daily, the past two weeks have felt like months for most of us. At Allworth Financial, which has 209 associates and locations in 17 cities across the country, we've been adapting and pivoting on the fly.

I'm sure you have, as well.

I'm going to outline some of the steps we've taken in the hope that it helps other RIAs adapt and meet the needs of their staffs and clients during this incredibly difficult time.

On Friday, March 6, when the talk of possible worst-case coronavirus scenarios first began to emerge, we reviewed our continuity plan. (All RIAs are required to have one.) While it contained some key elements, it was clear it wasn't detailed enough to prepare us for what might unfold in the days ahead.

By the following Tuesday, March 10, we'd assembled and held the first meeting of our firm's new coronavirus task force. By then, primary and secondary schools and universities had begun to close.

TOTAL LOCKDOWN

It was during this initial meeting that our chief technology officer asked what we would do if we were in total lockdown. Though this was a mere two weeks ago, looking back, I remember thinking that he might be joking. At that point, I had never considered the entire country might be asked to undertake such drastic measures. Yet even though most of us felt that a total lockdown was unlikely, we decided then and there to prepare for worst-case scenarios.

The task force distilled our goals down to a handful of crucial endeavors.

First, to keep our workforce safe. Above all, we wanted to do everything in our power to ensure that every one of our team members was not only as safe as we could make them, but also felt safe.

Second, every team member needed to be outfitted so they could work from home. This, of course, included full integration with our portfolio systems, customer relationship management system, accounting system, phone system, video conferencing and more. Our advisers already had access to much of our system remotely, but most of our service members did not.

Third, in spite of the difficulties everyone was facing (at work, yes, but also in their private lives), we of course had to continue to protect client data and privacy. We realized we couldn't let expediency cause us to be negligent, especially in this area.

While most of our employees had laptops, 36 did not. The first thing the task force needed to do was to conduct an inventory of our hardware, laptops and headsets. We immediately began to repurpose older, unused laptops and then ordered 15 more, along with 180 headsets. When it became obvious that important items such as long ethernet phone cables were backlogged online, we found them readily available at local supply stores.

Concurrently, we were focusing on software. All laptops needed to have an internet browser, of course, but they also needed to be set up to work as a "soft phone" (a "soft phone" system enables the computer to function like a ground line) so our clients could have the same phone routing system they're accustomed to. (During business hours, we don't allow clients to be placed into voicemail.)

VIDEOCONFERENCING

In addition, all laptops had to have the video communications software Zoom installed and ready to go. We use videoconferencing via Zoom for everything from business-to-business communications to client appointments to department, such as, say, marketing, appointments between locations, and now, team members' homes.

Next, we created a plan to get everyone trained in all pertinent applications, processes and software by the following Friday.

On Sunday evening, March 15, we held a remote meeting with the task force and made two key decisions. First, we announced to clients and potential clients that, for the time being, we were moving all advisory appointments to either phone or Zoom.

Second, all employees who had the ability to work remotely would immediately be asked to do so.

On Monday, March 16, six Bay Area counties issued a "shelter-in-place" order. This order exempted cer-

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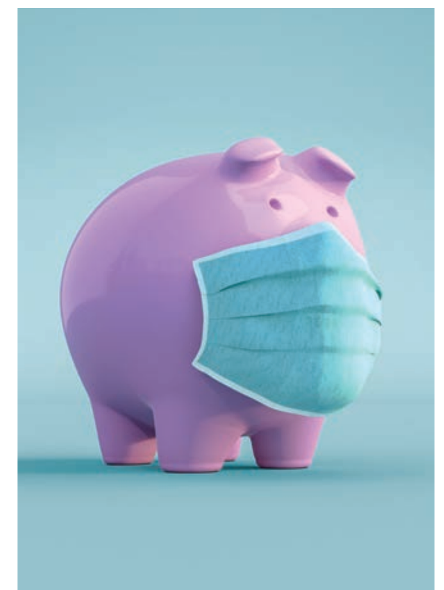
Here's what your clients need from you, right now



GUESTBLOG KEN UNGER

Right now, we are going through some of the toughest times investors and advisers will ever see. In a short period of time we've moved from an 11-year bull market to a swift and dangerous equity market downturn that was hard to anticipate. Many experts felt equity markets were overextended, but they were not providing guidance that called for this extreme a downturn.

