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MAY 4-8, 2020
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IT'S YOUR MOVE, ADVISERS

DEVELOP A GROWTH STRATEGY OR IT'S GAME OVER PAGE 8

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EDITOR'S NOTE

Keeping clients on their path

The emotions of investing have always fascinated me.

This fascination began in the 2000s when I was working at TheStreet and had the opportunity to observe the distinct difference between Jim Cramer and Herb Greenberg. Both brilliant market observers, they couldn't have been more different. Impassioned understates Jim, while Herb maintained a cool detachment. But each remained true to his style and investing path through a variety of circumstances.

GEORGE B. MORIARTY

I thought of this last Thursday night as I read up on the various economic reports released last week, none of which were heartening. When the pandemic hit the markets, the unanimous response among our community of sources, readers and writers was "stay the course," communicate with clients and remind them of the long road we're on together.

It appears that approach was generally successful. Portfolio churn was minimal, and client inquiries seemed to focus as much on opportunity as on fear. However, that was only the first part of the path we'll be on this year.

This week, we saw negative data nearly every time we opened our inbox. So please accept this reminder to stay vigilant, in whatever form that takes, and make sure clients keep their eyes on the long view and don't let emotions pull them off course.

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Should you sell in May, or just rotate?

BY JEFF BENJAMIN

THE ADAGE ABOUT SELLING in May and going away till November is being kicked around again this year, but with a twist.

In the midst of the COVID-19 pandemic that devastated global financial markets, and on the heels of the stock market's strongest April showing since 1987, market watchers are warning against knee-jerk reactions.

"History shows the advantages of selling in May and going away might have gone away because everyone is factoring it in," said Ryan Detrick, senior market strategist at LPL Financial.

The S&P 500 Index's 30% rally from the March 23 low, including its 12.7% April gain, might be cause for a pause, Detrick said. But the fact a pandemic landed in the middle of an otherwise healthy economy should be a consideration, he said.

SUMMERTIME PULLBACK

While the six months between May and Halloween historically have been the weakest period for equities, it's worth noting that the S&P has returned an average 1.5% over that period since 1950.

"It still makes a lot of sense that we'll have that normal summertime pullback." Detrick said. "But 1.5% is still making money and it's still beating inflation."

The past nine years have seen just three negative May to October periods, the most recent a 0.3% decline in 2015.

While it might be tempting to take some chips off the table now that the market has rebounded, Sam Stovall, chief investment strategist at CFRA, said a better strategy would be to rotate.

As analysts debate whether the market is poised to retest the March lows or has moved past the bear market stage, Stovall said financial advisers should employ a seasonal sector rotation.

"Some sectors have their day in the summertime, while others skate along smoothly in winter," he explained.

CYCLICAL VS. DEFENSIVE

Since 1990, which is as far back the S&P Dow Jones Indices sector-level data go, the S&P 500 recorded an average gain of 1.8% from May to October. But the consumer staples and health care sectors of the S&P recorded average gains of 4.4% and 4.8%, respectively. By contrast, during the market's strongest six-month period, from November to April, cyclical sectors beat defensive sectors.

Since 1990, the S&P 500 has averaged a 6.4% gain during the November to April period. But the consumer discretionary, industrials, materials and technology sectors combined for an average return of 8.8% over that same period.

Stovall's analysis shows a hypothetical S&P 500 Index that rotated into the consumer staples and health care sectors from May through October and then into the consumer discretionary, industrials, materials and technology sectors for the November to April period would have produced an average annualized return of 13.1% over the past 30 years.

That compares to a 7.4% annualized return for the S&P 500 Index over the same period.

The advantages are also clear when applied to the S&P Small-Cap 600 Index. The seasonal sector rotation of the small-cap index would have produced an annualized return of 11.8%, compared to 8.2% for the standard index.

"You don't want to just retreat or sell, you want to rotate," Stovall said.

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Advice business to change after COVID: LPL CEO

BY BRUCE KELLY

THE WEALTH MANAGEMENT and financial advice industries are working through the challenges created by COVID-19 and will eventually see deep changes in the wake of the pandemic.

That's the assessment of Dan Arnold, CEO of LPL Financial, the largest independent broker-dealer with 16,763 reps and advisers.

"We believe there's a real ripe opportunity, that this creates an opening to think about things in a differ-

CONTINUED ON PAGE 23

DAN ARNOLD

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Schwab gears up for online Impact

BY JEFF BENJAMIN

WITH THE GLOBAL pandemic pushing most communication and personal interactions into virtual mode, Charles Schwab Corp. is expected to set the bar high with its annual Impact conference.

Schwab announced last Tuesday that the massive financial adviser conference, originally scheduled for November in Boston, will be converted to an online format, along with all other events scheduled for 2020.

Speaking during a call with reporters, Bernie Clark, the head of Schwab's Advisor Services unit, referenced a post-coronavirus "new normal" in which many of the things that are being learned and adopted currently will become a routine part of the way financial services business is conducted once society reopens.

"Virtual and in-person is not one or the other, it's both," he said. "One day we'll return to both, hopefully in the near future."

But until that time, Clark confirmed that in "2020 we just face too many challenges in terms of bringing people together as a group."

NEW INNOVATION

That paves the way for what could be new levels of innovation for virtual interaction and gatherings, said Megan Carpenter, chief executive of FiComm Partners, a marketing and communications firm.

"If anyone can pull this off, it's a company like Schwab, and I believe they will lead the industry forward in terms of what a virtual event will look like," Carpenter said.

A Schwab spokesman said it is too early to share details about what the virtual version of the annual four-day event, which hosts thousands of advisers, vendors, sponsors and entertainers, will look like.

But Carpenter said people should expect something that goes well beyond just "four days of webinars."

"Schwab is one of the best marketing teams in the business, and they're probably already thinking of some very nimble and innovative ways to create that same level of engagement, networking and personal touch that you get from being there in person," she said. "I'm excited for it, and they're giving themselves time. It's not possible to do something like this in a month."

In the few months since most of the

CONTINUED ON PAGE 23

Raymond James to focus on 'virtual recruiting'

BY BRUCE KELLY

DUE TO TRAVEL restrictions resulting from the COVID-19 pandemic, broker-dealers under the umbrella of Raymond James Financial Inc. will make recruiting financial advisers more of a virtual experience.

In the past, the firm relied on visits by recruits to its home office in St. Petersburg, Fla., in making its pitch to advisers. That has changed.

"Most of the process is done through Zoom video conferencing and it's pretty easy now because advisers are familiar with the technology and have used video conferencing with their clients," Scott Curtis, president of Raymond James private client group, said in an interview. "It includes marketing, technology and video conferencing with senior leadership. These technologies were out there but we weren't utilizing them. Advisers have been receptive."

RAMPING UP EFFORTS

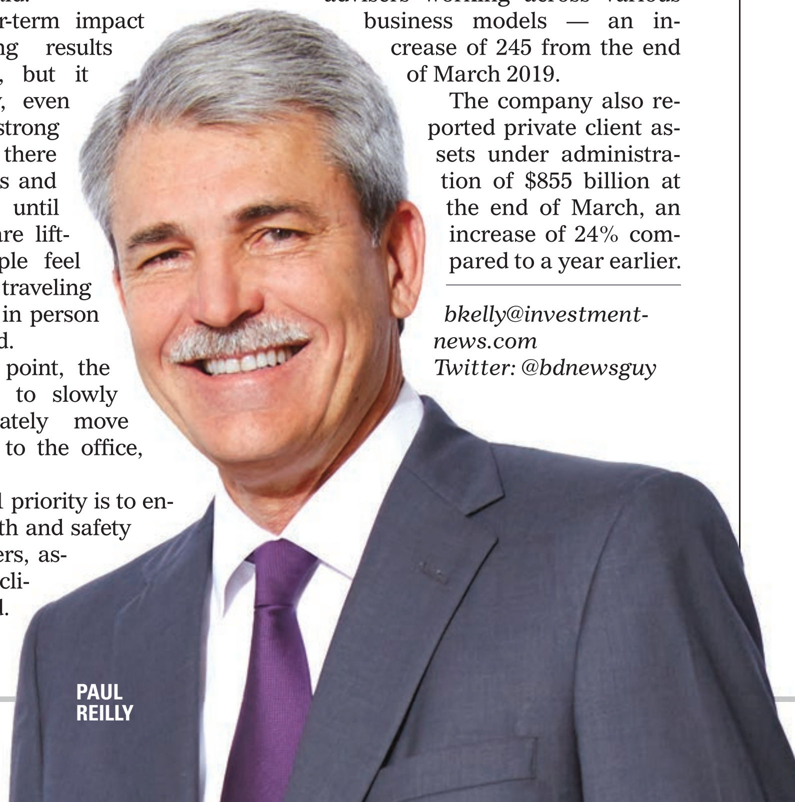
Paul Reilly, CEO of Raymond James, touched on "virtual recruiting" in a call with analysts last Thursday to discuss quarterly earnings, and said the firm was ramping up its efforts in this area.

Raymond James has been a powerhouse in recruiting financial advisers. But traditional recruiting is feeling the effects of restricted travel and decreased comfort with in-person meetings, Reilly said.

"The near-term impact on recruiting results is uncertain, but it seems likely, even with the strong pipeline, there will be delays and disruptions until restrictions are lifted and people feel comfortable traveling and meeting in person again," he said.

At some point, the firm intends to slowly and deliberately move people back to the office, Reilly said.

"Our No. 1 priority is to ensure the health and safety of our advisers, associates and clients," he said. "We have 95% of our associates working from home, and we have had no technology disruptions."


PAUL REILLY

QUARTERLY GROWTH

Raymond James has 8,060 financial advisers working across various business models — an increase of 245 from the end of March 2019.

The company also reported private client assets under administration of $855 billion at the end of March, an increase of 24% compared to a year earlier.

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B-Ds dump REITs to avoid repeat of Great Recession

Voya Financial Advisors is the latest broker-dealer to halt, at least for now, the sale of real estate investments with limited liquidity, including so-called net asset value real estate investment trusts and interval funds.

