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APRIL 20-24, 2020

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ESG IS A BRIGHT SPOT IN DARK DAYS ON WALL STREET

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EDITOR'S NOTE

Keep your eyes forward

To paraphrase Josh Brown in his informative, and entertaining, interview with Matt Ackermann on INTV last week — and I take no satisfaction in saying this — the current crisis has proven the value of having a solid internal tech platform.

Unlike Ritholtz Wealth, *InvestmentNews* was not born a remote firm, but over the past 12 months, we have invested in technology that enhances collaboration, and that has facilitated our quick shift to becoming a remote company that continues to deliver our weekly edition, as well as an active website.

GEORGE B. MORIARTY

Prior to mid-March, we assembled the print edition in the office every Friday. Then, one Thursday, we were told that the office would be shut at the end of the day. Our tools allowed us to complete the issue the next day, and then to select and transition to a digital version so that we could continue to serve our readers who aren't able to receive issues at the office anymore.

I share this anecdote not to celebrate what's happened in the past, but to emphasize that companies like ours and Josh's have been rewarded for looking ahead. Importantly, we all need to take time now, in the midst of this crisis, to keep looking beyond the current moment to anticipate and develop solutions for whatever may come next.

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RIAs seek guidance from SEC on COVID-19 loans

BY MARK SCHOEFF JR.

> **KEY POINTS**
> - Some advisory firms wonder if PPP loans must be disclosed to the SEC.
> - Some experts say for now 'disclosure is warranted on a case-by-case basis.'

SOME COMPLIANCE experts are wondering whether federal loans meant to sustain small businesses during the COVID-19 pandemic could trigger a disclosure requirement for any registered investment advisory firms that receives one.

Small companies can apply for loans through the Paycheck Protection Program, which was established by the Coronavirus Aid, Relief and Economic Security Act. For the moment, the popularity of the program has depleted its funding capacity. Lawmakers are deadlocked on how to replenish it.

Nonetheless, if an advisory firm landed one of the loans, it raises the question of whether it must disclose that on its Securities and Exchange Commission registration document.

An item on Form ADV Part 2 states that if an RIA has custody of client assets or solicits prepayment of more than $1,200 in fees, it must "disclose any financial condition that is reasonably likely to impair your ability to meet contractual commitments to clients."

With the coronavirus laying waste to the U.S. economy, most small businesses are under stress. The lending program is meant to provide them with money to cover payroll and other expenses to stay afloat. If the loans are used in that way, they're forgivable.

Chris DiTata, vice president and general counsel at RIA in a Box, a compliance software and consulting firm, would like the SEC to clarify whether a PPP loan is a disclosable event.

"Until there's further SEC guidance, it still has to be viewed as an evolving regulatory topic," DiTata said. "Firms should consider whether disclosure is warranted on a case-by-case basis at this juncture."

An SEC spokesperson declined to comment.

SEC NOTIFICATION

Gail Berstein, general counsel at the Investment Adviser Association, said an RIA's taking of a PPP loan and being unable to meet a contractual commitment to clients "are two different questions." If firms weren't teetering financially before the coronavirus outbreak, they should be able to take PPP assistance without notifying the SEC.

"We don't think applying for the Paycheck Protection Program necessarily

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Mariner, Dynasty build platform for breakaway brokers

BY JEFF BENJAMIN

MARINER WEALTH ADVISORS, with support from Dynasty Financial Partners, has launched a platform to attract breakaway reps from wirehouses, independent broker-dealers and even other advisory firms.

The new Mariner Platform Solutions, which is separate from the $36 billion registered investment adviser with 41 offices and more than 300 advisers, "could be even bigger than" Mariner Wealth Advisors, said founder and chief executive officer, Marty Bicknell.

MARTY BICKNELL

"Our sweet spot is reps managing $100 million to $300 million, one- to three-person shops that truly don't want to build an enterprise or an infrastructure, but just want to give advice," Bicknell added. "It's aimed at breakaway advisers, but we're not pigeonholing ourselves to the wires. It could be a breakaway from an existing RIA."

MPS, as Bicknell calls it, has been in the works for several months and has technically been operational for a few weeks, but the official announcement was delayed by a few weeks due to the COVID-19 pandemic.

ONBOARDING IN PROGRESS

Bicknell said no reps have joined the RIA yet, but the firm is in the onboarding process.

MPS is an RIA that is separate from the Mariner Wealth Advisors RIA, and reps joining the new platform will operate as investment advisory representatives and 1099 employees under the MPS RIA.

Advisers joining the platform will run independent businesses and

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Wells Fargo's first quarter points to more pain in 2020

BY BRUCE KELLY

WELLS FARGO & CO.'S first-quarter earnings, released last Tuesday, showed weakness across the board in its wealth and investment management group, (which includes Wells Fargo Advisors), with drops in total assets, advisory assets and net interest income when compared to the same quarter in 2019.

Such declines have been widely expected, as the giant brokerage with 13,450 registered reps and financial advisers, along with the rest of the wealth management industry, comes to terms with the impact of the first quarter's sharp decline in stocks as the broad economy grapples with the effects of COVID-19.

"We are seeing the start of firms becoming defensive as they do staffing hiring freezes, cut backs on recruiting transition money, and implement product restrictions on investments they perceive having large downside risk going forward, such as real estate investments that are leveraged or illiquid," said Jon Henschen, an industry recruiter.

"We see this trend accelerating at a pace that will match market conditions," he added."So, hypothetically, if the [Dow Jones Industrial Average] goes down to say 15,000, we would see major cost-cutting and layoffs, while, if it retreats from current levels to around 20,000, we don't see much change from the current trend."

DIMINISHING RETURNS

Wells Fargo's wealth and investment management business saw year-over-year declines in total assets to $1.6 trillion, a drop of 12%, and advisory assets in retail brokerage of $499 billion, a drop of 9% when compared to the end of March 2019. In a presentation, the company pointed to lower market valuations and net outflows in its clearing business for other broker-dealers as drivers of the declines.

Meanwhile, the wealth and investment management group at Wells Fargo also reported a year-over-year drop at the end of March in net interest income of 21% to $867 million for the quarter, primarily due to the lower interest rate environment, but partially offset by higher deposit balances, according to the company.

"WE SAW THE SAME THING IN 2008 AND 2009."

JODIE PAPIKE, PRESIDENT, CROSS-SEARCH

Advisers will be watching how their firms respond in the coming months, said Jodie Papike, president of Cross-Search, a recruiting firm.

"Advisers will be looking at how well capitalized their broker-dealer is and how well can it support him or her through this difficult time," Papike said. "That's repeating history. We saw the same thing in 2008 and 2009. Advisers wanted to know if their firms were stable and what was the plan to support their businesses."

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Merrill Lynch hits pause on new hires because of social distancing

BY BRUCE KELLY

WHILE MERRILL LYNCH moved some financial advisers and trainees to work on client inquiries and processing federal assistance programs in the wake of the COVID-19 pandemic, the thundering herd is also tapping the brakes, at least for the near future, on hiring any new financial adviser trainees.

At any given time, Merrill Lynch has 3,000 to 3,500 financial adviser trainees working across its giant wealth management and private banking platform, which together with Bank of America private bank posted $4.94 billion in total revenues for the first quarter of the year, an increase of 2.4% compared to the first quarter of 2019, according to the first-quarter earnings report of its parent company, Bank of America Corp., which was released last Wednesday.

HIRING SUFFERS

But the limitations created by COVID-19 on businesses of all stripes are hurting potential new hires at Merrill Lynch.

"There's no ability for face-to-face interviews" with potential hires because of social distancing required by the coronavirus, said a senior Merrill Lynch executive, who asked not to be named."We have offers for people to join us in April in the training program but other new hire activities will be paused. The focus for the management team needs to turn to existing teammates."

Merrill Lynch still has trainees currently in the pipeline who are graduating and becoming full-time advisers.

FEELING THE PAIN

The federal government created the Coronavirus Aid, Relief, and Economic Security Act, also known as the CARES Act, to pump hundreds of billions of dollars to businesses and individuals feeling economic pain from the impact of the coronavirus.

<1%
INCREASE IN MERRILL ADVISERS VS. LAST MARCH

Merrill Lynch said it had moved 700 advisers to support client CARES Act inquiries. The private bank was also aligning adviser trainees and wealth management analysts to support CARES Act application processing.

The firm reported 17,646 financial advisers at the end of March, an increase of less than 1% compared to the same period a year earlier.

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Judy Ricketts joins LPL as head of operations

Judy Ricketts, who most recently ran the retail contact center at TD Ameritrade, has joined LPL Financial as executive vice president of operations.

She will lead LPL's strategy to "optimize the effectiveness of LPL's operations organization," the company said in a release.

Ricketts, who had been with TD Ameritrade for 24 years, held several senior positions there, including managing director of investor services. She is a member of the family that founded the firm.

-InvestmentNews

Creative Planning's Mallouk pledges no layoffs or pay cuts

BY JEFF BENJAMIN

PETER MALLOUK, president and chief executive of Creative Planning, has thrown down the gauntlet to the financial planning industry by pledging no layoffs or pay cuts resulting from any economic fallout from the coronavirus pandemic.

Mallouk, who made the commitment shortly after instituting a contingency plan a month ago that ordered all 700 employees to start working from home, doesn't expect every advisory firm to follow his lead.

He believes, however, that an industry largely sheltered from the worst of the economic

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PETER MALLOUK

Low rates hit cash yields for robo clients

Banking products attracted billions of dollars in assets onto digital wealth platforms in the past year — including at some advisory firms with household names, such as Carson Group and Personal Capital. None of the new products have been more successful, however, than the high-yield savings accounts that have helped Betterment and Wealthfront catapult their assets over the $20 billion mark.