Investors are concerned and scared, and they should be. Their wealth has been reduced and that's never enjoyable. At this time, a financial adviser's leadership is not just helpful, it's critical.

So what are the best advisers doing?

They are calling clients and having personal conversations. They are making sure that their clients and those around them are OK. The coronavirus is a serious health issue, and people need to first and foremost make sure they are healthy and safe.

EQUITY MARKETS

As for equity markets, whether it was 1929, 1987, 2000 or 2008-2009, they were horrible, but they survived and life moved on. Economic conditions

CONTINUED ON PAGE 20

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ADAPTING TO COVID-19

➔ CONTINUED FROM PAGE 18

tain industries, including our own, but we soon realized that some of our office parks were entirely shutting down. By that evening, two of our physical offices were temporarily closed.

GOING VIRTUAL

The following morning, we notified our entire organization that we needed to prepare to become a 100% virtual company.

On Tuesday, March 17, Sacramento County (where we are headquartered), issued its own guidance on travel and gatherings. (As I'm writing this, that guidance has now been upgraded to the more restrictive "shelter in place.")

While the above was happening operationally, we made a major pivot with our education and marketing. We put together a client communication team and, in one week, produced and delivered videos, podcasts, written market updates and other communication pieces to our clients.

Simultaneously, our investment department has been digging deep into our portfolios to see what new investment risks might be lurking that were unforeseen only a few weeks ago. (Most of our portfolios are in passive strategies, but we utilize some managers in the fixed-income space.) Even though we had moved to a defensive position in fixed income several months ago, we wanted to be sure.

Lastly, we instructed the post office and other carriers to forward all mail and deliveries to our Sacramento headquarters.

FULLY OPERATIONAL

After a whirlwind two weeks, by the week of March 23, all our employees and most of the country had been ordered to shelter in place — at home. Obviously, to call this a "fluid situation" is an understatement. But our firm is 100% operational. We are holding meetings via videoconferencing, and we continue to be in consistent contact with our clients.

WE NEEDED TO PREPARE TO BECOME A 100% VIRTUAL COMPANY.

Admittedly, it's a little hard to believe all that has transpired in the past two weeks.

While I can't predict what the coming days and months will bring, I can certainly read the various reports out there and it doesn't look good. Aside from what's happening in the markets, and to the economy, we may be in for several weeks, or more, of remote work, adapting to an entirely new sense of normal along the way.

Make no mistake, it's during times like these that your clients need you more than ever.

DEMAND WILL ONLY INCREASE

After 12 years of a bull market, some experts were scoffing at the notion of asset allocation and the value that personal financial advisers provide. But looking ahead, I find it likely that the demand for our services will only increase in the future.

How you respond to, and communicate with, clients and staff right now will define your practice going forward. Above all else, get ready for a lot of "new normal" in the coming weeks.

Scott Hanson is co-founder of Allworth Financial, formerly Hanson McClain Advisors, a fee-based RIA with $8 billion in AUM.

WHAT CLIENTS NEED

➔ CONTINUED FROM PAGE 18

eventually will change. Human behavior during difficult times is always a major concern.

3 TYPES OF DOWNTURNS

If you look at market downturns, one theory is that there are three major categories: structural, cyclical and event-driven. Structural are those in which the financial system is failing; 1929 or 2008-2009 were examples of structural downturns. Cyclical downturns occur when the economic cycle breaks down and earnings are dismal. Event-driven downturns can be caused by events like a war or an extreme oil price drop. Although this may turn into a cyclical downturn, it seems to be caused by an event, the spread of the coronavirus (although the simultaneous oil price drop has not been helpful).

All downturns are serious and should not be taken lightly. The toughest part of an event-driven downturn is it can be sudden and sometimes unforeseen.

So what do clients need?

They need leadership, guidance and comfort. Retirees need to know that their cash flow needs will be met. Savers need to know that someday they will be able to retire. Obviously, we are not clairvoyants, but we can be hand-holders. We can share with concerned clients that we are doing the best we can to communicate and understand their situation.

Advisers are resources, not daily news sources. We understand that when clients' accounts go down, they get frustrated. Your job is to listen to clients, understand their situation and provide ideas. For many advisers, that may involve rebalancing clients' assets. That means you may be selling some fixed income at higher prices to buy some equities at lower prices. Isn't that what people want? Over my almost 40-year career in financial services, I was taught that "selling high and buying low" is a good thing.