My take is that while big firms have concerns about real estate values deteriorating amid the COVID-19 pandemic, they are also still smarting from the fallout from the 2008 market crash, which sent the values of many illiquid or nontraded REITs into a dangerous tailspin. That was a disaster for the securities industry and for thousands of retail investor clients. The financial advice industry and its advisers don't want another such flameout in 2020.

BRUCE KELLY

ONADVICE

In 2008-2009, some brokers, chasing hefty commissions of 7%, continued to sell REITs, arguing that the value of commercial real estate could never go down. Clients, hungry for the promised high yields and low risk, chose to believe them.

$34B VALUE OF BLACKSTONE REIT

Dozens of small to midsize broker-dealers eventually went out of business as the result of costs from lawsuits and investor complaints stemming from the sale of illiquid investments. Those included private placements that failed and nontraded REITs that sold for $10 per share in the years prior to the Great Recession but later saw their prices fall 30% to 50%. In some even more dire cases, the bottom fell out of the REITs completely.

2008-2009 ALL OVER AGAIN?

In the wake of the Great Recession, large firms paid millions in legal fees and settlements to make the investor complaints go away. Many firms also saw their reputations and share prices take a severe hit.

Broker-dealers that have restricted the sales of hard-to-value real estate products are acting out of an abundance of caution.

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Strongest firms aimed for growth in 2007-09 crisis: TD

BY JEFF BENJAMIN

WITH THE U.S. unemployment rate hitting record levels and the economy heading toward a potentially protracted recession, financial advisory firms are instinctively circling the wagons to weather the downturn.

But according to research from TD Ameritrade Institutional, sometimes it's best to zig when everyone else zags.

During a webcast last Wednesday, TD representatives cited data from the Great Recession that started in 2007 and ended in 2009 to show that some of the most successful advisory firms had embraced a growth strategy during that financial crisis.

To provide a sense of direction and a strategy to owners and operators of advisory firms, the FA Insight research identified the characteristics of "standout firms" from that period, including firms that had above-average growth and operating margins.

HEAD COUNT GREW

One characteristic of the standout firms was that they grew head count from a median of seven employees in 2007 to 10 by 2009, while most peer firms slightly reduced their staff, according to the research.

"By pursuing a disciplined, consistent approach to business management fundamentals, RIAs can do well by themselves in good times or bad," said Vanessa Oligino, managing director of business performance solutions at TD Ameritrade Institutional.

10
HEAD COUNT AT STANDOUTS IN 2009, UP FROM 7 IN 2007

"Our research shows that standout RIA performance is not magic, it's a matter of planning, perseverance and focus," Oligino said.

That business discipline showed up in overhead expense margins, which standout firms saw drop from 45% in 2008 to 42% in 2009, while the non-standout firms saw their operating expense margins climb from 46% to 56% over the same period.

Part of managing those expenses involved the owners of standout firms taking deep pay cuts, reducing their share of total firm revenue from 31% to 19%, which compares to owner pay levels of around 25% of total revenue at non-standout firms.

WAYS TO CUT COSTS

Oligino said cost-cutting can be accomplished in various ways, including by making better use of technology, managing nonrevenue employees more efficiently or making adjustments to owner compensation and profit draws.

She warned, however, against making cost-cutting mistakes that can have negative long-term effects, which means "holding firm on pricing but making plans to reexamine pricing structure

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Industry groups seek SEC rule on 12b-1 fees

BY MARK SCHOEFF JR.

FINANCIAL INDUSTRY trade associations and other interest groups are calling on the Securities and Exchange Commission to put forth a new rule governing mutual fund fees and stop what the groups deem to be regulation by enforcement.

In a rule-making petition filed last Wednesday, four organizations said the SEC should promulgate a rule that defines how fees that funds pay to financial advisers should be disclosed. In the petition, they said such a measure would end the agency's "concerted campaign of subregulatory sabotage" to outlaw 12b-1 fees, which are collected by financial firms for fund marketing and other services.

DISCLOSURE CRACKDOWN

The groups — the Financial Services Institute, the American Securities Association, the Competitive Enterprise Institute and the New Civil Liberties Alliance — said the SEC's recently concluded initiative to crack down on disclosure failures surrounding 12b-1 fees is an example of the regulation by enforcement that they are trying to stop.

"Having failed to repeal or seriously refashion Rule 12b-1 through conventional means, the commission has turned to 'guidance,' coupled with 'voluntary' self-reporting programs for those in violation of the 'guidance,' and punitive enforcement actions for those who refuse to turn themselves in," the petition says. "So with a few speeches, 'initiatives,' 'frequently asked questions,' and the like, the commission has achieved what, through rulemaking, it could not — the effective repeal of Rule 12b-1. The law, however, does not countenance such guerilla governance."

An SEC spokesperson declined to comment. In public appearances over the last few months, SEC officials have defended the agency's share-class selection disclosure initiative, which mostly targeted investment advisory firms for failing to disclose that they recommended funds with 12b-1 fees when less expensive share classes of the same fund were avail-

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Cetera Financial shakes out more top execs in April

BY BRUCE KELLY

CETERA FINANCIAL GROUP has seen a shakeout among senior executives, with five leaving so far in April.

InvestmentNews earlier reported that Michael Murray, head of business development in charge of recruiting, had left the firm. Four other top executives have left in April, according to BrokerCheck profiles and LinkedIn posts.

The departures include: Catherine Bonneau, chief operating officer; John Barragan, senior vice president and head of strategic operations, who's now at Goldman Sachs' United Capital business; Britt Woods, senior vice president

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Opinion

EDITORIAL / LETTERS / OP-ED / GUEST BLOGS

Take care of yourself so you can better care for your clients

Last week, we lauded the Best Places to Work for financial advisers in 2020. Companies of all sizes emphasized quality of life and self-improvement as ingredients for a healthy and productive (thus profitable) workplace and staff.

While the day-to-day demands of guiding the hard-earned wealth and financial well-being of others has its own ebb and flow, the stresses caused by the usual external forces — markets, interest rates, inflation, geopolitics — pale in comparison to the current struggle to make sense of a global crisis that's been thrust upon us so suddenly.

The worldwide pandemic caused by the COVID-19 virus has upended life as we know it. Without warning, the office life that we took for granted disappeared. Company outings and daily social interactions have been replaced by video conferences and virtual happy hours. For a time, it seemed novel, a welcome interlude. We're all in it together, we said cheerily. But after nearly two months, the social isolation is becoming a source of stress and anxiety for many.

COMFORT AND CARE

While financial planners won't be mistaken for the brave doctors and nurses selflessly treating COVID-19 patients on the front line, they still have a responsibility — and not just a fiduciary one — to provide the same level of comfort and care for themselves as they do for their clients' financial well-being.

Advisers themselves contend with the very same financial and emotional strains amid the historic economic downturn, and they will do better by their clients if they employ appropriate self-care.

"As financial advisers, we are doubly or triply at risk," Kol Chu Birke, a financial behavior specialist at Commonwealth Financial Network, wrote in the April 13 issue. "Fee-based business revenues are shrinking while expenses stay the same. We are watching our own investments shrink as we are encouraged or forced to distance ourselves from those who bring us sanity. All the while, we must provide emotional strength and comfort to our clients and loved ones."

SUPPORT NETWORK

In the absence of the traditional support network of colleagues and friends that advisers lean on in normal times, it's important to create a healthy inner space that gives them the mental and emotional security — and acuity — to continue to serve clients who, during these unprecedented times, are looking for a lifeline both financially and emotionally.

Last week, Jeff Benjamin wrote about a surge in new clients coming to financial planners in April as the pandemic roiled markets in March and frayed investors' nerves. It's of supreme importance that advisers be well-prepared not just with sound financial advice but mentally to handle the fragility and fears associated with so much uncertainty.

"These are the times you train for as an adviser," Sarah Newcomb, a behavioral economist at Morningstar Inc., writes in a contributed piece on Page 14. "These are the days when your leadership, poise and perspective can help clients overcome the forces of emotion that cloud their judgment."

To create a healthy mindset, Birke suggests that advisers maintain their balance by engaging in simple activities: a walk through the neighborhood, writing an email of thanks, taking a bath. On the opposite page, we've compiled a selection of the many responses to a poll that asked advisers how they and their firms are coping in these trying times.

Remember: To take care of others, you must first take care of yourself. Be safe and stay well.

ADVISERS THEMSELVES CONTEND WITH THE VERY SAME FINANCIAL AND EMOTIONAL STRAINS AMID THE HISTORIC ECONOMIC DOWNTURN.

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INvoices *InvestmentNews* asks advisers how they're handling the pandemic

"We have replaced our normally scheduled conference calls with Zoom meetings, as it allows you to see and talk with the group. Though the discussion is the same, the emotional connection shared by seeing the people on your team helps bridge some of the gap."
— Matthew Gaffey, Corbett Road Wealth Management

"We've created a new Slack channel where we post funny giphy videos (https://giphy.com/) several times a day for some comic relief. It's very helpful to have an outlet for fun and laughter during this time, especially when client conversations can be more on the serious side."
— Trevor Scotto, Fiduciary Financial Group

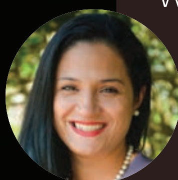
TEAM MORALE

FINANCIAL ADVISERS have gone from their familiar office environments to working from a home office or at the dining room table, conducting virtual meetings while small children and pets roam free. All of this is occurring as the COVID-19 pandemic threatens individuals' health and economic security.