SEAN ALLOCCA

ONTECHNOLOGY

Wealthfront said in September that its product pulled in more than $1 billion in its first month and helped the robo-adviser double its assets last year. Not to be outdone, Betterment said in March that its assets topped $22 billion, in part due to adding cash management tools last year.

FALLING RATES

Economic fallout from COVID-19, however, has upended some of that success. Falling interest rates knocked yields from 2%-plus down to just basis points. Those yields put digital firms on par with competing offers from traditional banks.

After gaining a leg up by adopting new banking technologies, digital wealth managers may be forced to reinvent themselves again in light of the recent stock market downturn.

"The 'rate bait' trend may have run its course," said William Trout, head of wealth management at consulting firm Celent. "Robo-advisers were doing a nice job pulling in cash before the market began to crater."

While Betterment and Wealthfront do not break down assets held in savings accounts, Personal Capital said it had amassed over $360 million in deposits in approximately 20,000 accounts since launching last year.

MORE THAN JUST YIELD

"The recent rate cuts by the Federal Reserve have been drastic and impact nearly every financial institution," said Personal Capital spokesperson Porter Gale. "There is more to a cash management account than just yield."

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Pandemic delays rollout of New Jersey's fiduciary rule

BY MARK SCHOEFF JR.

THE COVID-19 outbreak has pushed back a potential final regulation that would raise the investment advice standard for brokers in New Jersey.

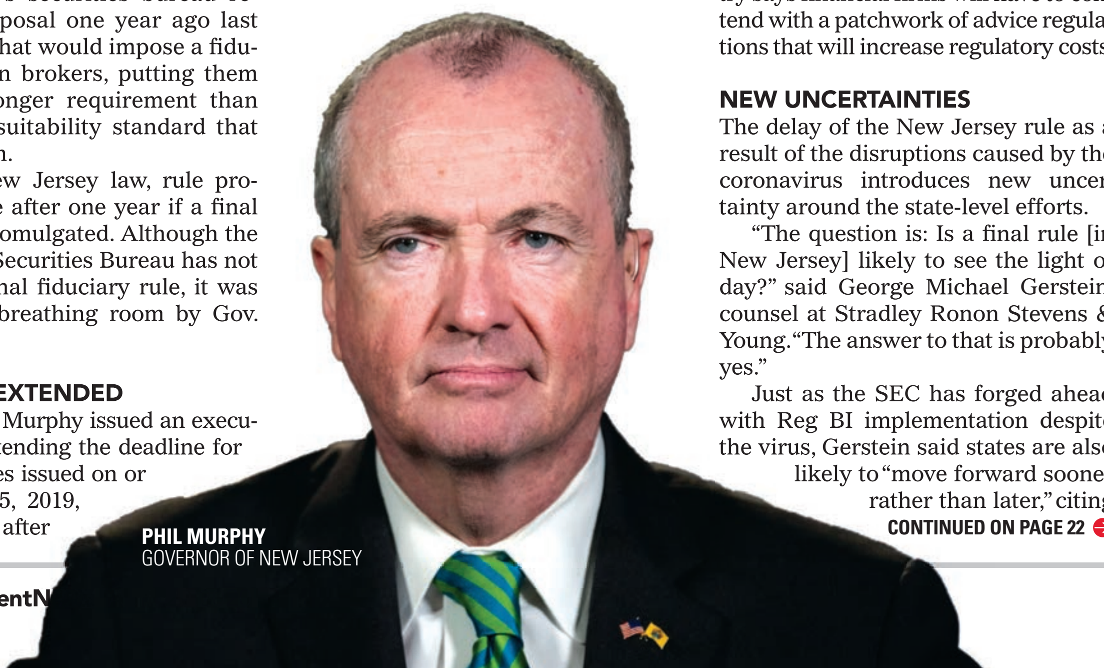
The state's securities bureau released a proposal one year ago last Wednesday that would impose a fiduciary duty on brokers, putting them under a stronger requirement than the current suitability standard that governs them.

Under New Jersey law, rule proposals expire after one year if a final rule is not promulgated. Although the New Jersey Securities Bureau has not released a final fiduciary rule, it was given more breathing room by Gov. Phil Murphy.

DEADLINE EXTENDED

Last Tuesday, Murphy issued an executive order extending the deadline for proposed rules issued on or after April 15, 2019, until 90 days after the state's health emergency is lifted.

In a recent interview, Christopher Gerold, chief of the New Jersey Securities Bureau, declined to comment on the state's fiduciary duty rule-making process.



PHIL MURPHY
GOVERNOR OF NEW JERSEY

New Jersey is one of three states — in addition to Massachusetts and Nevada — pursuing its own broker advice standard that is separate from the Securities and Exchange Commission's Regulation Best Interest, which was approved last summer and must be implemented by June 30. Officials in the three states have said Reg BI, as it's known, is not strong enough to protect investors.

The brokerage industry opposes state-level fiduciary rules, asserting that Reg BI, as it's known, must be the national standard. If it's not, the industry says financial firms will have to contend with a patchwork of advice regulations that will increase regulatory costs.

NEW UNCERTAINTIES

The delay of the New Jersey rule as a result of the disruptions caused by the coronavirus introduces new uncertainty around the state-level efforts.

"The question is: Is a final rule [in New Jersey] likely to see the light of day?" said George Michael Gerstein, counsel at Stradley Ronon Stevens & Young. "The answer to that is probably yes."

Just as the SEC has forged ahead with Reg BI implementation despite the virus, Gerstein said states are also likely to "move forward sooner rather than later," citing

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10 updated 2020 predictions from Bob Doll

Like just about everyone else these days, Nuveen's chief equity strategist, Bob Doll, is adjusting to the new normal created by the COVID-19 pandemic. Doll has offered up a revised version of his closely watched list of 10 predictions.

"With the coronavirus pandemic shaking up the global economy and markets in unprecedented ways, I thought you might be interested in 10 mostly new predictions for 2020," he said. Following are his updates:

10 The U.S. and world experience a sharp, but reasonably short, recession with noticeable recovery before year-end.

9 All-time low yields move higher during the second half, with the 10-year Treasury closing the year above 1%.

8 Earnings collapse, but then rise smartly by the fourth quarter.

7 Stocks, bonds and cash all return less than 5% for only the fourth time in 25 years. (No change from original prediction.)

6 The dollar weakens as global growth strengthens in the second half.

5 Value and cyclicals outperform growth and defensive stocks in the second half.

4 Financials, technology, and health care outperform utilities, energy and materials in the second half.

3 Active managers outperform their indexes for the first time in a decade. (No change from original prediction.)

2 The cold wars within the U.S. and between the U.S. and China continue. (No change from original prediction.)

1 The coronavirus recession and rise in unemployment cause Donald Trump to be a one-term president.

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More must be done to bolster Americans' retirement savings

Retirement security remains an elusive goal for many Americans, and the economic fallout from the COVID-19 pandemic has highlighted the shortcomings of the most common workplace retirement benefit: defined-contribution plans like 401(k)s.

Statistics on Americans' retirement savings were already grim. A 2019 report from the Government Accountability Office found almost half (48%) of families headed by someone age 55 or older had no retirement savings at all.

Workers at companies that offer a 401(k) plan can set aside a portion of each paycheck to be invested in funds they have selected; their employers may or may not provide a contribution. But the massive layoffs occurring across the country mean many workers will no longer have the option of contributing to a 401(k), if they had one. (About 30% of U.S. private-sector workers don't have access to a 401(k), according to the Pew Charitable Trusts.)

TAPPING INTO 401(K)s

In fact, the tens of millions of people who just lost their jobs or had their hours or wages reduced may need to tap into their 401(k) accounts to make ends meet. Such leakage from plans has always been a threat to retirement savings, and that threat has now been exacerbated by the CARES Act. To help those who fall ill or lose their jobs, the legislation made it easier for workers to borrow or withdraw funds from retirement plans.

The CARES Act eliminates the usual 10% penalty for withdrawing money from a 401(k) before the age of 62½ for plan participants who have been ill or are in economic distress. And it doubled the limit on loans from 401(k) plans, to $100,000, for such participants. (The law extends the loan repayment period to six years, but it seems likely at least some borrowers may not have the wherewithal to pay back the loan.)

Families who are dealing with serious illness or unemployment may need to access the money in their 401(k) if that's all that they have saved. But relying on those savings is likely to erode their future retirement security.

CUTTING CONTRIBUTIONS

In another hit to retirement savings, some companies are cutting their contribution to workers' 401(k)s amid the economic downturn. A Plan Sponsor Council of America survey released last Tuesday showed that 16.3% of the companies surveyed plan to suspend matching contributions, while another 8.7% will reduce their contribution.

The fees that workers are charged can also limit the amount they save for retirement, although such expenses have been declining for the last decade or so. But as *InvestmentNews* reporter Emile Hallez pointed out in a recent story, since fees are tied to the amount of a plan's assets, and those assets are likely to decline both as the result of the market sell-off and as workers borrow or withdraw from their accounts, fees are likely to head higher.

> **TENS OF MILLIONS OF PEOPLE WHO JUST LOST THEIR JOBS ... MAY NEED TO TAP INTO THEIR 401(K) ACCOUNTS TO MAKE ENDS MEET.**

PROPOSALS THAT COULD HELP

There are proposals out there that could help Americans do a better job of saving for their retirement. For example, adding emergency savings funds to companies' benefits lineups could provide a cushion for workers' 401(k) savings. And states' efforts to implement auto-IRA programs could reduce that 30% of private-sector workers who don't have access to a retirement plan.