'PROCEED WITH CAUTION'

Top advisers are stewards of their clients' life savings. If you have been telling clients for some time now to "proceed with caution," it is a good time to remind them of that.

Growing up, my dad always would say, "Life is tough but so are you." These are tough times, but the world is not coming to an end. The best advisers are those who are prepared, not scared. The best advisers are those who are helpful, not clairvoyant. The best advisers add value.

Things will get better, and many of you will be stronger. Now is the time to reach out and have those targeted conversations with all of your clients.

Ken Unger is a 40-year industry leader and founder of the Academy of Preferred Financial Advisors. He can be reached at info@theapfa.com.

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SENATORS

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Other lawmakers have also generated controversy with investment sales that occurred after they talked to administration officials about the coronavirus outbreak that has devastated financial markets. The Center for Responsive Politics first reported on market activity by Sen. Richard Burr, R-N.C., that has drawn criticism for potential misuse of insider information.

WRONGDOING DENIED

Burr and the other legislators have denied wrongdoing. But Craig Holman, a government affairs lobbyist at Public Citizen, a watchdog group, said that if they made investment decisions based on "nonpublic information," they violated a 2012 law known as the Stock Act, which prohibits insider trading by members of Congress.

Holman said lawmakers should cede control of their finances while in office.

"Members of Congress could easily sidestep these questions of potential insider trading if they placed their funds in a qualified blind trust," he said.

Holman, who was a leading advocate of the Stock Act, thought the measure would curb legislators' participation in portfolio decisions. But he said one-third of the Senate continues to buy and sell securities.

"Much to my surprise, there are a number of senators who seem unconcerned about the appearance of insider trading," Holman said.

The SEC likely will look into the insider trading allegations on Capitol Hill, Gorman said.

"This will get on the SEC's radar," he said. "You're supposed to be doing the public's business, not making yourself money."

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401(K) CASH-OUTS

CONTINUED FROM PAGE 4

with advisers, the survey found. About 29% of plan participants who have less than $100,000 saved work with advisers, versus 51% among those with $500,000 to $2 million in retirement assets, according to Cerulli. About 30% of people younger than 30 have advisers, compared with about 52% of those who are in their 70s.

People who have relationships with financial advisers are probably reacting much differently to the recent market volatility than those don't receive advice, Krymkowski said.

"When we surveyed households last year, a third of them were fully expecting a recession in 2020," she said. People who were prepared for that likely have emergency savings and a long-term financial plan, she noted.

However, "not everyone can go around and shop for an unbiased adviser," Krymkowski said.

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MOODY'S

CONTINUED FROM PAGE 4

stable from positive, "reflecting our expectation that lower interest rates and asset prices will slow the pace of revenue growth at LPL."

Moody's also noted that LPL had lowered its debt levels since they peaked in 2015.

"Our firm's financial strength and stability remain a differentiator in our industry, and we remain confident in our ability to serve as our advisers' long-term partner," an LPL spokesperson, Lauren Hoyt-Williams, wrote in an email.

Also on March 17, Moody's said that while it was reaffirming the credit rating for Cetera's parent company, Aretec Group Inc., at B3, it changed the company's outlook to negative from stable.

"Aretec's negative outlook reflects a challenging macroeconomic environment which will weigh on the firm's revenue in the form of lower asset-based and advisory fees," according to Moody's. "The negative outlook also reflects the elevated debt level and the increasing probability of deterioration in debt servicing capacity now that interest rates and market levels have declined."

"We are pleased that Moody's reaffirmed our rating and like all in the financial services sector right now, we understand their caution with the overall economic environment," Jeff Buchheister, Cetera's chief financial officer, wrote in an email.

> **"COMPANIES ACROSS MANY INDUSTRIES ARE BEING PUT ON CREDIT WATCH."**
> JOE KUO, SPOKESPERSON, ADVISOR GROUP

ADVISOR GROUP DOWNGRADE

On March 19, Moody's downgraded Advisor Group to B3 from B2 with a negative outlook.

"Although Advisor Group's revenue has benefited from macroeconomic tailwinds between 2017 and 2019, including higher interest rates and strengthened levels of client assets, Advisor Group has also engaged in debt-funded acquisitions, delaying its organic deleveraging during this favorable period," Moody's noted.