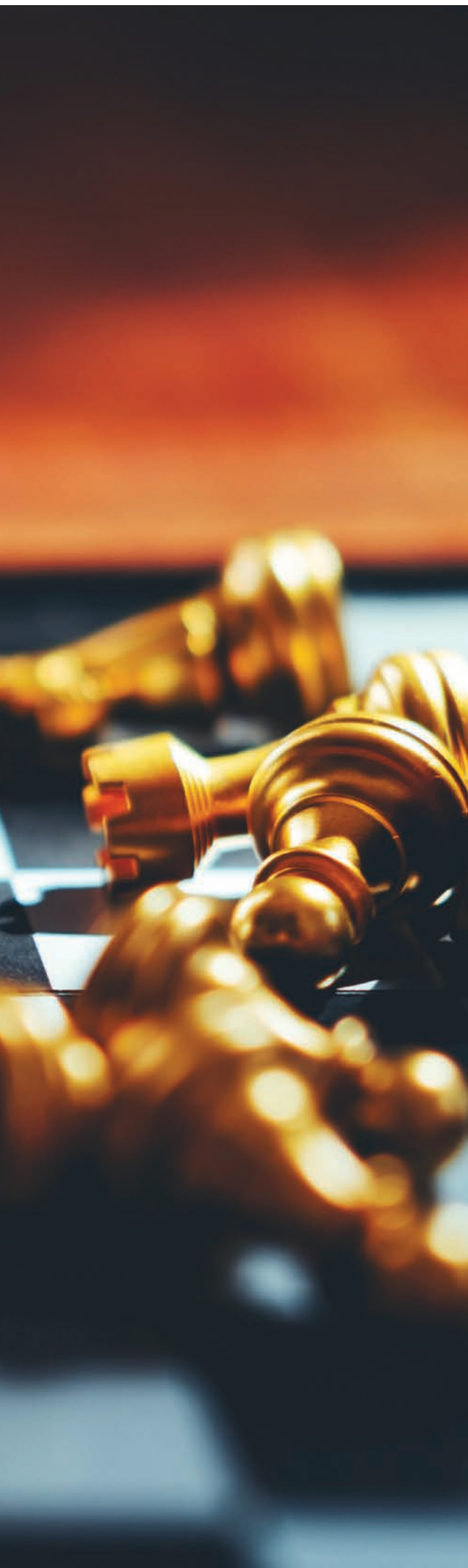
How are advisory firms supporting their employees in these stressful times? Here's how some Financial Planning Association members are keeping spirits bright.

"I'm part of a NAPFA MIX group, a group with five core members. As we navigate through COVID-19, we've bumped our monthly video chats to weekly. It's been immensely helpful to have this group as a sounding board."
— Michelle A. Fait, Satori Financial

"In our regular routine at the office, we love working out together! … We have made these [weekly] workouts virtual and extended invites to our entire network of clients and friends to join us every week. We have about 30 of our clients, COIs and friends tuning in with us every week."
— Sunaina Mehra, Francis Financial



"We have implemented daily Zoom meeting check-ins to make sure we are at the very least seeing each other … We also started office competitions to keep our mood light … to come up with a remote office jingle, memes that best represent our working challenges and employees' best quarantine life."
— Marianela Collado, Tobias Financial Advisors



BUSINESS DEVELOPMENT PLAYBOOK

Why now is the time for advisers to think about growth

By Ryan W. Neal and Liz Skinner

Months from now, when the chaos caused by the COVID-19 pandemic has eased, clients will assess how their financial professionals stacked up during these most challenging days.

Yes, they'll reflect on how well their portfolios withstood the volatility, but that's not the factor that's likely to tip the scales when clients decide whether or not to find a new adviser. It's the emotional score that financial planners rack up during this coronavirus period that will most likely determine whether clients stick with them over the next year or two.

"It's easy to look good when everything is on the upswing," said Mark Tibergien, CEO of Advisor Solutions at BNY Mellon's Pershing. "Advisers earn their keep during times of down markets."

Despite the current challenges, including working apart from business partners and staff, now is the time advisory firms should be laying

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the groundwork for their next phase of growth. Business development strategies may vary from firm to firm, but every adviser should be thinking about how to hold on to clients after the pandemic and whether an updated marketing approach is in order.

Studies in the wake of the 2008 recession showed clients decided to switch financial service providers 18 months to 24 months after the crisis, said George Walper, president of the Spectrem Group. Firms need a focused approach on guiding, comforting and reassuring clients through the next 12 months so they don't lose those assets and referral sources.

"IT'S EASY TO LOOK GOOD WHEN EVERYTHING IS ON THE UPSWING."

MARK TIBERGIEN, CEO OF ADVISOR SOLUTIONS, BNY MELLON'S PERSHING

STRONG PRESENCE

When it comes to marketing, it is those advisers who have invested in creating a strong presence who are benefitting today from a surge in Americans looking for a financial adviser for the first time. Many are people who feel unable to manage their investments and finances during the current market chaos, and some likely have had major life interruptions, such as the loss of a job, business or perhaps even a loved one.

Boosting spending on marketing and branding this year to about 5% of revenue — more than double what most advisers spend today — will help position firms to take advantage of that post-coronavirus stream of investors looking for new advisers, Tibergien said.

"Firms with a marketing presence tend to have greater visibility," he said. "It doesn't trigger an instant reaction, but it burns in the minds of your target market."

Beyond these two approaches, some of the fastest-growing firms are turbocharging their businesses by boosting efficiencies, adapting new service models and connecting with client families.

For Elizabeth Thorley, CEO and president of Thorley Wealth Management, making her

DIGITAL TOOLS TO HELP ADVISERS WITH MARKETING

By Sean Allocca

The economic fallout from COVID-19 has created an uptick in prospective clients looking for financial advice — and a clutch of new digital marketing tools are appearing to help advisers reach them.

From regional RIA platforms to technology providers, firms are launching new digital marketing initiatives to create an avenue for advisers to get in front of clients who need financial help as a result of the pandemic. While advisers may not have the resources to step up marketing campaigns, tech firms are stepping in to streamline the process.

HighTower Advisors is partnering with the marketing fintech company Snappy Kraken to help the advisers on its platform reach new leads. Called Engage, the tool provides custom content for client communication, digital marketing and lead generation. The monthly campaigns also target specific client demographics, such as business owner, high-net-worth and prospective clients.

AREA OF STRUGGLE

"Marketing communications is one area that many advisers struggle with, as they often lack the time, staff and expertise to handle the heavy workload associated with deploying effective campaigns," said Abby Salameh, chief marketing officer at HighTower.

Turnkey asset management platform Orion Adviser Technology also launched a new digital marketing tool on its platform that advises on more than $1 trillion in 3.8 million client accounts. The new Marketr tool lets advisers update, schedule and distribute marketing assets automatically to prospective clients, and is available as an add-on to the technology suite.

More than 40% of advisers use digital marketing products, according to the 2020 *InvestmentNews* Tech survey, up from just 32% last year.

"Not only does marketing play a critical role in igniting the workflow that can drive firmwide growth, it's an especially critical conduit to clients and prospects through times of market volatility as we're seeing now," said Kelly Waltrich, chief marketing officer at Orion.

In March, Fidelity-owned financial planning technology eMoney Advisor expanded further into marketing with a new tool that automates advisers' efforts to attract, nurture and convert leads into clients.

IMPORTANCE OF MARKETING

While most advisers understand the importance of marketing, some don't have the knowledge or desire to produce marketing content, said Marie Swift, chief executive of Impact Communications, a marketing firm for independent financial advisers.

"Advisers have always struggled with where to spend their time to do good marketing," she said.

As more and more turnkey marketing providers come online, what is often missing is customization, Swift said. "There's a reason we call most turnkey content 'canned content' — which, to be fair, can be useful in filling the content marketing funnel."

Ideally, advisers should create a blend of carefully curated content supplemented by their own custom-created content, Swift said. Another important aspect is credibility-building media mentions and published articles.

"Advisers who want to create a steady stream of new business should be embracing and mixing in all of the 4 C's: canned, curated, custom and credibility content," she said.

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GUIDE FOR GROWTH

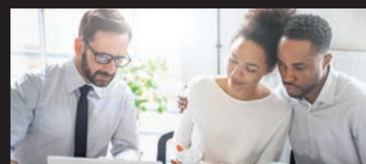
Advise and comfort clients through the pandemic

Boost marketing budget to 5% revenue

Add digital marketing tools

Implement back-office efficiencies

Develop approach to connect with client families



back-office processes and procedures more efficient has been the key to her firm's 10% annual growth every year for the past 10 years.

In 2011, Thorley went through a process focused on improving the business management side of her firm. She developed reports analyzing the firm's profits, revenues and, most importantly, how much time employees spent on clients versus paperwork.

"It was really an eye-opener," she said. "It changed our focus so the business wasn't running me, I was running the business."

Another key component has been repeatable workflows and processes. Each team member has a defined role, making it easier for the firm to live up to expectations set for clients. The efficiencies also help make it possible for the small firm — just two advisers and two administrative support staffers — to effectively serve an increasing number of clients.

ROLE OF TECHNOLOGY

Technology plays a role. In the past, Thorley had to manually input client data into financial planning software. Now the firm can download the information and update it instantly, freeing employees to spend more time building and analyzing plans. Thorley Wealth clients can check accounts, ask questions and share documents via the firm's digital client portal and sign forms using an e-signature. Meetings are scheduled digitally and clients can opt for videoconferencing rather than an in-person office visit.

As a result, Thorley's team has easily been able to work from home during the COVID-19 pandemic, and Thorley said the repeatable workflows will help the firm thrive after she retires.

At Single Point Partners, founder Shaun Erickson attributes his firm's recent growth explosion to $230 million in AUM from $40 million to a new service model and flat-fee structure implemented in 2017. That's when the firm started going after traditionally do-it-yourself investors who want a partner rather than a manager to whom they delegate tasks.

Beyond building a portfolio, financial planning and managing cash flow, Single Point emphasizes what Erickson calls a "financial life calendar" — a schedule of events that occur regularly every year, like filing taxes and reviewing employee benefits, along with unique events like buying a home, having a child or getting equity compensation from work.

Single Point advisers hold clients accountable for getting everything done and help with decisions when necessary, charging a flat fee rather than a percentage of AUM.

"There are all of these details in our financial life, and they're very easy for folks to let them slip through the cracks or kick them down the road," Erickson said. "Our job is to stay on top of them."

The approach has increased referrals from other professionals — CPAs, attorneys and other financial advisers recommending investors who are a better fit for Single Point than a traditional wealth management practice. It's also opened the firm to investors who don't normally work with an adviser, as well as younger clients. Over the last three years, 60% of the firm's new clients have been under the age of 60, Erickson said.

GROWTH STRATEGY

"These are folks who are pretty smart people … but have never been able to see the value in paying an adviser a percentage of dollars to manage an account for them," he said.

The growth strategy at Sweeney & Michel was twofold: Improve client communications and lower costs.