As the industry most attuned to the topic of retirement income security, financial advisers should support such efforts to improve workplace retirement plans.

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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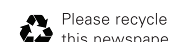

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SAVE THE DATE!
Second annual InvestmentNews ESG Impact Forum and film festival set for December 2 and 3 in New York.

BY JEFF BENJAMIN

AS PANDEMIC RAGES ON, ESG FUNDS SHINE BRIGHTLY

Outperforming the broader market yet again during a sudden downturn, ESG strategies are emerging as the new standard upon which to gauge a company's ability to withstand risk

While downsides of the COVID-19 pandemic can be found just about anywhere you look these days, a few silver linings are beginning to reveal themselves.

Among the positives is the strength of investment strategies designed around environmental, social, and governance criteria which have been holding up in terms of relative performance even as the fast-spreading virus was taking down the financial markets.

Morningstar's sustainability ratings system that ranks portfolios from one to five globes, based on the asset-weighted risk scores of the underlying holdings, found that funds with the highest ESG ratings not only outperformed funds with the lowest ESG ratings, but also outperformed the broader market.

During the first quarter, when the S&P 500 Index fell by 23.6%, global large-cap stock funds with the top rating of five globes had an average decline of 17.7%. On the other end of the spectrum, funds in the same category with a Morningstar rating of one globe lost 26.6% during the quarter.

Morningstar globe ratings provide a unique look at ESG investing because the globes are awarded not based on how a fund's strategy is described in the prospectus or what the fund is named, but rather on the actual portfolio holdings and investing history.

FOCUS ON ESG ISSUES

"The globe ratings reflect how well a fund's holdings are doing on the material ESG issues effecting their business. A company with low ESG risk is one that handles and is able to address ESG issues and that minimizes the risk to the firm," said Jon Hale, Morningstar's global head of sustainability research.

Regardless of where one sits on the ESG investing continuum, a global pandemic was not likely cited as a reason to invest in strategies built around portfolio exposure to various sustainability criteria. Though there is some recent precedent for ESG strategies holding up on a relative basis during a sudden market downturn.

In the fourth quarter of 2018, when concerns over a trade war with China drove the S&P down 13.5%, the average sustainable U.S. equity fund tracked by Morningstar beat the index by a full percentage point.

"Once you start picking through the numbers and looking under the hood, in both periods there was a flight to quality," said Martin Jarzebowski, director of responsible investing at Federated Hermes.

'NEW QUALITY FACTOR'

"ESG is starting to be understood as the new quality factor, and when you think of quality you think of strong management teams, balance sheet strength and companies positioned for the long term," he added. "When you're seeing market contractions and a flight to quality, ESG strategies are holding up."

Part of the strength of ESG strategies in the current downturn can be attributed to the fact that most ESG funds have limited exposure to the fossil fuel industries, which have suffered so far this year. But that alone is not enough to explain the performance disparity, especially since fossil fuels make up a small percentage of a broad market index.

"ESG means a lot more than just fossil fuel-free. It's also about where you direct capital, and how well you understand liabilities," said Chat Reynders, chairman and chief executive of Reyn-

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ders, McVeigh Capital Management.

"The ESG data is still imperfect, but it will get better as people learn what's material and how liabilities uncover themselves," he said. "It's important to understand that sustainability means more than just environmental stuff, and as a business it means weathering the darkest storm."

CLEAR STRENGTH

John Streur, president and chief executive of Calvert Investments, said even though "no company really had criteria for managing during a pandemic, it's clear that companies that have the criteria for ESG reacted well during this downturn."

"COVID-19 risk is very similar to climate change," he said. "This is a problem of human psychology, because we have a difficult time of dealing with risks that are right in front of us."

In terms of how ESG research and analysis applies during the current pandemic, Streur said a company's vulnerabilities are exposed under the same kinds of ESG criteria.

"We know some companies have really stepped up and showed leadership in response to this," he said. "Companies are making day-to-day decisions about how they're able to treat people at the company when the company is not open for business. This will form the company for many years to come, and will form the brand value."

Touching both ends of the spectrum in terms of how companies are working through the pandemic, Streur cited cruise line company Carnival Corp. (CCL) and Walmart Inc. (WMT).

LEARNING FROM CHALLENGES

Carnival has a history of safety challenges and weak ESG performance, he said.

"And this is a company that continues to make decisions about maintaining business operations (during the pandemic) while seeing problem after problem. Their history of safety issues has really played out in a tragic way," Streur said.

Walmart, on the other hand, is an example of a company that learned during Hurricane Katrina about the critical role of helping employees and the community, in many cases even before the government could help, he said. "Once again, we're seeing Walmart taking a leadership role."

Translated into stock performance, consider that Carnival shares fell by 73.6% during the first quarter of this year, while Walmart shares fell by 4.7%.

"This situation really makes the point that nonfinancial risk factors can have a massive impact on portfolio value," Streur said. "Longer term, as a society, we'll be thinking about what else is out there. What other nonfinancial risks are sitting out there that could really impair the value of a portfolio. If anyone was lagging, in terms of getting ESG research into the portfolio, this is a massive wakeup call."

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VIRUS SPAWNS NEW CHALLENGE FOR ESG INVESTORS

BY BLOOMBERG NEWS

ESG investors face a new threat in the age of coronavirus: "social washing."

Much like "greenwashing" that exaggerates or misrepresents the environmental credentials of a project or company, social washing can occur when the impact of an investment on labor rights or human rights are falsely overstated, said Arthur Krebbers, head of sustainable finance for corporates at Royal Bank of Scotland Group Plc's NatWest Markets unit. And it's a growing risk as investors focus more attention on social issues.

In the past two months, NatWest has seen a significant increase in inquiries from clients on issues such as sick leave for workers and the rights of contract workers.

The COVID-19 pandemic is awakening fund managers who consider ESG issues when investing to blind spots in their analysis of companies. While fighting climate change has been the top priority for many ESG funds, the spreading pandemic is prompting investors to put a greater emphasis on the "S" of ESG and consider how companies treat employees during the pandemic.

Krebbers's comments followed the Principles for Responsible Investment, the biggest network of responsible investment firms, which said in March that ESG investors must up their game to hold companies accountable for social issues. The PRI emphasized how the lack of paid sick leave or benefits has left many workers in precarious positions during coronavirus lockdowns.

"The big challenge with social is the data," Krebbers said. "The reporting tends to be more localized and it's harder to define, especially when you compare to environmental issues where the carbon footprint provides for a well-understood, comparable metric. A lot more thought and analysis is required if we are to avoid 'social washing' situations."

The risk of being misled by false information will only increase as more attention is given to social issues.

MORE EMPHASIS ON 'S'

A number of prominent ESG-focused money managers say they're now increasing their emphasis on the "S."

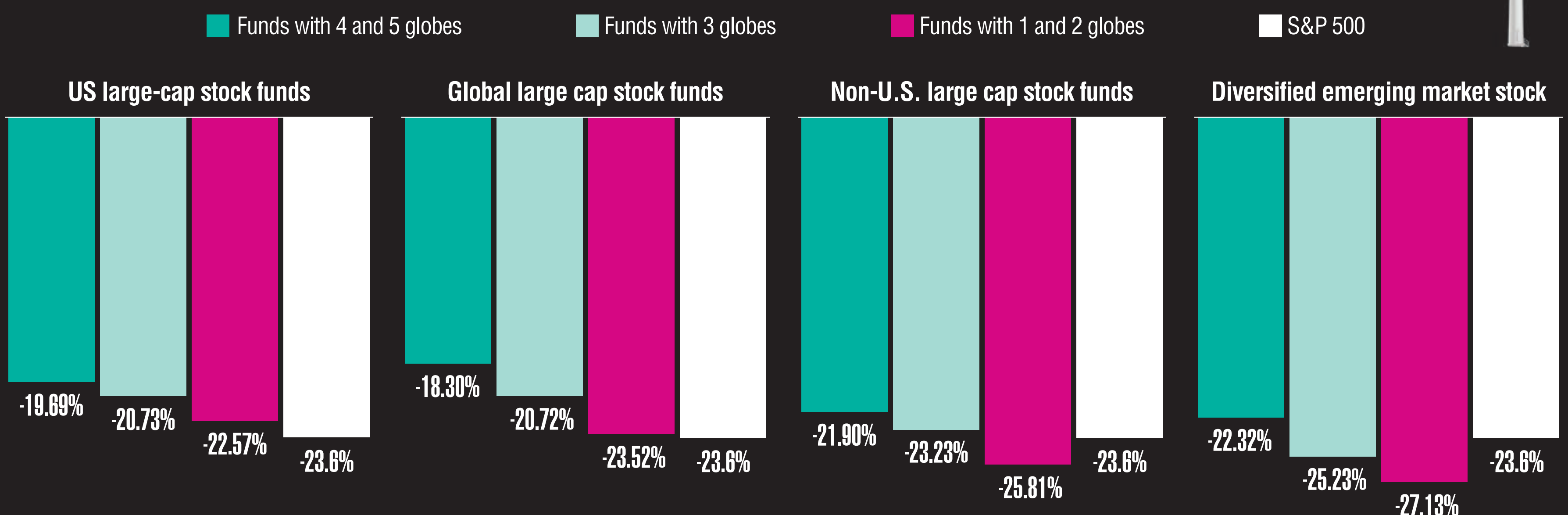
For Trillium Asset Management in Boston, that involves seeking out companies that invest in their employees rather than treat them as disposable. For Calvert Research and Management, the responsible-investment unit of Boston-based Eaton Vance Corp., it means assessing issues such how employers deal with contract workers, whether they cut loose employees or keep paying them during the pandemic, whether they provide adequate medical insurance and if they allow working from home.