"In this economic and market environment, companies across many industries are being put on credit watch, or being downgraded, and as expected, the entire financial services sector is not immune," said Joe Kuo, spokeperson for Advisor Group.

"Thankfully, we are of sufficient size and have the financial resources to continue to invest" in the company, Kuo added.

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FALLOUT

CONTINUED FROM PAGE 3

vive this," she said. "As we come out of the rubble, people are going to start to address the value that their plan adviser provided during this time."

PROPOSAL REQUESTS UP

Some advisers have indeed been busy, said Aaron Schumm, CEO of Vestwell, which provides digital record-keeping services to about 5,000 plans.

Because of remote work and a standstill in new plan sales, advisers are probably more accessible than ever. "We're seeing a high volume of advisers wanting to create proposals for existing clients."

About 5% of plans in Vestwell's business have inquired about making changes, such as stopping contributions or terminating their plans entirely, Schumm said.

The company has pushed back on plan terminations, as the delays and costs associated with starting them back up can outweigh the cost savings that employers might see in the near term, he said.

"When you get down [market] trends, there are some businesses that aren't going to make it," he said. But, "I don't think it's going to be a huge percentage."

And unlike the 2008 financial crisis, the current market volatility is not due to a systemic flaw in the financial system, he said.

"We'll get through this," he said. "It's that moment in history we'll all remember."

Advisers who are communicating well with plan clients will benefit, regardless of whether those plans end up being terminated, he noted. For those plan sponsors that stay in business, the relationship with the adviser will be reinforced. For small businesses that are forced by economic pressure to close, a strong tie to the plan adviser could lead to a wealth-management relationship, he said.

After the pandemic subsides, plan sales will start to pick up again, and some sponsors will consider changing advisers, said Scott Buffington, CEO of 401kplans.com, which issues proposals and does due-diligence work for plan advisers.

"You might see a lot of fund changes. You might see record keepers getting replaced," Buffington said. "Those advisers who don't meet with participants or don't have a strategy to answer questions on the [market] volatility will certainly struggle."

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ADVISERS REACT

CONTINUED FROM PAGE 2

er of RightPlan Financial in Lakeland, Fla. "This money may not be utilized to boost the economy as a whole by [consumers] buying products. Instead, the money is being used to pay rent, mortgages and things of that nature."

The stimulus bill is the third measure Congress will have approved over the last several weeks to address health care and other challenges presented by the virus. The Federal Reserve has also cut interest rates during that time.

That one-two punch is misguided because it will diminish the value of the dollar, said Mike Caligiuri, founder of Caligiuri Financial in Columbus, Ohio.

"It's an illogical economic fallacy that just printing money is going to solve our problems," Caligiuri said. "Printing money doesn't lead to more goods and services for everyone. This is just a massive bailout. It's ultimately going to lead to hyperinflation … and everyone's going to be worse off."

RETIREMENT SAVINGS

The stimulus package makes several changes to retirement savings policy that allow participants to access cash for emergencies. Similar steps have been taken in the past in response to hurricanes and other natural disasters.

The measure would waive the 10% penalty on early withdrawals from retirement plans for people who have been impacted by the coronavirus and allow them to put the money back into the plan — and pay taxes on the gains — over three years. Another provision would increase the ceiling on loans against a retirement plan to $100,000 or 100% of a plan, whichever is smaller.

Another provision would waive required minimum distributions this year for certain 401(k) and individual retirement accounts. The distributions would have been required for those 72 and older.

"PRINTING MONEY DOESN'T LEAD TO MORE GOODS AND SERVICES."

MIKE CALIGIURI, FOUNDER, CALIGIURI FINANCIAL

Schwartz likes the RMD change because it will allows retirees to keep money in their plans rather than taking it out in a market hammered by the coronavirus.

"You're able to reinvest that money now," Schwartz said.

Some advisers expressed worries that Congress is foisting a $2.3 trillion measure on top of a deficit that is already hovering around $1 trillion.

LaBrecque shares those qualms but said this is a unique moment.

"This isn't the time to be a deficit hawk," he said.

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Northwestern University wins appeal

INVESTMENTNEWS

A FEDERAL APPEALS court has ruled in favor of plan fiduciaries at Northwestern University in a case that charged university representatives with failing to negotiate a better deal for the school's 403(b) plan participants.