The latter goal was helped by making the move to an independent RIA, which allowed the firm to start from scratch in selecting technology and investment products. Sweeney & Michel eliminated high-cost funds, stopped charging for college savings accounts and started paying for transactions costs to cap client fees at 0.75%.

While Renee Michel, one of the founding partners, estimates that 60% of the firm's growth has come from new clients, she attributed the other 40% to existing clients adding more money because of the lower costs, increased transparency and new services it could offer as an RIA.

For example, the firm started helping clients put extra cash into money market accounts at local banks to increase their savings rate. Clients were also more comfortable aggregating held-away accounts using eMoney Advisor, the financial planning technology provided by Sweeney & Michel's custodian, Fidelity Custody & Clearing.

"When you provide positive value, they refer you to friends," said Joe Sweeney, another founding partner in the firm. "The little value-adds really added a lot of new business for us."

To get the word out, the firm took advantage of digital tools. As a long-time contributor to a local magazine in Chico, Calif., the firm decided to more intentionally repurpose that content for social media, email newsletters and the firm's blog. It also took advantage of Facebook and LinkedIn's advertising capabilities to promote the blog inexpensively. Even if it's just to comment on the daily news, posts generate high engagement, Sweeney said.

"[Clients] feel like they've got an adviser who is looking at the same headlines they are and is responding," he said.

Not every adviser has to make a major change or enact a specific strategy for growth.

FAMILY-FRIENDLY CLIENT EVENTS

For Shawn Okumura, principal at Transitions Wealth Advisors, the key is just how the firm conducts business. Okumura's team takes time to get to know a client's entire family, but not through official client meetings. For example, the firm invited clients and their families to attend an opening night screening of a new "Star Wars" movie.

"Having them meet us in a nonthreatening, nonbusiness environment, they get a chance to see who we are and see what their comfort level is," Okumura said.

Events like these have helped Transitions solve the multigenerational puzzle that challenges many advisers. Some clients refer their children to the firm, others refer their senior parents who need help in retirement, and others bring in siblings.

The result is a wide range in client demographics and needs, which requires Okumura to invest in technology to support them all and deliver a consistent experience across the book of business. But he isn't turning toward technology for marketing.

"It's not about the story we have to tell, it's not about the investments," he said. "It's being in front of the clients, just going the extra mile and doing all the little things."

Creating a formal plan for growth is an important step for many firms, whether that includes adding a staff member, improving a certain skill, embedding financial planning into the brokerage practice or getting more experience with social media and digital marketing, said Manish Dave, senior vice president of business development at Ameriprise.

Advisers need to prioritize two or three things at a time that will measurably improve growth and then have the tools in place to make those measurements and hold advisers accountable.

"If you don't have well-documented goals and a plan, it's going to be hard to achieve them or make progress towards them," Dave said.

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55% OF ADULT SOCIAL SECURITY BENEFICIARIES IN 2018 WERE WOMEN.
SOURCE: SOCIAL SECURITY ADMINISTRATION

Social Security rule helps early claimers

Dramatic stock market losses and soaring unemployment rates resulting from the worldwide coronavirus pandemic have prompted some older workers to rethink their Social Security claiming strategies. Many wonder if they can file for benefits early even if their earnings have already exceeded annual limits.

MARY BETH FRANKLIN

ONRETIREMENT

"I'm working with someone who has decided to take their Social Security retirement benefit prior to their full retirement age," an adviser from Omaha, Neb., wrote to me in an email. "How do I estimate how much his benefits will be reduced since his earnings for the year have already exceeded Social Security's annual limit?"

Individuals who file for Social Security benefits before their full retirement age are subject to benefit reductions for claiming early, as well as reductions if their earnings from a job or self-employment exceed annual limits. But there is a special first year in retirement rule that can ease that blow.

In 2020, someone who is under full retirement age for the entire year would lose $1 in benefits for every $2 earned over $18,240. In the year an individual reaches full retirement age, there is a more generous test. People who turn 66 in 2020 can earn up to $48,600 in the months before their birthday and would lose just $1 in benefits for every $3 earned over that limit.

The earnings restrictions disappear at full retirement age, which means individuals could earn any amount of money without forfeiting any Social Security benefits once they reach full retirement age.

SPECIAL RULE

But a special first year in retirement rule that's designed for people retiring at midyear who have already earned more than the annual earnings limit could help high-earning clients who lose a job due to the pandemic and want to claim Social Security before their full retirement age to replace some lost income.

The Social Security Administration counts only the wages you make from your job, including bonuses, commissions and vacation pay, or your net profit if you're self-employed, in its earnings test. It doesn't include pensions, annuities, investment income, interest or other government or military retirement benefits in the earned income calculation. Nor does it count unemployment benefits.

SSA provides a helpful calculator to estimate the impact of the earnings cap. Here's an example from that calculator.

> **KEY POINTS**
> - Special rule allows benefits for those who exceed annual earnings limit in first year of retirement.
> - SSA provides a calculator to estimate earnings impact.

FIRST EXAMPLE

Let's assume you have a 64-year-old client who earned $30,000 in 2020 before losing his job in April. His reduced retirement benefit would be $2,000 per month if he claimed benefits now, two years and four months before his full retirement age. Normally, his benefit could be further reduced by his excess earnings.

Because his $30,000 in earnings exceeded the annual limit of $18,240, his Social Security benefits would be reduced by $5,880. ($30,000 – $18,240 = $11,760/2 = $5,880). Social Security would withhold three months of benefits ($2,000 x 3 = $6,000) to satisfy the excess earnings rule. The following year, SSA would refund any excess benefits withheld, which in this example would be $120 ($6,000 – $5,880).

But if all of his earnings occurred before the first month that he received benefits, his benefits would not be affected by the retirement earnings test. Social Security would consider this client retired as long as his monthly earned income did not exceed $1,520 ($18,240/12) in 2020 and he didn't perform "substantial services" in self-employment, defined as devoting more than 45 hours a month to a business.

The same first year in retirement rule would apply to someone who turns 66 in 2020 if their earnings exceeded the higher annual limit of $48,600 in the months before their birthday. Social Security would consider that person retired and eligible for benefits as long as their earnings did not exceed $4,050 ($48,600/12) a month in the months before they reach full retirement age.

SECOND EXAMPLE

Here's another example from the Social Security website that illustrates how self-employment income can affect the first-year rule.

John Smith retires at age 62 on June 30, 2020. He earned $37,000 before he retired. On Oct. 5, John starts his own business. He works at least 15 hours a week for the rest of the year and earns an additional $3,000 after expenses. His total earnings for 2020 are $40,000.

Although his earnings for the year substantially exceed the 2020 annual limit ($18,240), John will receive a Social Security payment for July, August and September. This is because he was not self-employed and his earnings in those three months are $1,520 or less per month.

John will not receive benefits for October, November or December 2020 because he worked in his business more than 45 hours per month in all three months. Beginning in 2021, the deductions will be based solely on his annual earnings limit.

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

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Strategies included in client retirement plans

A survey of 351 advisers identified the strategies they use in clients' plans

Source: "The Perception Gap" by InvestmentNews Research and Alliance for Lifetime Income

To read the study, visit www.investmentnews.com/data-resources/white-paper-library

401(k) assets down, but savings levels up: Fidelity

BY EMILE HALLEZ

THE AVERAGE 401(K) balance fell by 19% during the first quarter, according to data released April 24 by Fidelity Investments.

As of the end of March, 401(k) accounts in Fidelity's record-keeping business held an average of $91,400, down from what was a record of $112,300 at the end of December, the firm stated.

Meanwhile, IRA balances fell from an average of $115,400 to $98,900 during that time, according to Fidelity. Tax-exempt market plans, including 403(b)s, had average balances of $75,700, down 19% from the fourth quarter of 2019.

Despite the negative returns in the stock market and historic volatility, people continued to save, and many either increased their 401(k) contribution levels or opened up their first individual retirement accounts, the company stated.

Some savers did reduce their 401(k) contribution rates, but that was offset by increases made by others. The average contribution rate was unchanged during the quarter, at 8.9%, according to Fidelity.

19%

AMOUNT THE AVERAGE 401(K) BALANCE FELL DURING Q1

Many employers have also reduced or eliminated their 401(k) matching contributions, but that did not pull down the average employer contribution rate during the quarter. It actually increased to 4.7% from 4.6%, the record keeper noted.

More than half of defined-contribution plan sponsors have either reduced or eliminated their contributions or are considering doing so, according to a survey of record keepers and plan sponsors published at the end of April by the Spark Institute and the Defined Contribution Institutional Investment Association.

During the first quarter, contributions to IRAs went up by 10%, on average, compared with the first quarter of 2019, according to Fidelity. During that time frame, account openings increased by 36%, with more than 400,000 new IRAs starting during the first quarter of 2020, the company said.

"A growing number of millennial investors are utilizing IRAs as a retirement savings vehicle, with contributions among millennials increasing 41% over the last year, while the amount contributed by millennials increased 64%," the firm wrote.

TALK OF SELLING

While more than a quarter of investors hinted at plans to sell investments or cash out of their retirement accounts, few might actually be taking such action, according to a survey by Empower Retirement of 2,000 people in March. According to that firm, more than 60% of people said they had plans to save more money.

FEW MAKE CHANGES

Telling is that only 0.7% of participants in the company's record-keeping business made changes to their investments, according to data from Empower. At Fidelity, more than 7% of participants did make changes to their 401(k) asset allocation in the first quarter, up from just over 5% during the prior quarter, according to that firm.

Meanwhile, the effect of the recently passed CARES Act might have yet to materialize. Provisions in the new law allow participants affected by COVID-19 to make early withdrawals of as much as $100,000, without the usual 10% penalty. Numerous plan providers have also waived fees associated with those withdrawals, as well as hardship distributions and loan applications.

Less than 1.5% of participants in Fidelity's plan business took hardship withdrawals during the first quarter.