While greenwashing may be the best known con, ESG investors face a litany of risks, including "bluewashing" (using a United Nations affiliation to confer underdeserved sustainability credentials), "pinkwashing" (for false LGBTQ claims) and "rainbow washing" (to reflect inappropriate use of the UN's sustainable development goals logo), according to Steve Waygood, chief responsible investment officer at Aviva Investors in London.

"It's easy to make not much sound like a great deal because measuring performance in this area is very hard," Waygood said. "We've got an entire industry for measuring alpha and excess returns, but there's no clear framework for demonstrating positive impact on human rights or labor rights."

ESG EXCELLED AS COVID-19 HIT

Stock funds with more Morningstar globes beat the overall market in the first quarter of 2020.



Source: Morningstar Inc.

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65% OF NON-RETIREES BELIEVE THEY WILL WORK AT LEAST PART-TIME IN RETIREMENT.
SOURCE: ALLIANZ 2020 RETIREMENT RISK READINESS STUDY

Some revise Social Security claiming strategy amid pandemic

MARY BETH FRANKLIN
ONRETIREMENT

The coronavirus pandemic and its fallout on the stock market and economy are prompting some clients and their advisers to rethink their Social Security claiming strategies.

"I have a client who retired young and is taking income from her investments," Marlene Badai, an independent financial adviser with RoZel Financial in Washington, N.J., wrote in an email. "Although a portion of her assets are protected in guaranteed annuities for income later in life, her income needs are bleeding her investments in the current environment."

Badai asked whether her client should claim her Social Security now at age 64, with the possibility she might be able to take advantage of a do-over option if her situation improves in the future.

I have always said that Social Security claiming strategies were a luxury for people who were healthy enough and wealthy enough to afford delaying their benefits until those benefits were worth more, either because the individuals were working and didn't need current income or because they could afford to tap their savings to buy themselves a bigger Social Security benefit in the future.

The idea of earning 8% per year in delayed retirement credits for every year one postpones claiming benefits beyond full retirement age up until age 70 was compelling when other risk-free alternatives, such as interest on bank deposits, were paying less than 1% and stock market investments were going gangbusters.

VALID STRATEGY

It is still a valid strategy for those who can afford to wait. But recent retirees relying on drawing down their nest egg for income face a real sequence-of-return risk if their investments decline for a prolonged period during their initial years of retirement. For some retirees, claiming Social Security earlier than they had planned can be a lifeline.

Because Badai's client does not have earned income from a job, claiming Social Security before her full retirement age of 66 and 4 months is a relatively straightforward decision. At 64, her benefits would be worth 84.4% of her full retirement age amount. While Social Security offices are closed to the public during the pandemic, the client can easily file for benefits online.

KEY POINTS

- For some retirees, claiming Social Security earlier than they had planned can be a lifeline.
- Clients can easily file for benefits online.

The client would have two do-over opportunities. She would have 12 months to change her mind, regardless of age, and file Form 521 to withdraw her application for benefits and repay any benefits she had received so she can restart Social Security later at a higher amount.

SUSPENDING BENEFITS

Her other alternative is to wait until her full retirement age or later to suspend her benefits. She would not have to repay any benefits she had received but her benefits would stop during the suspension. In the meantime, her reduced benefit would accrue delayed retirement credits of 0.66% per month until age 70. For example, if she collected 84.4% of her full retirement age benefits at 64 and later suspended them at 66 and 4 months, her Social Security benefit would be worth about 108% of her full retirement age amount at 70.

Older workers who have lost their job a result of the pandemic may also decide to claim their Social Security benefits earlier than planned.

Ric Edelman, founder of Edelman Financial Engines, is urging Congress to relax Social Security claiming rules during the economic crisis by allowing people who claimed reduced Social Security benefits early to choose to stop receiving benefits when the COVID-19 crisis ends, regardless of their age at the time.

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

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As 401(k) assets fall, investors could pay higher fees

BY EMILE HALLEZ

RETIREMENT PLANS are on track to lose considerable assets this year, which could lead to higher record-keeping costs for some participants.

Several factors are moving money out of plans, including provisions in the recently passed Coronavirus Aid, Relief and Economic Security Act that make it easier for savers affected by COVID-19 to take early distributions or account loans. Market losses have also eroded plan assets.

That is significant for participants in plans that pay tiered, asset-based record-keeping fees, as some will go below discount thresholds.

"We're going to see plans repriced immediately," said Jason Roberts, CEO of the Pension Resource Institute. And because of the new withdrawal provisions under the CARES Act, "We're going to see a trailing impact for three years. People can keep that money out and not pay taxes."

Workers, especially those who are struggling financially and not eligible for a company match, will also be less likely to contribute to their plans, he said.

Defined-contribution plans that pay asset-based fees for record keeping do so through one of three different arrangements, said Chris Thixton, principal at Pension Consultants: a single asset-based fee, a tiered fee based on total plan assets, or a "first-next" arrangement in which one fee applies to a certain level of assets and lesser fees apply to assets above that amount.

Plans with a tiered fee schedule, which lowers record-keeping costs for all assets when a certain level is reached, would be most affected by falling asset levels, he said. However, that arrangement is less common today than it once was, he noted.

Plans with a single asset-based fee probably won't be affected, he said. Those with first-next tiered pricing could see less of a discount on assets that are above a certain level, but that might not be noticeable to many participants.

SINGLE ASSET-BASED FEE

But Thixton does see be a consequence for many 401(k) plans in the coming years: Plan providers will almost certainly be hesitant to compete on cost in the same way they have since the 2008 financial crisis, meaning plan sponsors will have difficulty negotiating for lower fees, he said.

Plans have become less expensive for participants since the financial crisis. On an asset-weighted basis, total plan costs went from an average of 47 basis points in 2009 to 39 bps in 2016, according to a report published last year by the Investment Company Institute and BrightScope.

But Michael Coelho, managing director at SageView Advisory Group, said providers will be discouraged this year from raising fees for clients whose assets fell below thresholds.

"This is a terrible PR move — I don't think they will raise fees because of shrinking assets," Coelho said. "I don't think they're going to penalize participants in this environment."

"WE'RE GOING TO SEE PLANS REPRICED IMMEDIATELY."
JASON ROBERTS, CEO, PENSION RESOURCE INSTITUTE

That could mean a grace period for plan sponsors, during which they will continue to receive discounted pricing associated with higher asset levels, he said.

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How advisers worldwide are dealing with economic fallout

BY JEFF BENJAMIN

PARTS OF ASIA and Europe are probably ahead of the United States in terms of experiencing COVID-19, but when it comes to the economic fallout the world might be moving in lockstep for now.

Financial services industry representatives from Hong Kong, Italy and the U.S. drove home the point that investors are confused and looking for direction, during an *InvestmentNews* webcast on April 7.

"We have seen a lot of interest in Asian equities, and from our perspective that doesn't stack up," said Isaac Poole, chief investment officer at Oreana Financial Services in Hong Kong.

Poole, who said many of the businesses in Hong Kong began encouraging employees to work from home back in October 2019 due to the widespread protests that were blocking streets and disrupting commutes, said firms need to embrace an "educational drive to prevent investors from making knee-jerk reactions."

"When you have sell-offs in risk assets you start to get a really big interest in absolute-return strategies and hedge funds that can offer downside protection," he said. "But it tends to come well after the fact and can be destructive, which is why I'm suspect of those sorts of moves."

KEY POINTS

- Investors around the world are looking for direction.
- Adding downside protection now is like trying to buy flood insurance during a hurricane.

LOOKING FOR PROTECTION

Jason Draho, U.S.-based head of asset allocation Americas at UBS Wealth Management, said, "People are focused on where the opportunities are," but he also sees investors "looking to add downside protection."

The trouble with downside protection strategies — especially in the middle of a pandemic that could trigger a global recession — is that it is comparable to trying to buy flood insurance when your house is already under water.

Meanwhile, even though some equity indexes and global markets have started to show signs of stabilization following the extreme drop in March, there is concern that investors will be making rash decisions as the global economy struggles to find its footing.

"From an investment perspective, we had already developed a negative view of the world through 2019 and thought we were already facing a deep, protracted recession," said Poole. "Large parts of China and Asia had already slowed down, and we thought there would likely be a slowdown in 2020, globally."

That analysis came before coronavirus was known to be so contagious and deadly that it would infect large swaths of the globe.

In hard-hit Italy, where more than 17,000 people have died from the virus, the confusion is just beginning from an economic perspective, according to Mariano Gambaro, head of advisory at Banca Finnat.

"We are very close to the end of the virus, but we believe the worst of the economic factor is still coming," he said.

LEANING ON RISK

In terms of allocation assets, Gambaro said he is leaning more heavily on risk and hoping for a comparable reward.

UBS' Draho, meanwhile, is less definitive about how to move forward. "Very few of us have experienced this in our lifetimes, and there are things that are difficult to forecast," he said. "The lessons we've learned is to be humble about our ability to forecast and be more robust in terms of how portfolios will respond in these types of situations."

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RIA mergers drag during COVID-19

BY JEFF BENJAMIN

MEASURED AGAINST THE backdrop of a global pandemic coupled with a stock market correction, the pace of consolidation in the advisory space during the first quarter held up relatively well.

Data from three different firms tracking merger and acquisition activity among registered investment advisory firms show a slight slowdown from the record-level pace of the past several years, but didn't see the kind of pullback that has spread across much of the economy.

Thirty-four deals were inked during the first three months of the year, which matched the final two quarters of 2019, according to data from DeVoe & Co.

The trend, however, is expected to show fewer deals as both buyers and sellers rethink valuations and deal structures.