The original suit, filed in 2016, was dismissed with prejudice in 2018, which meant that the plan participant plaintiffs could not file another complaint in a lower court. The suit argued that the Evanston, Ill., school had eliminated "hundreds of mutual funds" from the plan and had not consolidated record keepers until 2012.

In an opinion written by Judge Michael B. Brennan, the appellate court disagreed with the plaintiffs' theory that Northwestern was required to seek a sole record keeper to satisfy its fiduciary duties, and found Northwestern's decision to maintain two record keepers "prudent," and "to the extent plaintiffs alleged Northwestern should have selected TIAA as its sole record keeper, that assertion also fails to state a claim for relief," he wrote.

"ERISA does not require a sole record keeper or mandate any specific record-keeping arrangement at all," the court wrote.

Of the roughly 20 universities that have been sued over fees and investment options in their retirement plans since 2016, there have been six announced settlements, according to a story on napa-net.org.

Universities other than Northwestern that have prevailed in similar cases.

MUTUAL FUNDS

CONTINUED FROM PAGE 2

about a liquidity crisis or crunch and a raft of redemptions … or maybe it's as simple as [a way of] assuring investors that their money is not locked up."

One fund manager, Fidelity Investments, noted that its "mutual funds and other investment vehicles continue to operate without interruption for our clients," a company spokesperson said in an email.

Another fund firm, Vanguard, said that given the importance of people's health and safety, "Vanguard supports the SEC taking action to extend regulatory relief and reporting deadlines."

REDEMPTION REQUIREMENT

Under the Investment Company Act of 1940, mutual funds are required to meet shareholders' redemption requests in seven days or less. Those requests are generally settled much more quickly, but a high volume of redemptions that required some funds to sell less-liquid holdings could potentially cause delays.

"[The SEC] learned some lessons from '08, and they don't want to exacerbate the market [dive] with a run on funds," Cipperman said. And by calming investors' nerves about fund liquidity, the regulator could help to avoid that, he noted.

But the SEC could also be anticipating requests from fund companies. The agency had implemented a similar measure in 2008, after numerous fund providers had individually applied for exemptive relief around liquidity, Cipperman said.

"Today's temporary action will provide an additional tool that funds can use to manage their portfolios for the benefit of their investors in the current market environment," SEC Chairman Jay Clayton said in a statement. "This action provides funds with additional flexibility to navigate volatile markets while meeting their obligations to investors."

The SEC's order allows registered open-end funds and insurance company separate accounts to borrow from affiliates. That can mean tapping into money held in the investment adviser's corporate account, borrowing assets from a different fund sponsored by the same firm or getting money from a revolving line of credit, Cipperman said. Part of the SEC's order permits interfund lending for mutual funds that had not received exemptive relief for that practice in the past.

The relief is in effect through June 30, though the SEC could extend it.

But just because mutual funds can borrow money to meet redemption requests doesn't mean they should, at least not proactively, Cipperman said. Fund boards are required to approve such measures and notify the SEC. And the funds themselves are affected, because they must pay interest on the borrowed money, he noted.

SEC EXTENDS DISCLOSURES

In the separate order issued Wednesday, the SEC gave publicly traded companies a 45-day extension to file disclosures, such as proxy statements, that had been due between March 1 and July 1.

That order also includes guidance on timely reporting of financial impacts caused by COVID-19, "while recognizing that it may be difficult to assess or predict with precision the broad effects."

The SEC had relaxed Form ADV filing requirements on March 13 for investment advisers, though it required them to provide justification to the SEC for any requested delays. The order issued Wednesday removed that requirement, though it requires any investment advisers that are relying on the order to notify the SEC about delays in filing.

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2020 IN Events Calendar

EVENT	DATE	LOCATION
women adviser summit	May 14* August 19* August 25* October 1 October 20 November 17*	Huntington Beach - NOW VIRTUAL Chicago Boston Denver San Francisco New York City
RETIREMENT INCOME SUMMIT	August 17-18*	Chicago
EXCELLENCE IN diversity & INCLUSION AWARDS	September 15	New York City
FUTURE OF OUR BUSINESS	October 27*	New York City
WOMEN to WATCH	November 16*	New York City
INNOVATION SUMMIT & AWARDS	November 18*	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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