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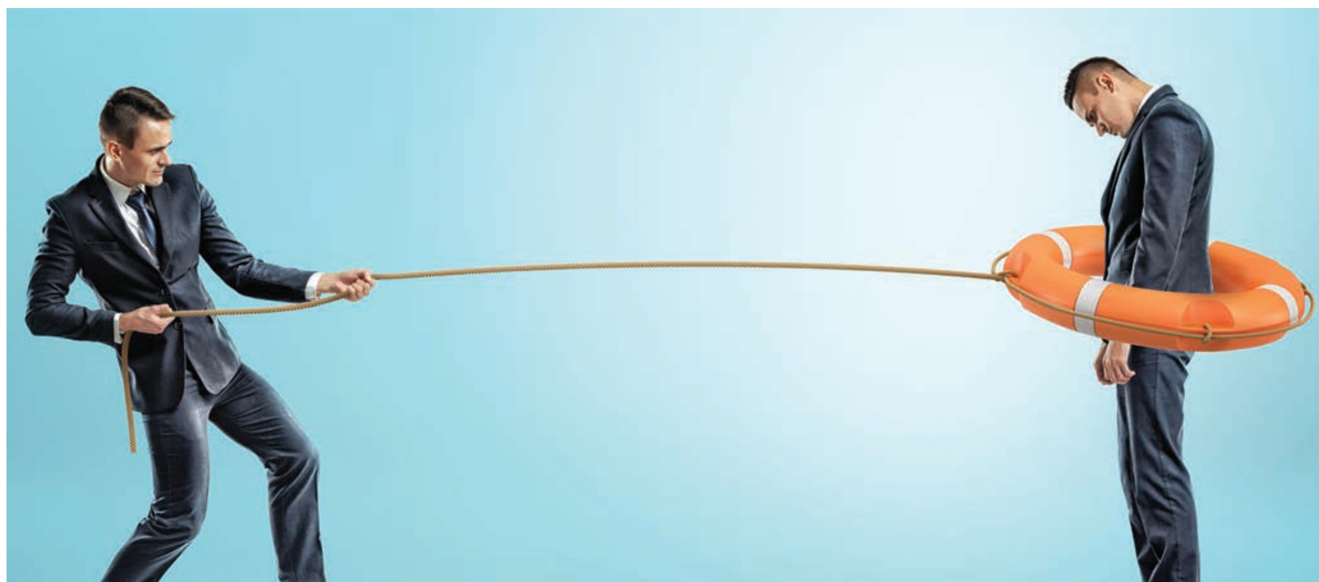
YourPractice

"REMIND YOUR CLIENTS THAT YOU ARE HERE TO LOOK OUT FOR THEIR PORTFOLIO, SO THEY CAN FOCUS ON LOOKING OUT FOR THEMSELVES AND THEIR LOVED ONES."
— LARRY ADAM, CHIEF INVESTMENT OFFICER, RAYMOND JAMES' PRIVATE CLIENT GROUP

Coaching clients through their fears when a crisis strikes

These are the times you train for as an adviser. These are the days when your leadership, poise and perspective can help clients overcome the forces of emotion that cloud their judgment. Your help and coaching can now make a long-term difference in the lives of your clients if you know how to recognize and minimize the effects of emotion on judgment.

GUESTBLOG
SARAH NEWCOMB



In the best of times, investors are prone to mistakes of judgment as a result of biases and mental shortcuts. When crises strike, we have even a greater risk of making mistakes because the natural emotional responses to crisis amplify problematic thinking. In these times, we need our minds to be flexible and open to new information so that we can problem-solve and think clearly.

Unfortunately, time pressure, negative emotions, exhaustion and other stressors amplify cognitive rigidity, a closed and inflexible state of mind. While you can't remove emotions from the picture, you can help mitigate the impact emotions have on clients' decisions.

THE MANY FACES OF FEAR

People have very strong and very different responses to fear. I'll describe three main reactions, what to listen for and how to coach clients through these difficult emotions.

RISK AVERSION

Some respond by becoming more risk-averse. This is rooted in a strong desire to reduce uncertainty at all costs — even if it means locking in major losses to avoid the chance of more bad news. For some people, the emotional benefit of having their money "safe" in the present moment can feel more important than the idea of recouping losses in the future. The stress hormone, cortisol, has been shown to increase risk aversion in experimental studies, so people who were calm when volatility was low can become extremely risk-averse under stress.

To spot heightened risk aversion, listen for catastrophizing, "what-if" scenarios, and the word "safe." The deep desire here is to avoid harm and minimize uncertainty.

When coaching clients through heightened risk aversion, it is often helpful to ask about regret. For example, when a client feels compelled to sell at a major loss, there are two possible worst-case scenarios in play. First, there is the possibility that they move their money to "safety" only to have the markets recover quickly, causing them to miss out. In that case, they guaranteed themselves a loss that was unnecessary. On the other hand, if they don't move their money and the markets remain weak, they stand to lose more, and possibly face a long recovery time.

Choosing one of the two worst-case scenarios is a technique called the "least-worst," described by Gerd Gigerenzer and Peter Todd, and it can help clients minimize future regret.

RISK-SEEKING

Cortisol is a powerful motivator, but so is adrenaline. This can motivate some investors to treat fear as a reason to gamble. "If so much is lost already," they figure, "then why not double down?" Adrenaline increases risk-seeking behavior and overconfidence, driving some investors to pour funds into hot stock tips and long-shot gambles in an effort to capitalize on the opportunities that a bear market presents. While bear markets can be a good time to buy, helping risk-seeking clients to avoid costly purchases is just as important as helping risk-averse clients avoid panic selling.

To spot risk-seeking, listen for hunger and urgency in clients' tone. Does an otherwise hands-off client suddenly want to scoop up shares in some hot biotech firm they read about on the internet yesterday? This is risk-seeking and overconfidence at work. To help, rather than dismissing the suggestion, try tempering the adrenaline rush with a bit of broader context. You might say, "So, you want to add some biotech to your portfolio. Great!. Let's talk that through, and I can help you find some good opportunities that fit with our long-term strategy." This allows them to use the adrenaline to their advantage while not turning to a completely speculative strategy.

AVOIDANCE

For some, fear triggers a freeze response. In this case, investors feel paralyzed. On the surface, this may seem like an advantage because at least those who are avoiding their investments will not sell in a panic. However, the freeze response can cause people to avoid even good opportunities. Clients who have cash on hand for seizing opportunities may find themselves unable to decide how to invest, since fear paralyzes their ability to think clearly.

YOU CAN'T KEEP CLIENTS FROM FEELING FEAR, BUT YOU CAN HELP THEM AVOID COSTLY MISTAKES.

To spot avoidance, listen for reticence, conspicuous silence from otherwise in-touch clients, or a general sense of resistance to even justified investment opportunities. When working with clients who freeze, it may help to walk them through the possible outcomes of action versus inaction. Helping them to picture a future where their courage to act pays off can sometimes break the spell of indecision.

RUMINATION

Lastly, fear and stress can lead some to ruminate. This is problem-solving on overdrive. When we ruminate, we get stuck in repetitive, negative patterns of thought that not only fail to solve the problem, but the act of ruminating exhausts and stresses us more. Rumination amplifies present bias and loss aversion, and leaves people prone to making myopic decisions that hurt more than help in the long run.

To spot rumination, listen for indications that the person feels powerless, is going in circles or feels generally unable to handle the situation. When coaching someone who is stuck in a ruminating mindset, it may be helpful to ask them about their emotional support network. It may sound strange, but there is some evidence to suggest that just thinking about the people who have supported us in the past (emotional support, not necessarily financial) can help us break out of ruminating thought patterns and think more clearly about the task at hand.

SUMMING UP

When clients are afraid, they may respond in many different ways. Some will seek stability, even at a loss. Some will run into the fray trying to make a bundle, and others will be paralyzed by avoidance or rumination. You can't keep clients from feeling fear, but you can help them avoid costly mistakes made in the throes of this powerful emotion.

Help the anxious minimize regret. Help the daredevils hedge their bets. Help the paralyzed see their opportunity, and help those who ruminate remember that they are not alone.

Sarah Newcomb is a behavioral economist at Morningstar Inc.

CFPs expect uptick in clients amid COVID-19

The Certified Financial Planner Board of Standards Inc. surveyed more than a thousand advisers in early April about the impact of COVID-19 on business. Here are findings from that survey.

1 More than 78% of respondents said client inquiries have increased during the previous 30 days of the COVID-19 pandemic.

2 **TOP CLIENT CONCERNS:**
Managing volatility: 74%
Protecting assets: 72%
Liquidity: 35%
Unemployment: 34%
Retirement: 29%

3 **ADVISERS' PRIMARY RECOMMENDATIONS:**
Sit tight: 36.3%
Rebalance portfolio:16.6%
Update goals: 16.1%
Invest in stocks: 6.5%
Invest with downside protection: 3.4%

4 **ADVISERS' PRIMARY CHALLENGES:**
Maintaining frequent communication: 17.6%
Emotional impacts: 17.2%
Establishing new relationships: 13.1%
Telecommuting: 10.6%
Work-life balance: 10.2%

5 **GROWING DEMAND FOR ADVICE:**
A majority of the CFPs surveyed, 64.4%, believe that more Americans will seek professional financial advice in the wake of COVID-19.

Why strong marketing is no longer a luxury, it's a necessity

The coronavirus, a global slowdown in production, and recession fears have wiped out the market's gains since 2017 in a matter of weeks. With no end in sight to the historic volatility of our market and even our society, it's tempting to look

GUESTBLOG
ERIC CLARKE

at a greater emphasis on your firm's marketing efforts as a luxury. In a market crash, you're thinking about profit margins, operating costs, and the livelihoods of the clients you already have. I would argue that an intensified marketing push isn't a luxury, it's a necessity. The safest way to sustain your business in volatile times is aggressive marketing tied to the services your clients value most.

Any advisers worth their salt have had several conversations with their clients about resisting the urge to panic. Right now, clients appreciate a calm voice and a healthy dose of perspective. This is the exact time when people need their advisers most. If you're doing all of this while making intelligent moves to protect the assets you manage, why *would* you say, "This is good, but what if it were better?"

This was our exact situation three years ago, when Orion decided to build out a new marketing department. At the time, we were growing and enjoyed an accelerated pace of new innovations. By all measures, our clients, employees and investors were happy with how we were humming along. Why did we need marketers when we had done so well without them?