Another factor expected to slow M&A activity in coming quarters is the reality that advisers are spending more time managing clients and overseeing portfolios, leaving less time to spend on selling a business.

"In times like this, advisers add the most value to their clients; working day and night to support them," said David DeVoe, managing director at DeVoe & Co.

"When advisers are eventually able to shift their focus back to their business, they will be looking at the business through a different lens," he added.

Echelon Partners counted 46 deals during the first quarter, which compares to 53 during the fourth quarter of last year and 49 during the third quarter of last year.

The specific M&A data will vary by research provider because each firm applies its own metrics for measuring and counting deals. For instance, some researchers exclude deals below a certain dollar amount.

Echelon is predicting 2020 will finish the year with 19 fewer deals than last year, which finished with 203 deals.

"The 46 transactions we saw in the first quarter were pretty evenly spread across January, February and March, and the slowdown in deal activity was nowhere near as dramatic as people where expecting," said Mark Bruno, Echelon managing director.

While most of the deals that are now closing have been in the works for several months, Bruno said he doesn't believe a lot of advisers are focused on starting the process of selling their businesses at this point, while the financial markets are still shaky and the full impact of the coronavirus remains a wildcard.

"Conventional wisdom says a lot of new sellers will want to wait and see where this all shakes out," he said. "There are huge unknowns but there are still deals in the pipeline moving forward, and none of the demographics have changed. There are still a lot of buyers, and lot of financing."

DEALS DIMINISHING

Fidelity Investments counted 23 deals during the quarter, which compares to 31 during the same quarter a year ago. The company's research counted just three deals in March, representing the lowest level of monthly deal activity since December 2018.

"Deals that are already moving towards closing will still close and we've seen some of that activity already in April," said Scott Slater, vice president of practice management and consulting and Fidelity Clearing & Custody Solutions.

"I expect you will see deals that are fairly far along still get done," he said. "But ones that are early in the pipeline, where they're still doing due diligence and signing letter of intent, people are rethinking how they want to do it and how to value it."

In addition to being more focused on working with clients during the time of crisis, Slater said some sellers might also want to pause due to the valuation hit their firm could suffer because of stock market decline.

While buyers are generally seen to be in the driver's seat now, Slater said they are showing more flexibility in deal structures that includes forecasting revenue models further out to assume market recoveries.

"I think buyers are going to be creative," Slater said. "You will see a slowdown for a while because sellers are working with clients, but the fundamental drivers are still there to drive deals."

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Survey: COVID-19 rules not slowing adviser service

INVESTMENTNEWS

ALMOST TWO-THIRDS of RIAs and broker-dealer advisers — 64% — say that the restrictions put in place to thwart the spread of the coronavirus have not seriously disrupted their businesses.

According to a survey of 525 advisers in both channels, conducted by Boston-based research and consulting firm Practical Perspectives, most advisers are not making significant changes to how they manage assets or conduct business with clients. The survey, conducted from April 2 - 8, 2020, found that most advisers are confident in their continued ability to serve clients but have mixed expectations for near-term performance of the equity markets and anticipate lower revenue and profitability.

While few advisers describe the mood of clients as panicked in relation to their investments, more than one in three advisers (37%) cited heightened concern among clients, while 46% indicated moderate concern.

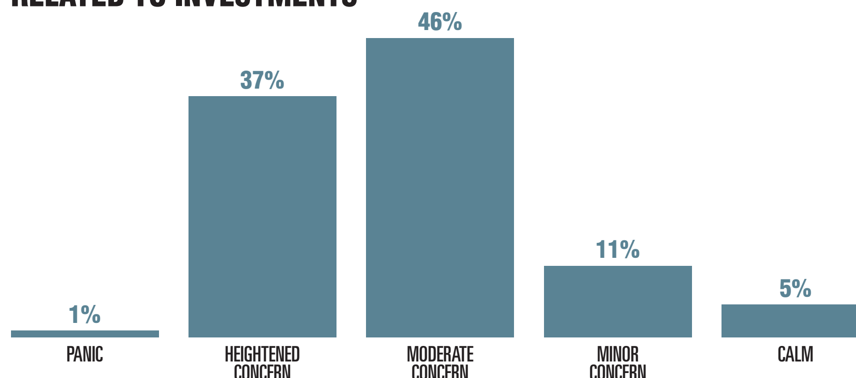
The survey also found that 78% of advisers have reached out to clients and 83% have made no more than minor changes in how they manage portfolios, including one in three who have not made any changes.

Overall, advisers listed more than 300 sources they relied on for value-add support related to managing the effects of the pandemic. The most frequently mentioned providers were First Trust and American Funds, followed by JPMorgan and BlackRock. Other sources included their broker-dealer, CNBC, Morningstar and the *Wall Street Journal*.

EXTENT CORONAVIRUS RESTRICTIONS HAVE DISRUPTED ABILITY TO SERVE CLIENTS

Response	Share
SIGNIFICANT DISRUPTION TO SERVING CLIENTS	10%
MODEST DISRUPTION TO SERVING CLIENTS	26%
MINOR DISRUPTION TO SERVING CLIENTS	42%
NO DISRUPTION TO SERVING CLIENTS	22%

PERCEPTION OF OVERALL MOOD OF CLIENTS RELATED TO INVESTMENTS



Source: Practical Perspectives

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Regulation/Legislation

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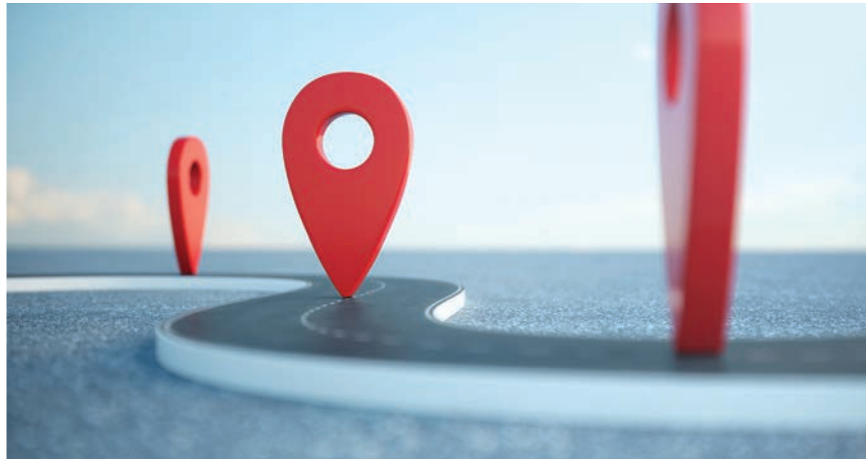
Finra review shows brokerages best paths to implement Reg BI

BY MARK SCHOEFF JR.



BROKERAGE FIRMS that are rattled about how to implement a new investment-advice standard for their registered representatives by the now reinforced deadline of June 30 can look at how their colleagues are proceeding.

On April 8, the Financial Industry Regulatory Authority Inc. posted on its website its review of how some small, medium and large firms are preparing to comply with Regulation Best Interest and Form CRS.

Reg BI, which was approved last summer by the Securities and Exchange Commission, is meant to reduce broker conflicts of interest and raise the standard for their advice above the current suitability. Form CRS is a client relationship summary that outlines a firm's services, fees, potential conflicts.

FORGING AHEAD

Earlier this month, the SEC confirmed that both pieces of its advice-reform regulatory package must be implemented by the original deadline this summer despite the dislocations brokerage firms are enduring as a result of the COVID-19 outbreak.

> **KEY POINTS**
> - Finra posted its recommendations to firms for compliance with Reg BI.
> - Review includes advice on governance and Form CRS.

Finra's Reg BI preparedness review covers how firms have addressed governance and implementation management, written supervisory procedures and supervisory systems and conflicts of interest for Reg BI, and how they are drafting and delivering Form CRS.

"Finra shares this report to provide firms with information on how some firms are preparing for Reg BI and Form CRS," the broker-dealer self-regulator said in the posting. "However, this does not imply that Finra requires firms to implement any of the practices described above, nor that implementing any of the practices would constitute compliance with Reg BI and Form CRS."

HELPFUL ROAD MAP

But the guidance is a helpful road map for firms when combined with risk alerts about Reg BI and Form CRS that the SEC released earlier this week, said Daren Domina, a partner at Haynes and Boone.

"They serve effectively as both planning aids and compliance check lists," Domina said.

The SEC has acknowledged that the coronavirus pandemic is creating challenges for firms, many of which are working remotely, and the agency said that it will look for "good faith" compliance efforts.

The Finra preparedness review also follows that theme, said Timothy Foley, counsel at Alston & Bird.

"Finra and the SEC are going to be ensuring a good-faith development of a system of compliance," Foley said. "Exams during the first year will focus on the process for achieving compliance rather than strict compliance with the substantive standards, which will likely be assessed over a longer period of time."

On April 8, Finra also released a statement saying that it would follow the examination approach outlined in the SEC's risk alerts when conducting its own Reg BI exams.

"The fact that they're coordinating lends more certainty to firms that exam approaches will be consistent," Domina said."That's important because sometimes exams may differ among regulators."