Here's why: When you truly believe in the service and value you offer, you want to share that with as many people as you can. We knew a robust marketing effort could amplify our work even more. Three years later, our marketing team of more than 30 people has proven to be a powerful force multiplier for our business.

Wallet share has never been more important

How much of your clients' assets do you manage? Probably less than you think: A McKinsey study found the average wallet share of wealth managers can be as low as 38%. The days of easy lift from markets may be drawing to a close, which means advisers need to explore new areas of profitability. A great client experience makes for stickier relationships and a greater wallet share — and well-executed marketing campaigns can put that experience front and center for your clients and prospects.

IT IS A MISTAKE TO DISCOUNT THE IMPACT THAT MARKETING CAN HAVE ON YOUR GROWTH.

Highlight what your clients value most

Let's give the client experience a closer look. There are two broad approaches to serving your clients. You can focus on how to help them, through investment allocation, risk-tolerance questionnaires and other tactics. Or you can lead with why they want your help … in other words, their goals as investors. It's been my experience that leading with the why captures more client assets. It leads to conversations about what resources the investor has to reach their goals, and ties the adviser's service directly to the client's top priorities. Uncovering the why strengthens your value to the people you serve. Marketing campaigns that highlight your ability to meet these goals will help bring you prospects primed to work with you to the greatest possible extent.

What got you here won't take you to the next level

Success isn't static. Just ask any video rental chain or manufacturer of personal digital assistants (Remember those?). The market environment, client expectations and technological innovations are always in flux. What's more, a hungry, rising adviser practice has very different infrastructure needs and expenses than an established business looking to break through to the next level. A robust marketing investment may feel like a step outside of your lane, but it is a mistake to discount the impact that marketing can have on your growth. Speaking of which …

Great marketing opens the door to disruption

As creatures of habit, we put a lot of stock in consistency. We want formulas for success we can predict and replicate. At a bare minimum, we enjoy regular paychecks and hope our advisers have steady hands on the tiller! But consistency without creativity is stifling. When you make marketing a genuine priority, it brings a creative spark to your work, one that can illuminate opportunities you might never have considered and ignite extraordinary outcomes you could never have imagined.

It's never too late to think about expanding your firm's marketing efforts. This moment will test our ability to stay in front of clients and prospects with smart content that addresses the realities of their lives. You may need to look for novel solutions as your teams adjust to working from home and other disruptions. But the potential for invigorating your business and reaching a broader audience is well worth the investment.

Eric Clarke is founder and CEO of Orion. Follow him at @EricRClarke

$5.6B INFLOWS TO LEVERAGED ETFS SHORTING EQUITIES IN APRIL
SOURCE: BLOOMBERG NEWS

Dividend income poses new risks for clients

BY JEFF BENJAMIN

AS THE ECONOMIC fallout from COVID-19 continues to ripple across the markets, financial advisers will need to be especially vigilant when working with clients who depend heavily on investment income.

With the Federal Reserve's emergency rescue efforts driving bond yields toward the floor, dividend income might seem like a natural move for advisers looking for an income option for clients, but it is an area suddenly layered with new risks.

Through April 23, at least 20 S&P 500 companies have suspended their dividend payments, which compares to zero dividend suspensions by S&P companies over each of the past two years.

In fact, over the past eight years combined, a total of just eight companies have suspended their dividend payments.

'MASSIVE GLOBAL EVENT'

Prior to 2020, the last S&P 500 company to eliminate its dividend was Pacific Gas & Electric in November 2017, after it was brought down by the California wildfires; the company has since been removed by the large-cap index.

"Usually, about two-thirds of S&P 500 companies increase their dividends annually, but what's happening here is an extremely unusual massive global event,"

> **"CUTTING DIVIDENDS IN NORMAL TIMES IS THE KISS OF DEATH ."**
> HOWARD SILVERBLATT, ANALYST, S&P DOW JONES INDICES

said Howard Silverblatt, senior research analyst for S&P Dow Jones Indices.

"Cutting dividends in normal times is the kiss of death, because it's an admission that a company has a cash-flow problem and it's not just short term," he said. "Typically, dividends are one of the last things to go."

Silverblatt likes to explain dividends as analogous to a paycheck for shareholders. When dividends are reduced, which has traditionally been rare but is suddenly more common occurrence, the shareholder gets a pay cut.

But when a dividend is eliminated, "you just got fired," he said.

Financial advisers are not missing the message that income is becoming scarce.

"We expect more companies to cut or suspend their dividend in order to shore up cash," said Nicholas Hofer, president of Boston Family Advisors.

"There are companies that weathered the financial crisis with their dividend untouched, and their balance sheets and cash positions remain strong during this time," Hofer said. "As an alternative to dividends, we continue to look at munis as they can be cheap relative to Treasuries."

As a benchmark for comparison, the financial crisis of a decade ago represents that last time dividends were suspended at such significant levels.

Through the first three weeks of April, the S&P 500 saw 13 companies announce dividend increases, nine companies announce decreases, and 10 companies suspend their dividends, for a net negative score of six. And the month isn't even over yet.

For instance, General Motors announced last Monday that it is suspending its dividend.

THROUGH THE FIRST THREE WEEKS OF APRIL, THE S&P 500 SAW

13
COMPANIES ANNOUNCE DIVIDEND INCREASES

9
COMPANIES ANNOUNCE DECREASES

10
COMPANIES SUSPEND THEIR DIVIDENDS

FOR A NET NEGATIVE SCORE OF
6

NEGATIVE SCORE

The last time the S&P 500 companies produced a net negative dividend score was March 2009, when seven companies increased dividends, one initiated a dividend, and 12 companies announced dividend decreases.

"This is a brutal environment for clients who want to live off their investment income," said Dennis Nolte, vice president at Seacoast Investment Services.

Because of the bond-like math of dividend yield calculations, investors can sometimes get trapped and confused when it comes to dividend investing.

A $100 stock, for example, that pays a $1 dividend represents a 1% dividend yield. But if that stock price falls to $50 and the dividend payments remain unchanged, the dividend yield suddenly spikes to 2% and could look more attractive to an uninformed investor.

EXTREME EXAMPLES

In extreme examples, some companies and income-focused funds can look like dividend bonanzas, when they might be signs of companies in trouble.

"With bond yields so low, everyone will be back to chasing yields," said Scott Bishop, executive vice president at STA Wealth Management.

"When anyone looks at a stock's dividend yield on any search engine, it shows past cash dividend divided by current price, so some are showing

> **"THIS IS A BRUTAL ENVIRONMENT FOR CLIENTS WHO WANT TO LIVE OFF THEIR INVESTMENT INCOME."**
> DENNIS NOLTE, VICE PRESIDENT, SEACOAST INVESTMENT SERVICES

overly optimistic dividend yields," he said. "That is going to be especially true in challenged industries like oil and gas, hospitality and REITs."

Todd Rosenbluth, director of mutual fund and ETF research at CFRA, also warns against chasing yields that "go up for the wrong reason."

"For some companies, it's been part of their DNA to reward shareholders with dividends, but we're in a whole new world now where earnings are weakening and the prospects for the rest of 2020 are cloudy at best," he said. "Companies are having to make decisions of focusing on the business and keeping cash available for rainy day funds."

Regarding the suddenly spiking dividend yields from some companies and funds, Rosenbluth advises caution.

"The opportunity to earn higher yields is greater than before, but don't get fooled by a higher dividend yield to think the income is stable," he said. "The likelihood of a cut is harder to believe from some companies, but it is a risk because unlike diamonds, dividends are not forever."

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30% SHARE OF US INVESTORS OPTIMISTIC ABOUT THE ECONOMY IN THE SHORT TERM. SOURCE: UBS GLOBAL WEALTH MANAGEMENT

Why RIA M&A could pick up in wake of coronavirus

It may feel like decades, but it was just a few months ago when it seemed as if nothing could stop the tide of RIA merger and acquisition activity sweeping the wealth management industry. It looked as though deals would keep coming and valuations would continue their steep rise.

GUESTBLOG LARRY ROTH

How quickly things change. As equity markets took a beating in March from the rapid spread of COVID-19, the pace of M&A deals has tailed off, according to recent first-quarter reports by Echelon Partners and Fidelity Clearing & Custody Solutions. The slowdown has prompted fears in some corners of the industry that the deal-happy days that culminated in a record number of transactions in 2019 have come to an end.

Yet there are strong arguments to be made that M&A transactions can regain the pace they saw as the year began and that deal-making will intensify once the worst of the pandemic is behind us. In other words, there's a likelihood deals will pick up again sooner than most might think — not despite public markets' lurching response to coronavirus, but because of it.

URGENCY FOR AGING ADVISERS

The first reason is that the fundamentals of the business will still be strong, and the factors that drove high transaction activity prior to the coronavirus outbreak will remain. For one, financial advisers with five to 10 more years before retirement will continue to look for ways to exit their businesses and reap the fruits of their years of labor.

If anything, the volatility of the past several weeks may serve as an abrupt reality check for those older advisers who may not have the stomach for the ups and downs of the current environment. These advisers likely survived the Great Recession and thought (wrongly, as it turns out) that such a disastrous downturn would come only once in a lifetime.

Now these advisers, who in a pandemic-free alternate timeline may have been content to bide their time to get the highest valuation, are considering whether it might be wiser to get out of the financial advisory game, thus fueling higher transaction volume as they rush for the exits.

STIMULUS AND THE MARKETS

Though still moving in fits and starts, equity markets seem to have taken a general upward trajectory since the CARES Act was passed on March 27, pumping $2 trillion in stimulus funds into the economy.

It's possible that, with the help of the latest stimulus package and others that will surely come after it, that equity markets will recover faster and to a greater degree than even the most optimistic pundits predict.

This could create a window in which valuations are too attractive for advisers to turn down, particularly those already spooked by stocks' tumble in March and fearful of future volatility.

DEBT STILL CHEAP

On the demand side, in the months leading to the pandemic the Federal Reserve had been incrementally raising the interest rate banks charge to borrow from each other. No more — the Fed slashed the rate to zero in March as the economic ramifications of the coronavirus for the U.S. economy came into sharp relief.

With the economy likely to struggle for the foreseeable future, it's more than likely that we'll stay in the same low- or zero-interest-rate environment that provided oxygen for the RIA transaction fire in the first place.

DON'T COUNT M&A OUT

To be clear, there are still more questions than answers when it comes to predicting which way RIA M&A activity will go in coming months and years as the world weathers the COVID-19 pandemic and starts on the long road to recovery.

That said, we shouldn't be surprised if deal volume starts increasing at some point. The market downturn may have hurt some valuations, but many of the other factors that fueled deal-making through the end of the 2019 aren't going anywhere. The bottom line: It's too soon to say the RIA M&A frenzy is over.

Larry Roth is founder and managing partner of RLR Strategic Partners, a wealth management industry-focused consultancy and M&A advisory firm affiliated with Berkshire Global Advisors.

How advisers can rebuild clients' portfolios

BY MARY BETH FRANKLIN

THE DRAMATIC STOCK market losses triggered by the COVID-19 pandemic and the gut-wrenching volatility ever since demonstrate the value of long-term financial planning. Diversified portfolios are designed to weather market gyrations; the key for financial advisers is to convince their clients to stick with the plan.

"The most grievous sin an investor can commit is to sell at the bottom," Kara Murphy, chief investment officer at Goldman Sachs Personal Financial Management, said during the recent *InvestmentNews* Navigating 2020 webinar. "The next grievous sin is not to do anything."

The most distinctive component of the coronavirus crash has been the rapidity of market movements, with a peak to trough decline of 33% occurring over just five weeks in the first quarter of 2020, compared with a 50% drop in market value during the financial crisis of 2007-2009 that dragged over 16 months.

"THE MOST GRIEVOUS SIN AN INVESTOR CAN COMMIT IS TO SELL AT THE BOTTOM."

KARA MURPHY, CIO, GOLDMAN SACHS PERSONAL FINANCIAL MANAGEMENT

Such severe market corrections cause portfolio distortions, and it's crucial for advisers to rebalance asset allocations, whether they base it on target thresholds or timeframes such as quarterly, semiannually or yearly, Murphy said.

Patrick Nolan, director of BlackRock's Portfolio Solutions Group, agreed. "Rebalancing always offers value in terms of keeping clients connected to their long-term plans and horizon goals," he said.

Both Murphy and Nolan concede that the U.S. has likely already entered a recession and that the ultimate economic rebound will look less the traditional V or U recovery and more like a gradual Nike swoosh. The unprecedented response to keep credit flowing to Wall Street and Main Street and the federal government's stimulus payments to small businesses and individuals have been critical to reassure investors. The big unknown is how and when the public health crisis will be resolved.

Nolan said advisers should take the opportunity to reach out to clients and refocus their attention from market declines to long-term goals. He also recommended that advisers divide clients based on the type of investors they are and craft an appropriate narrative.

"Volatility has just revved up the emotions of everyone," said Mark Peterson, a behavioral finance expert and director of investment strategy and education at BlackRock. "There is no better way to ruin an investment plan than to do the wrong things at the wrong time."

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CARES Act an Rx for boosting charitable giving

BY MARK SCHOEFF JR.

CLIENTS WHO ARE inclined to give a lot of money to charitable causes can have a turbocharged philanthropic year thanks to coronavirus stimulus legislation.

The CARES Act, the $2.2 trillion recovery bill signed into law in March, includes several provisions to spur charitable giving. It allows taxpayers who itemize to deduct up to 100% of their adjusted gross income for cash contributions to public charities. That's an increase from the usual 60% cap. An individual who doesn't itemize can take a $300 "above the line" deduction for cash contributions to public charities.

"If you're looking to maximize the benefit of your charitable contributions, this is the year to do it," said Dean Mioli, director of investment planning at SEI. "These deductions are worth quite a lot."

The sky's the limit if a client's donations get that high.

"If you give a lot of money to charity then these provisions are quite significant in that you would be allowed to offset all of your income if you choose," Colleen Carcone, director of wealth planning strategies at TIAA, wrote in an email.

IMPORTANT RESTRICTIONS

But the full AGI deduction comes with important restrictions. In addition to the contribution having to be made in cash — securities and other assets don't count — it also must go directly to a public charity and cannot be made to a 509(a)(3) supporting organization or be put into a donor advised fund.

Financial advisers have to pay attention to details, said Richard Pon, who owns an eponymous advisory and CPA firm. They should avoid setting expectations too high if they don't also make clear what parameters a client must meet before getting a big deduction.

"You don't want an angry client coming in next April," Pon said.

COMBINING CONTRIBUTIONS

Mioli recommends that clients combine their charitable contributions this year with other tax strategies, such as converting traditional individual retirement accounts into Roth IRAs.

The CARES Act has changed, at least for this year, one approach to charitable giving, eliminating required minimum distributions from IRAs. In a normal year, those are sometimes used for philanthropic giving.

"If you were considering a qualified charitable distribution to satisfy your RMD, it might also make sense from a tax efficiency perspective to instead use appreciated assets or cash from a taxable account to satisfy the charitable intent in 2020," said Dan Rinzema, chief client officer at Greenleaf Trust.

> **KEY POINTS**
> - CARES Act turbocharges charitable giving.
> - Contributions from donor-advised funds could make a difference for struggling nonprofits.

The lack of RMDs this year could change the giving landscape.

"In other years you would look to a [qualified charitable distribution] for the immediate tax benefit of offsetting your retirement income," Carcone said. "If you have no retirement income for the year, you can probably get a more significant tax benefit by looking at other ways of giving."

If the goal of the CARES Act was to increase charitable giving due to the pandemic, it's unclear whether it will work. Rinzema's clients already donate a lot to charity. But the direction of giving has changed due to the outbreak.

"We're seeing quite a bit more focus on food banks and community relief funds," Rinzema said.

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SEC orders RBC to pay $3.9M over share-class disclosure

BY MARK SCHOEFF JR.

ALTHOUGH THE Securities and Exchange Commission has wrapped up an initiative targeting conflicts of interest surrounding mutual fund fees, it demonstrated in an enforcement case at the end of April that it's still keenly focused on the topic.

On April 24, the SEC ordered RBC Capital Markets to pay $3.9 million in disgorgement and penalties for failing to disclose that it sold some brokerage customers – charitable organizations and clients in retirement accounts – more expensive fund share classes even though less expensive share classes of the same fund were available.

According to the SEC settlement, from July 2012 through August 2017, RBC recommended share classes with upfront loads or high ongoing expenses when no-load classes were available. The agency also said that RBC didn't disclose that it would receive 12b-1 fees and compensation from the more expensive funds and that its doing so would reduce customers' returns.

"As a result of RBC's failures, approximately 4,571 customer accounts paid a total of $2,607,676 in sales charges, ongoing fees, and other expenses," the SEC said in a statement accompanying the settlement.

RBC did not admit or deny the charges. The firm said it cooperated with the SEC in reviewing its funds.

"RBC Wealth Management is committed to ensuring the firm and all of its advisors operate in accordance with the regulations governing our industry," the firm said in a statement. "In response to this particular issue, we converted affected accounts, as needed, to the correct mutual fund share class. We have also reviewed and updated all procedures and policies related to mutual fund share classes."

The settlement was announced a week after the SEC concluded a more than two-year share-class initiative that encouraged financial firms to self-report failures to disclose conflicts of interest surrounding 12b-1 fees. The SEC said it returned more than $139 million to investors under the program.

The timing was no accident, said Kurt Wolfe, an attorney at Troutman Sanders. "This coming so closely on the heels of the initiative may be the SEC saying, 'We have a continued interest in this type of misconduct,'" Wolfe said.

EXAMINATION PRIORITY

The SEC has made share-class disclosure an examination priority this year. The Financial Industry Regulatory Authority Inc. is also in the middle of a share-class probe involving 529 college savings plans.

"These are the types of cases the SEC and Finra love to bring and will continue to bring because they're hyper-focused on retail investors," Wolfe said.

Brokerage industry representatives have criticized the SEC's share-class crackdown as "regulation by enforcement." They say the agency did not explain its expectations about disclosure before launching a strike on what it said were violations.

Todd Cipperman, principal at Cipperman Compliance Services, said the SEC did not have to allege that RBC intentionally misled or harmed clients.

"Instead, the regulator can rely on the outcome that clients were in fact harmed," Cipperman wrote in a blog post. "The SEC does not need to prove an evil heart or even carelessness to bring an enforcement action."

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VANESSA OLIGINO

STRONGEST FIRMS

CONTINUED FROM PAGE 4

once the economy recovery takes hold."

And she suggested reducing staff salaries only as a last resort.

"Until all other options are meaningfully exhausted, we do not recommend cutting base compensation for staff," Oligino said. "If cuts must take place, RIAs should consider combining them with reduced hours or greater incentive opportunities. Advisers would be well served to maintain staff morale for the long term."

Standout firms in TD's analysis also saw 11% average annual growth in new clients from 2008 to 2011, while the non-standouts grew their client base by an average of just 0.4% over that period.

The bottom line is that investing in the business during the darkest days of the financial crisis likely put a temporary damper on productivity for standout firms, but left those firms better positioned for growth during the recovery that followed.

In 2011, for example, revenue per revenue generator at standout firms was 22% above the level in 2008, which compares to a productivity drop of 10% at the non-standouts.

"We want RIAs to appreciate that unprecedented events can present once-in-a-lifetime opportunities for them," Oligino said. "Short-term decisions can have long-term consequences, so make the most of the current opportunity."

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SEC RULE

CONTINUED FROM PAGE 4

able. The program returned about $139 million to investors.

Investor advocates say common sense, as well as the Investment Advisers Act, makes it clear that advisory firms should disclose conflicts of interest, such as the receipt of 12b-1 fees.

"It's ludicrous on its face," Knut Rostad, president of the Institute for the Fiduciary Standard, said of the rule-making petition. "They suggest [investment advisers] should need additional SEC rule-making to know recommending a more expensive product over an identical less expensive product is a fiduciary breach. In one fell swoop, they insult regulators, their own advisers and investors."

The SEC share-class initiative targeted mostly firms that are dually registered as investment advisers and brokers. Most of the time, it's brokers who receive 12b-1 fees rather than advisers.

But the problem highlighted in the SEC's share-class program was that dual registrants recommended high-fee funds for clients in advisory accounts, said Barbara Roper, director of investor protection at the Consumer Federation of America.