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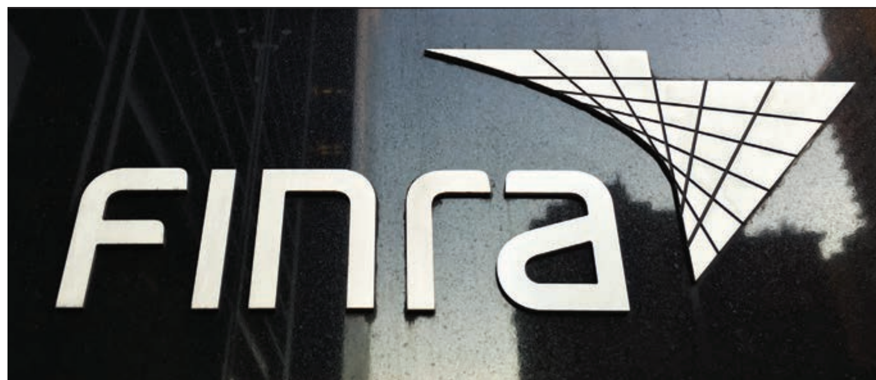

New rule allows investors more latitude in arbitration if brokers disappear

BY MARK SCHOEFF JR.

A NEW FINRA rule would give investors pursuing an arbitration claim against a brokerage more latitude if the firm goes out of business during the proceeding, a change that could help investors eventually obtain an award.

In a regulatory notice posted the week of April 6, the Financial Industry Regulatory Authority Inc. said it has amended its arbitration code to allow investors to withdraw a claim already filed against a brokerage or a firm associate if the firm or associate becomes inactive.

Under the rule, a customer can add a new party to the claim without prior approval of the arbitration panel or postpone a scheduled hearing after Finra has notified the customer about the firm or associated person relinquishing Finra membership.

Customers would be allowed to leave arbitration and request a default proceeding or pursue a court claim against the inactive firm or its personnel if they believe they have a better chance of obtaining an award in court. They could make such a move despite the mandatory arbitration agreements included in brokerage contracts.

SEC APPROVAL

The rule was approved by the Securities and Exchange Commission and goes into effect on June 29.

The new rule could help address Finra's ongoing problem of brokerages shirking arbitration award payments. They often do so by going out of business, which means they are no longer Finra members and cannot be compelled by Finra to pay an award.

"Most customer arbitration awards that go unpaid are rendered against firms or individuals whose Finra registration has been terminated, suspended, cancelled or revoked, or who have been expelled from Finra," the regulatory notice states. "These firms and individuals, generally referred to as 'inactive,' are no longer Finra members or associated with a Finra member firm, although they may continue to operate in another area of the financial services industry where Finra registration is not required."

The rule could discourage rogue brokerages from dissolving and reconstituting themselves as a different legal entity because it enables customers to amend their claims to target firm officials, said Sam Edwards, a partner at Shepherd Smith Edwards & Kantas.

"It will cut down on their ability to do the same thing under a different name," said Edwards, president of the Public Investors Arbitration Bar Association.

But the rule will not do much to reduce unpaid arbitration awards, Edwards said. Brokerages can fail to pay court awards because they've filed for bankruptcy or otherwise don't have the money.

"It doesn't address the fundamental problem,"he said.

The rule is one of the ways that Finra is targeting unpaid arbitration. Late last year, it filed a rule proposal with the SEC to impose higher capital requirements on brokerages that hire a large number of representatives with a history of misconduct.

One unintended consequence could be that arbitration cases that leave the Finra system and go to court and then result in unpaid awards "will help soften Finra's numbers and make it look like there's less of a problem,"Edwards said.

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"THE 'RATE BAIT' TREND MAY HAVE RUN ITS COURSE."
— WILLIAM TROUT, HEAD OF WEALTH MANAGEMENT, CELENT, ON THE PRE-CORONAVIRUS ROBO BUSINESS MODEL.

Four approaches to recruiting in a no-contact, COVID-19 world

Over the 30-plus years I've been recruiting in the wealth management space, I have preached one common refrain both to managers seeking to hire and advisers looking to move: Recruiting is a contact sport.

The more hands you shake, I advised, the more knowledge you gain, the more capable you are at either attracting the best talent or finding your new home. So what happens now that contact is a four-letter word and the act of shaking hands seems like a quaint custom from a time long ago?

GUESTBLOG
DANNY SARCH

1. Everyone is adjusting to the new normal. Advisers tell me that they and their clients have adjusted to their own stay-at-home patterns. Everybody has funny Zoom stories about learning new technology ("Where's the mic button?"), family interruptions ("That's a beautiful picture, Sweetie. Wave to my friend Danny!"), and strategies for finding toilet paper ("Try W.B. Mason!"). Within this adjusted framework, firms have not lost their passion for wooing and attracting top talent. Tash Elwyn, president of Raymond James, told me: "We remain committed to helping advisers from other firms to fully and safely explore their options with us and to conduct proper due diligence."

While in the old paradigm, advisers would meet managers in bars and restaurants, the new paradigm makes it easier for advisers to explore from their homes.

2. Advisers who had already made substantial progress in their pursuit of a new employer are aggressively looking to complete their moves. I have no doubt there are many advisers who were well on the way to leaving their current firms and then paused from doing so because of COVID-19. Some of this hesitation might be because of insecurity about their own practice in a bear market, being overwhelmed by market volatility, or just dealing with too many changes at home.

But more often I've seen within my own practice and from talking to multiple branch managers that advisers who have set dates to move are adjusting and looking to complete their transition as quickly as possible. Why? Many teams have planned moves for years after painstaking due diligence and negotiation. Stopping at this point would be ignoring a long-term decision in response to what they expect (perhaps hope) to be short-term issues.

Finally, I cannot ignore that the teams that have gotten this close to completing deals might want to capitalize on a trailing 12-months' production that has not yet been substantively impacted by the bear market's shrinking of their assets.

3. Transitions in certain ways will be easier. First, a transitioning adviser's former colleagues are less likely to aggressively call on strangers to solicit business. And even if I'm wrong here, it is certainly less likely that they will land a face-to-face meeting with a stranger. Second, the vast majority of clients are now familiar with PDFs, e-signatures and doing business virtually. Finally, everybody is home, so transitioning advisers will be able to contact their clients easily. The best advisers have probably had multiple check-ins recently to discuss market volatility.

4. More than ever, clients will demand to know why now, and why this transition is better for them. Too often, transitioning advisers explain to clients why the move is better for the adviser. And while some of this also translates to why this is better for the client, the transitioning adviser runs the risk of angering clients who don't understand why they should be inconvenienced during a turbulent time. Advisers must explain why this move is in the client's best interest.

For firms still recruiting: Any adviser chasing you too aggressively is probably running away from a burning house. Caveat emptor. A final tidbit for top advisers looking to change: Current craziness aside, stay focused on what you want to fix and how the new firm provides a solution. You are inconveniencing your clients. Why will this move be better for them?

Danny Sarch is the founder and owner of Leitner Sarch Consultants, a wealth management recruiting firm based in White Plains, N.Y.

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diversity&INCLUSION

How RayJay uses diversity to help advisers bring their best selves

"Our business is people." This simple phrase has remained at the center of the Raymond James culture and values since 1962, governing how we make decisions and how we approach the future. Maintaining a diverse workforce and creating an inclusive environment — one in which everyone feels welcomed, respected, valued and free to bring their authentic selves to work — is a natural extension of this culture.

Not only is furthering diversity and inclusion the right thing to do, but industry statistics reinforce that it is good for business. Unique backgrounds cultivate diversity of thought, which drives innovation, better service and growth. As a result, diverse workplaces perform better financially and maintain higher employee and customer satisfaction.

The importance of diversity and inclusion is well researched and understood. So why does it seem so hard to move the needle? Incorporating diversity and inclusion is an all-encompassing effort, impacting the workforce, workplace and community. For most firms, regardless of the industry, the challenge often lies in knowing where to start. The key is to understand where your business is now, and keeping in mind there is no one-size-fits-all approach. Here are some takeaways from ours.

MANY PATHWAYS TO SUCCESS

There are many pathways to enter the financial services profession. As firms grow, attracting talent from a variety of sources is a natural opportunity to recruit diverse candidates.

Seeing the success of advisers who transitioned to our industry from careers like teaching, engineering, law and the military, we know there is tremendous potential for those in other professions who may be looking for a career change. In addition to attracting experienced professionals, our firm participates in programs that expose us to diverse students from historically black colleges, women's groups and multicultural MBA programs, as well as campus diversity leaders.

GUESTBLOG
PEDRO SURIEL AND RENÉE BAKER

We know increasing diversity doesn't happen overnight, and creating a workforce that will remain diverse years from now requires us to plant seeds among the next generation of associates and advisers today. It's necessary for us to represent the profession in our communities and be seen by younger generations.

ENGAGING EVERYONE

To cultivate a diverse workforce, it's critical to foster an inclusive workplace. Inclusion involves engaging everyone to harness the power of diversity. Associates and advisers need to feel empowered and supported to bring their best selves and share their stories.

Understanding and sharing the "why" is foundational to building a more inclusive environment. Each of us has our own story of what inspires and motivates us.

Commonalities will surface. Once they do, it's important to have resources available. Our inclusion networks and other informal resource groups were formed for associates and advisers by associates and advisers. Our job is to support them and encourage their efforts to expand the conversation. Just having resources and education in place is not enough. Diversity and inclusion efforts should be aligned with business outcomes. But how does one measure inclusion?

If you are fueling the pipeline with diverse candidates, retention can be your guide. When people feel like they belong, are included, are heard and are making a difference, they stay. We have the power to shape what the financial services industry will look like. We as firms should empower associates and advisers to play an active part in creating change.

Pedro Suriel is vice president of diversity and inclusion at Raymond James; Renée Baker is head of the Private Client Group adviser inclusion networks at Raymond James.

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IN Research

Pandemic puts new focus on emergency savings accounts

BY EMILE HALLEZ

THE COVID-19 crisis has illuminated the dire financial situations faced by many Americans who have little to no savings to help carry them through furloughs or unemployment.

Even prior to the record unemployment claims seen over the past several weeks, 39% of U.S. workers reported they would be unable to cover a $400 emergency expense, according to Federal Reserve data. But that lack of emergency savings is something that employers are increasingly interested in helping their workers address.

About 44% of employers with an interest in financial wellness programs said they either offer, or plan to offer, an emergency savings program, according to a February report from the Employee Benefit Research Institute.

Workers appear to be receptive to such programs, even gig workers who are not technically employees.

Nearly three-quarters of people who make at least some of their income selling goods on Etsy said they would like the company to provide help with emergency financial concerns, according to a survey of about 1,800 sellers published last Tuesday. That report was commissioned by BlackRock's Emergency Savings Initiative, which Etsy recently joined. Through its partnership with the initiative, Etsy is planning to add an emergency savings program for its U.S. sellers this year, according to the groups.

About 30% of Etsy sellers said they aren't saving for emergencies. More than 60% said they have been hit with emergencies costing more than $400 over the past year, and nearly a quarter had to pay more than $2,000.

KEY POINTS

- Workers are receptive to employer-sponsored plans.
- Many have no savings to fall back on.
- Etsy plans to add emergency savings plan for US sellers.

PLAN DESIGN

One founding partner in BlackRock's initiative, Commonwealth, a research development shop, is working with retirement plan record keepers on designs for emergency savings plans that firms will eventually offer to 401(k) clients.

The effort is particularly relevant at a time when Americans are getting easier access to their 401(k) assets under withdrawal provisions in the recently passed Coronavirus Aid, Relief and Economic Security Act. While advisers urge against emptying retirement accounts, many workers have no other savings to fall back on.

"Retirement plan record keepers and plan sponsors have a lot at stake in not having people raid their long-term savings for short-term needs," said Timothy Flacke, executive director of Commonwealth. "And it's pretty clear that a lot of us don't do as well in short-term saving as we need to."

Commonwealth, which thinks of itself as "a laboratory," is recruiting institutional partners, such as retirement plan record keepers, to help develop and implement emergency savings designs under the BlackRock initiative, Flacke said.

"The whole point is that we'd really like to see a shift in the landscape in terms of how easy it is for people to build and use emergency savings — and how institutions can play a role in that," he said.

Commonwealth is also working with smaller entities, those without access to 100,000 workers, to help test savings designs, he noted.

"We've seen already that there is broad interest in the industry," Flacke said. "It just makes sense that people have a buffer of some kind that stands between them and their long-term savings."

Emergency savings programs can vary in design, but generally, they need to provide people with speedy access to cash, he said. One approach can include offering workers different "buckets" for their pay, with one bucket specifically marked as an emergency account.

In some cases, employers might just connect workers with financial institutions that can help them save, Flacke said. But the key is providing help and concrete steps, rather than just financial education.

CHANGING BEHAVIOR

"There is a lot of evidence to suggest that simply educating people doesn't result in different action or behavior," he said. "Putting quality emergency savings opportunities in front of people, in addition to financial education, is an obvious move."

The federal government's forthcoming stimulus checks provide one way to immediately fund emergency accounts, at least for people who will receive those payments and do not need access to the cash, he said. "Windfalls are a moment for emergency savings."

In addition, people can consider taking advantage of the payment holidays banks are offering on debt, including mortgages, Flacke said. That can allow people without savings to fund an emergency account and resume their debt payments later.

One hang-up that people can have with emergency savings is that they avoid tapping into that money when it's necessary.

"It's important to remember that the whole reason why you build liquid savings is to use it," Flacke said. "People should not necessarily feel like that's a failure. That's the reason it's there."

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Interested in getting more involved?

FOUNDATION FOR FINANCIAL PLANNING

Known mostly for its pro bono efforts, the foundation also offers resources for broader financial education, and recommends connecting with the Financial Planning Association and National Association of Personal Financial Advisors for additional opportunities.
foundationforfinancialplanning.org

HABITAT FOR HUMANITY

The well-known nonprofit that builds houses around the world for families in need also requires its beneficiaries to complete a financial education program.
habitat.org/impact/our-work/financial-education

INVEST IN GIRLS

The group partners with high schools in the Eastern U.S. to teach personal finance and inform girls about careers in finance. Students are introduced to female role models in the industry.
investgirls.org

JUMP$TART COALITION FOR PERSONAL FINANCIAL LITERACY

The group supports 100 national organizations and 51 state coalitions committed to financial literacy for young people.
jumpstart.org

JUNIOR ACHIEVEMENT

The organization aims to prepare young people for a lifetime of success in the world economy. It offers a variety of programs around financial literacy as well as ways to get involved.
juniorachievement.org

UNITED WAY

The nonprofit and its 1,200 local offices aim to help communities with health, education and financial stability.
unitedway.org

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Liberty Mutual sued over its 401(k)

BY EMILE HALLEZ

LIBERTY MUTUAL is facing a class-action lawsuit brought by its own 401(k) participants, who allege the plan's record-keeping fees were out of control.

The plaintiffs are represented by the Naumes Law Group, as well as law firm Schlichter Bogard & Denton, which has become almost synonymous with retirement plan litigation. Along with claims related to record-keeping costs, the plaintiffs allege that the company breached its fiduciary duty by including two underperforming investment options on the $7 billion plan's menu. They also allege that the plan's fiduciaries failed to rein in costs from the managed accounts provider, Financial Engines.

"Multi-billion dollar defined contribution plans, like the plan, have tremendous bargaining power to obtain high quality, low-cost administrative, managed account and investment management services," the complaint stated. "Defendants allowed unreasonable expenses to be charged to participants for administration of the plan and for managed account services, and retained poorly performing investments that similarly situated fiduciaries removed from their plans."

Plan participants have paid asset-based record-keeping fees of about 5 basis points since at least 2009, according to the complaint. That led to the plan as a whole paying about $3.2 million between 2009 and 2018 to the record keeper, Hewitt Associates, the plaintiffs wrote.

"As one of the plan's record keepers noted as early as 2008, the cost of record-keeping services depends on the number of participants (or participant accounts), not on the amount of assets in the participant's account," according to the lawsuit. "Thus, the cost of providing record-keeping services to a participant with a $100,000 account balance is the same for a participant with $1,000 in her retirement account."

ERISA VIOLATION

The plaintiffs also allege that payments made from Financial Engines to Hewitt violated the Employee Retirement Income Security Act, as Hewitt had no role in managing assets that were part of the service. Neither Financial Engines nor Hewitt, or Aon Hewitt's successor firm, Alight Solutions, were named as defendants. Fidelity Investments is now the record keeper, according to the complaint.

The lawsuit also cites two investment options — the Sterling Mid-Cap Value Portfolio and the Wells Fargo Government Money Market Fund — which the plaintiffs said have lagged their benchmarks.

Plaintiffs seek restitution for alleged losses, profit restoration and other relief.

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ROBO CLIENTS

CONTINUED FROM PAGE 4

Wealthfront spokesperson Kate Wauck agreed that the interest rate is just one of the features clients find useful. "We're still seeing growth in new clients coming in through the cash account as well as new deposits and additional deposits from existing clients," she said, adding that the accounts come with FDIC insurance.

The Palo Alto, Calif.-based robo-adviser listed managed assets at approximately $13.5 billion, according to its latest ADV filed in February. The company claims to have some 400,000 accounts with assets of more than $23 billion — meaning cash accounts may make up part of the difference.

1.7% CURRENT YIELD ON MARCUS SAVINGS ACCOUNT

The recent market volatility brought on by fears surrounding COVID-19 has also steered some clients away from equities and into safer savings accounts, said Betterment spokesperson Danielle Shechtman. Given the recent volatility, some clients have temporarily diverted investment deposits into the firm's cash account, she added.

"The ongoing pandemic is causing a very unfortunate financial situation for many people," Shechtman said. "Unlike the 2008 crisis, however, there are more banking options for people trying to avoid being nickeled-and-dimed, including our cash accounts."

UPTICK IN NEW CLIENTS

The marketing allure of offering eye-catching rates may have receded, but the COVID-19 pandemic may have opened up other avenues to attract clients, said Eric Sandrib, an analyst at consulting firm Aite Group. Some digital platforms have actually reported an uptick in new client accounts, he said.

"Investors who have been thinking about using a robo-adviser to invest for some time, have had idle cash on hand while awaiting a bear market," Sandrib said. "Now is an opportune time to fund those accounts."

Overall assets managed by robos surged in 2019, according to research from Aite Group. The total market is expected to reach $1.26 trillion by the end of 2023, however, robo-advice assets totaled only about $283 billion in 2019. Independent robo-advisers — like Wealthfront and Betterment — may also be squeezed by new entrants from traditional financial services firms like Vanguard and Schwab, according to the research.

Marcus by Goldman Sachs, for example, launched new digital banking products last year as part of a plan to generate $5 billion a year in additional revenue by this time next year. The current yield on a Marcus savings account is 1.7%.

A number of digital platforms at traditional firms have already slashed fees and account minimums to remain competitive in a crowded marketplace. Last week, Wells Fargo slashed fees for its Intuitive Investor to 0.35% and cut account minimums to $5,000. Upon initial launch, the minimum investment was $10,000 with a 0.50% advisory fee.

Big banks may be better positioned to offer high-yield accounts because they typically have cash on hand, Trout said. Those firms are also seen as more stable by consumers. Big banks — with an associated charter, FDIC insurance and brand recognition — generally translate into market share.

"It's amazing how quickly the shiny new objects [high-yield savings rates] have receded into the rearview mirror," he said. "It's a small tragedy and a missed opportunity."

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NEW JERSEY DELAY

CONTINUED FROM PAGE 4

investor protection concerns.