"There is nothing new about the obligation under the Advisers Act to provide full and fair disclosure of conflicts of interest," Roper said.

NO CLEAR-CUT POLICY

The financial firms represented by FSI and ASA "don't truly understand what it means to be an adviser," she said. "They have no intention of cleaning up their act."

But the industry groups said that SEC policy toward 12b-1 fees has never been clear-cut.

"Over the last year, the SEC has used its enforcement authority, rather than its rulemaking authority, to change longstanding, widespread, and previously uncontroversial business practices in the mutual fund space," they said in a statement.

The SEC isn't giving financial firms clear direction for compliance, said Dale Brown, chief executive of FSI.

"It is time for the SEC to stop its troubling, ongoing trend of backdoor regulation, or regulation by enforcement," Brown said in a statement. "Financial services firms and financial advisers deserve to know the rules of the regulatory road on which they operate and be allowed sufficient time to comply with any changes."

SEC CRITICIZED

The SEC isn't respecting the rule-making process, said Christopher Iacovella, chief executive of the American Securities Association.

> **"IT IS TIME FOR THE SEC TO STOP ITS ... ONGOING TREND OF BACKDOOR REGULATION."**
>
> DALE BROWN, CHIEF EXECUTIVE, FINANCIAL SERVICES INSTITUTE

"The SEC's foray into regulation by enforcement has established a dangerous precedent which allows the agency to adopt vague disclosure requirements and then decide on the fly what is and is not acceptable," Iacovella said in a statement.

DEBATE GOES ON

A former SEC commissioner, Robert Jackson Jr., used an expletive in characterizing the "regulation by enforcement" argument in a public appearance before he left the agency. The rule-making petition ensures the debate will continue.

The petition doesn't bode well for Regulation Best Interest, the SEC's new investment-advice standard for brokers, Roper said. Reg BI must be implemented by June 30.

"If these firms have their way, we'll see no meaningful benefits from Reg BI," she said. "What do you think their disclosures are going to look like under Reg BI?"

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CETERA

CONTINUED FROM PAGE 4

and national sales manager; and Jeffrey Bottorff, vice president and national recruiting director.

COST-CUTTING

Cuts to senior management are one way a broker-dealer can reduce costs. Cetera has 1,700 home office employees, according to its website. It's not clear if the company plans to shed other jobs or senior employees.

Bonneau "informed us of her decision to leave late last year," Cetera spokesperson Adriana Senior wrote in an email. "She graciously stayed on through a transition period into April."

Senior did not respond to questions about how many employees or senior executives have either left Cetera on their own or are losing their jobs. She wrote that the company is focused on its advice-centered strategy, which includes "assessment and investments in talent, technology and strategic acquisitions in support of our commitment to growth and service."

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SCHWAB IMPACT

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country has been enduring some form of lockdown and social distancing, the financial services industry has shown a welcome embrace of various forms of virtual interaction.

But by November, even if the virus is no longer keeping most people restricted to their homes, financial advisers will likely be thirsting for some new level of virtual interaction, especially from the likes of Schwab. Still, cost is a factor.

"I'm going to at least three virtual conferences, and I suspect it will be fine but not the same, and I'm not willing to pay full price for a virtual conference at this point," said Tara Unverzagt, founder of South Bay Financial Partners.

"Many hosts seem to think it's cheap because you aren't paying for the flight and hotel, but the experience of a series of webinars isn't worth the full cost," she said. "Much of the value of a conference is meeting the people you sit next to at meals and coffee breaks, and it's hard to substitute that."

A month ago, when most businesses were just starting remote-work policies, Ric Edelman, executive chairman and co-founder of Edelman Financial Engines, predicted that the industry would develop a greater appreciation for virtual interactions, but that in-person industry conferences will not go away.

CANCELLATIONS ON THE RISE

Other large industry events have since been canceled or postponed, including the Morningstar Investment Conference, originally scheduled for early June in Chicago, and now moved to a yet-to-be-determined date in the fall.

BNY Mellon Pershing canceled its annual Insite conference, scheduled for mid-June.

The Financial Planning Association canceled its FPA Retreat, scheduled for this week, as well as the FPA Advocacy Day, scheduled for early June in Washington. A spokesman said the FPA will "make decisions soon" regarding the FPA Residency and FPA NexGen events scheduled for later in June.

"Once we get beyond those decisions, we will make some determinations on our fall events, including the FPA Annual Conference Sept. 30-Oct. 2 in Phoenix," said spokesman Ben Lewis. "If the annual conference is not going to take place, we are going to look at virtual options but are not at that point yet in making that decision."

Jeffrey Tomaneng, director of financial planning and wealth management at Sapers & Wallack, is curious and optimistic about how large conferences can be pulled off in a virtual format, but he is also feeling virtual fatigue.

"I already spend a lot of time on webinars and conference calls to stay abreast of financial planning topics," he said. "I'm curious to see how virtual conferences can facilitate or if they can facilitate the networking part of conference-going."

ADDED APPEAL

Meanwhile, the virtual aspect adds appeal for some advisers who find it easier to manage.

"I am signed up for a Christian Businessman's Conference on Friday that is now virtual and I'm looking forward to attending," said Daniel Flanagan, a partner at Canby Financial Advisors.

"In fact, I would not have attended this conference as originally planned because it was out of state," he said. "Having it virtual is giving me an opportunity to attend."

Flanagan is also considering another conference next month that has gone virtual, but is reluctant because the price of attendance has not been reduced. "I guess I would have expected the price to have been reduced considering it's been switched to virtual," he said.

GREAT EXPECTATIONS

Monica Dwyer, vice president at Harvest Financial Advisors, believes attending virtual conferences "lacks the rush you get from talking and collaborating with other professionals that do the same thing you do for a living."

"I will miss that this year and I don't think it will be the same," she said. "I find these conferences to be a great way to reenergize and reinvigorate myself and I will miss them."

That's the kind of expectations organizations including Schwab will need to meet to successfully pull off a large-scale virtual event.

On that note, FiComm's Carpenter has some simple advice, "Make it better.

"It's not about how much worse it will be, it's about how much better it will be," she said. "I think a virtual event will be the same if not more work than hosting an onsite event, but those businesses that say this is not a woe-is-me situation, it's an opportunity, will make it better."

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REITS

CONTINUED FROM PAGE 3

The plaintiff's bar, a thorn in the side of the securities industry, has been sitting on its hands the last few years as the broad stock market continued what looked to be a never-ending climb until its collapse in February and March.

Attorneys who sue broker-dealers look for the collapse of a specific product that use an esoteric trading strategy or a type of product. REITs and interval funds fit that second category to a tee.

Voya Financial Advisors joins LPL Financial, Cetera Financial Group and Advisor Group in shutting down sales of such real estate products for a while to see what happens to the commercial real estate market in coming months.

As Voya said in a recent memo to its advisers, "We believe this is the right decision because of the negative impact the current pandemic is having on economic conditions, and particularly real estate assets, in the U.S.

"As investors in these funds attempt to reallocate capital to lower risk investments or seek liquidity due to their personal financial situation, this could become another potential concern as investor liquidity could be limited," according to the memo. The suspension at Voya will last at least until the end of June.

THE BIG KAHUNA

The big kahuna in the REIT marketplace, and one of the REITs that some firms have stopped selling amid concerns about falling real estate values, is the $34 billion Blackstone Real Estate Income Trust.

Launched in 2017, the REIT is sold widely by large and small firms. It hit a bump at the end of March when it reported a decline of more than 8% and a NAV of $10.44 per share for its I class shares, which are sold by fiduciaries like registered investment advisers. That compares to its per-share NAV of $11.42 at the end of February.

It's important to note a key difference that has occurred in the nontraded REIT market since the Great Recession. Today's NAV REITs have a price that moves up or down with the market. The old nontraded REITs were sold at the static, unrealistic price of $10 per share, regardless of fluctuations in the value of the buildings in the portfolio.

> **"ALL THE BROKER-DEALERS ARE CONCERNED."**
> ANONYMOUS INDUSTRY EXECUTIVE

"All the broker-dealers are concerned, in one way or another, that the market sell-off has been sudden, and the REITs and interval funds ultimately have not yet had price discovery," said one industry executive, who asked to remain anonymous.

"The challenge for daily NAV REITs is that the values are not reflective of changes in the marketplace," the executive said. "The securities will eventually reprice."

The questions hanging over the marketplace for such real estate products is how long the downward pressure on values will last and where values will bottom. The brokerage industry hopes this downturn does not turn out to be like the last one.

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ADVICE BUSINESS

CONTINUED FROM PAGE 2

ent way and opens up the playing field … to do experimentation, to do things that you may never have done otherwise," Arnold said last Thursday on an earnings conference call with analysts.

"There could be jobs that you didn't think were possible to do remotely from home that all of a sudden by doing it, you now have a different point of view on that," he said. "And that shapes how you think about managing your workforce, flexible schedules, how you access talent and even how you manage your real estate portfolio."

REAL ESTATE EXPENSES

Paying for real estate is one of the biggest costs for brokerage firms like LPL. With firms reporting that 90% or more of their workforce is now operating from home, broker-dealers will likely look to pare back on that expense in the future.

"We believe the whole use of robotics, [artificial intelligence] and digital tools will be different going forward, people's thinking around outsourcing and supply chains will be changed forever by this," Arnold said. "There will be more to emerge. It's early."

LPL added 299 net new advisers during the first three months of 2020, more than three times the amount for the same period last year, when the firm reported 80 net new advisers. It has been recruiting financial advisers and reps aggressively, and also making small acquisitions.

LPL's total brokerage and advisory assets at the end of March decreased 2% year over year to $670 billion, while the S&P 500 index was down 9% year over year, according to the company.

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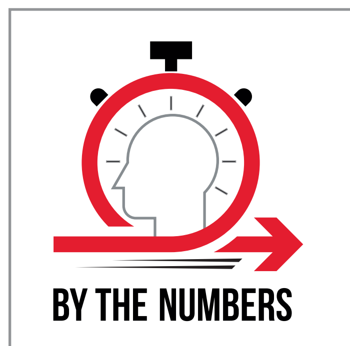

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