The law that established fiduciary duty for brokers in Nevada was enacted in July 2017. Since then, the state's securities division has been working on regulations that would clarify how the broker standard would work in practice and provide related exemptions. Draft regulations were released in January 2019.

The coronavirus outbreak has "put us behind by at least a month" in promulgating final fiduciary regulations, Erin Houston, Nevada securities administrator, wrote in an email.

Although fiduciary duty for brokers is on the books in Nevada, the industry is waiting on the final regulations to see compliance details.

"A regulation providing appropriate definitions and exemptions would be essential for assessing compliance requirements and risk," Gerstein said.

Massachusetts is the state that is farthest along in establishing its own fiduciary regulation. Secretary of State William Galvin released a final rule in February. The coronavirus isn't expected to affect the regulation because enforcement won't start until September.

HINTING AT A LAWSUIT

But even in Massachusetts, there may be more developments because the brokerage industry has hinted that it's likely to file a lawsuit against the Massachusetts fiduciary regulations or those from other states.

Over the years, fiduciary legislation has percolated in state legislatures. Those efforts may swing back into action after the pandemic passes.

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MALLOUK

CONTINUED FROM PAGE 3

downturn through a predictable stream of fees based on assets under management should at least make an effort.

"We sent everybody home in mid-March and at that time I committed to the firm that we were not going to terminate or change anyone's compensation regardless of how long this lasts," he said. "I'm never going to have anyone work for me and worry about their job based on what's happening in the economy."

'PROTECTING EMPLOYEES'

Mallouk added that even though he hasn't heard of any other advisory firms making similar open-ended promises, "I think every major RIA should at least commit to protecting employees' jobs and pay for six months or a year."

Mallouk, who acquired Kansas City-based Creative Planning in 2004, made his commitment for the $45 billion firm public in response to suggestions on social media that advisers might have to start cutting fees in this difficult environment.

He repeated his statement on Twitter over the weekend in response to a post by Salesforce, stating it pledged no layoffs for 90 days.

"We've always had a plan in place to protect our employees because we knew there could be some event someday," Mallouk said. "This puts the employees in a better position to take care of the clients because they're not lying in bed at night thinking about their own job."

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MARINER

CONTINUED FROM PAGE 2

have the option of leveraging the Mariner Platform Solutions name.

The Dynasty Financial connection is supplying the middle- and back-office infrastructure, for which Dynasty will collect part of the platform fee paid by advisers of between 30 and 50 basis points of assets under management.

Dynasty will deliver the Mariner Platform Solutions adviser desktop, inclusive of financial planning software and customer relationship management, among other capabilities, and deliver a client-facing portal where clients can access their financial information and digitally engage with their adviser.

Dynasty will also provide adviser support in the areas of digital marketing, investment operations, research, reporting, business analytics and CRM.

"You set up your own LLC, get your own clients, and give advice your way," Bicknell said. "You're just going to have my investment team building portfolios, my marketing team building your website, and my tech team building the tech stack."

Bicknell said linking with Dynasty, a $40 billion platform serving 45 advisory firms, made sense as the most efficient way to get the middle- and back-office functions operational.

"Dynasty is a large component of the service piece and is also doing the adviser desktop," he said.

DECISION TO OUTSOURCE

On the decision to outsource functions to Dynasty that Mariner Wealth Solutions is already providing to that business, Bicknell said, "We could use Mariner for MPS, but we're choosing not to."

"It's about not wanting to distract my back-office team from their core job of serving Mariner Wealth Advisors," he said. "If I was going to do that, I would have to build a separate back-office structure when I can just rent Dynasty's."

Jason McElwee will serve as managing director of Mariner Platform Solutions. Having co-founded Mariner Wealth Advisors as an associate with Bicknell, McElwee is coming back to his roots with more than two decades of experience providing wealth advice and generating sales within the financial services and asset management industry.

McElwee is rejoining Mariner from the investment firm Tortoise, where he was managing director of national sales.

"We're thrilled to have someone of Jason's caliber leading this platform," Bicknell said. "His tenure in the industry and history with Mariner Wealth Advisors position him exceptionally well to spearhead the team."

'BROADENING THE FUNNEL'

Shirl Penny, Dynasty's president and CEO, described MPS as "broadening the funnel" for Mariner.

"Advisers can come in and bolt on, and, over time, if they want to sell up to the RIA, they can," Penney said. "Sometimes advisers might not want to sell yet, but this provides another solution set for Mariner to bring those advisers on. Marty is being smart by partnering, because this way he doesn't have to hire 20 people and set up a separate division."

Louis Diamond, executive vice president at Diamond Consultants, said MPS gives Mariner an access point that it was missing.

"Mariner does a lot right, but they haven't really penetrated the wirehouse channel," he said. "It seems like it would appeal to those advisers that like the idea of being independent, but don't want to go through the heavy lifting of starting a business. It will enable a smaller wirehouse adviser to talk about how they are part of a larger firm to make it seem like they have more scale. The Mariner brand doesn't have the cachet yet of Merrill or Morgan Stanley, but in some communities it's still a known entity and has a good reputation. The other thing is the collaboration with Dynasty, which is a good idea because Dynasty is very well known in the wirehouse community."

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Advisor Group is latest B-D to stop selling real estate products

BY BRUCE KELLY

ADVISOR GROUP SAID it is temporarily halting the sale of products that invest in real estate as a result of valuation issues caused by the COVID-19 pandemic, making it the second giant network of registered reps and financial advisers to do so.

In a similar move earlier this month, LPL said it was shutting down sales of some investment products that contain less liquid and hard-to-price assets such as real estate.

Leading up to the 2008 financial crisis, independent broker-dealers were big sellers of illiquid real estate investments that later seized up and saw valuations plummet. Moves to suspend sales of such products by LPL and Advisor Group can be seen as indications of the industry's wariness of making the same mistake.

"Due to the negative impact of the coronavirus pandemic on the ability of private funds, which are the underlying investments of real estate interval funds, and [real estate investment trusts] to produce a [net asset value] that is reflective of current market conditions on a timely basis, Advisor Group is temporarily suspending all real estate interval funds and NAV REITs [sales]," according to a memo sent to advisers.

A spokesperson for Advisor Group did not respond to a request for comment by deadline.

HUGE NETWORK

Like LPL Financial, Advisor Group is a massive brokerage network, with nine broker-dealers and more than 11,000 reps and advisers. Reps sell such real estate products to investors looking for steady yields.

Accurate valuations of real estate during the current health and economic crisis are the issue, according to the memo. "Real estate valuation methodologies are designed to operate over long periods of time, while the extent and speed of recent economic and market developments is unprecedented," according to Advisor Group. "As a result, there is an increased risk that your clients may be paying a higher premium for these funds and REITs if we continue to allow new purchases."

TEMPORARY HALT

Advisor Group has temporarily halted the sale of two interval funds, the Griffin Institutional Access Real Estate Fund and the BlueRock Total Income+ Real Estate Fund. It has also suspended sales of five so-called NAV real estate funds: Jones Lang LaSalle Income Property Trust Inc., Black Creek Industrial REIT IV Inc., Blackstone Real Estate Income Trust Inc., CIM Income NAV Inc. and Hines Global Income Trust Inc.

Interval funds are named for their limits on the timing of redemptions, which are stricter than those for publicly traded investment funds or real estate trusts. NAV REITs also have less liquidity than publicly listed real estate trusts.

In its memo, Advisor Group said that it was also keeping a watch on other alternative investments, which are often made up of less liquid holdings, but that it had made no decision yet to halt sales.

"I believe the market was already reacting to the COVID-19 matter by easing on fundraising," said Kevin Gannon, CEO of Robert A. Stanger & Co. Inc., which tracks sales of illiquid real estate investment products.

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COVID LOAN GUIDANCE

CONTINUED FROM PAGE 2

triggers the Part 2 disclosure," Bernstein said. "The question on the ADV is going to be more fact-specific. What kind of situation are you in?"

Amy Lynch, president of FrontLine Compliance, agreed that firms have to make their own assessment of their financial condition to determine whether an ADV statement is required.

"It needs to be a facts-and-circumstances decision for whether or not it needs disclosure," Lynch said. "If it really is propping up the advisory firm [in a way] that's not directly related to the COVID-19 situation, that may need disclosure."

The Financial Industry Regulatory Authority Inc. has said that broker-dealers do not need to disclose PPP loans on their Form U4. That document requires a broker to indicate loan forgiveness as a compromise with a creditor.

"Because a PPP loan contemplates forgiveness of some or all of the loan as part of the original terms of the loan, such forgiveness will not involve a new agreement by the creditor, but will be an event consistent with the loan's original terms," according to a frequently-asked-questions posting on the broker-dealer self-regulator's website. "In those circumstances, the forgiveness of a PPP loan will not be a 'compromise with creditors' for purposes of Form U4."

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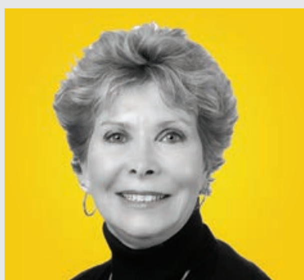
RESOURCES FOR FEMALE ADVISERS

InvestmentNews continues to champion female advisers through our editorial coverage, awards, recognition programs and events. As industry professionals look for guidance on how to navigate the challenges of this unprecedented time, here are some resources for our females advisers.



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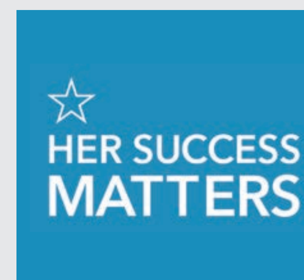

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We hope you find these resources helpful and can join us for these web events from the comfort of your desk.