## Schwab Target Date Funds–a future nestled in investor behavior.
## What a welcome alternative.

Too many firms take a hands-off approach to managing retirement funds. Not us. Not only are we proud to offer some of the lowest-cost target date funds available with no minimums, but we use a behavioral approach to managing risk when it matters most: near and throughout retirement.

**schwabfunds.com/welcome-retirement**

**Investors should consider carefully information contained in the prospectus or, if available, the summary prospectus, including investment objectives, risks, charges, and expenses. You can obtain a prospectus or, if available, a summary prospectus by visiting schwabfunds.com. Please read carefully before investing.**

**The Schwab Target Date Funds are built for investors who expect to start gradual withdrawals of fund assets on the target date to begin covering expenses in retirement. The principal value of the funds is not guaranteed at any time and will continue to fluctuate up to and after the target date, which represents an approximate date when investors may plan to begin withdrawing from the fund. There is no guarantee the funds will provide adequate income at or through retirement.** Target Date Fund asset allocations are subject to change over time in accordance with each fund's prospectus. Charles Schwab Investment Management, Inc. (CSIM), the investment advisor for Schwab Funds, and Charles Schwab & Co., Inc. (Schwab), Member SIPC, the distributor for Schwab Funds, are separate but affiliated companies and subsidiaries of The Charles Schwab Corporation. (0620-04DK)

2 REMOTE WORK HITS ADVISERS' SALES
4 PROS AND CONS OF B-D PPP LOANS
18 401(K) TRACKING SYSTEM PROPOSED
20 YOUR 2020 SUMMER READING LIST, PART 1

JULY 13-17, 2020

InvestmentNews®

THE TRUSTED RESOURCE FOR FINANCIAL ADVISERS

INVESTMENTNEWS.COM

$5.00 / $89 YEAR

# GETTING BACK ON TRACK

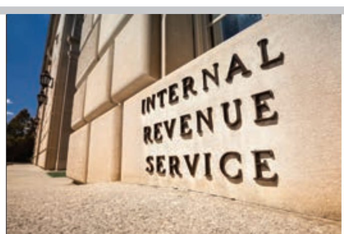
COVID-19 HAS ADVISERS SCRAMBLING TO FIND ALTERNATIVE ROUTES TO ADD DIVERSITY AND STILL HEDGE RISK FOR CLIENTS PAGE 8

NEWSPAPER | VOL. 24, NO. 27 | COPYRIGHT INVESTMENTNEWS LLC. | ALL RIGHTS RESERVED

# TopNews

ACCURACY / EXCELLENCE / FAIRNESS / IMPARTIALITY / INDEPENDENCE

4 On Advice
6 Editorial
12 On Retirement



**IRA Alert**
Ed Slott walks through the new tax distributions brought on by COVID-19.
Page 13

**Duran Duran**
Advisers can learn from industries that have adapted to a virtual service world.
Page 14


# Social distancing weighs down the advice business

BY EMILE HALLEZ

**REMOTE WORK IN** the age of COVID-19 has hurt some advisers' practices, and many say they are having difficulty finding new clients and working with existing ones.

That is according to results of a survey recently published by Limra, Oliver Wyman, the Insured Retirement Institute and the National Association of Insurance and Financial Advisors. The survey included responses from 400 financial professionals between May 5 and June 1.

Nearly 70% of advisers said social distancing has made prospecting new clients moderately or highly challenging, according to the report. Nearly as many, 63%, said initial planning conversations are challenging, and 61% said social distancing making product sales difficult with new clients.

"The biggest challenge for advisers ... [is] the lack of face-to-face meeting, all the way through the sales process," said Limra research analyst Peter DeWitt, the author of the report.

**KEY POINTS**

- Survey shows advisers struggling to grow their practices amid COVID-19.
- Nearly half of advisers are worried about their revenue.

## SALES HINDERED

Working from home has made product sales difficult, according to at least a third of advisers surveyed. Forty-two percent said they are less effective at selling annuities, while 36% said the same about investment products and 44% said so about life insurance. Just over a quarter said they are now less effective at managed accounts sales, according to the report.

About half of advisers said the COVID-19 crisis has made it very difficult to meet personally with clients, while another 37% said doing so is moderately difficult.

Market volatility and low interest rates have also made business

CONTINUED ON PAGE 23

# Finra delineates 'good faith' efforts to comply with Reg BI

BY MARK SCHOEFF JR.

**INITIAL FINRA EXAMINATIONS** of financial firms' compliance with Regulation Best Interest will focus on whether they have put in place policies and procedures for the new standard, officials of the broker-dealer self-regulator said last Tuesday.

Reg BI, the new broker investment advice standard, went into force June 30. The Securities and Exchange Commission maintained the implementation deadline despite the coronavirus pandemic that has disrupted many brokerage operations.

In risk alerts released in April, the SEC said it would look for "good faith" efforts by firms to put Reg BI in place. The Financial Industry Regulatory Authority Inc. will work with the SEC in enforcing the measure, and a podcast posted on the Finra website last Tuesday gave a hint of what firms should expect in early Reg BI exams.

"By and large, we're going to be looking at the compliance obligations of policies, procedures and training, and we're not looking at it to say, 'Did a firm do everything the way that we would have done it?' or 'Did they do everything perfectly?'" Jim Wrona, Finra vice president and associate general counsel, said on the podcast. "We're looking to see do they understand the obligations, and do they make a good faith effort to implement the changes that needed to be made and incorporate those in their policies, procedures and training."

Finra Chief Executive Robert W.

CONTINUED ON PAGE 23

# Megamerger in Midwest creates $6.5B RIA

BY JEFF BENJAMIN

**TWO MIDWEST-BASED** advisory firms have merged to create a $6.5 billion RIA that will operate as Brookstone Capital Management.

The deal brings together two relatively young, but fast-growing registered investment advisers.

FormulaFolios, a $3.5 billion RIA based in Grand Rapids, Michigan founded in 2011, is pairing up with Chicago-based Brookstone, a $3 billion RIA launched in 2006.

"We certainly have a lot of synergies, and by combining forces we are taking the best of what each company has," said Dean Zayed, Brookstone founder and CEO, and president of AmeriLife's Investment Advisory Services division.

The combined firm brings together approximately 800 advisers operating in all 50 states, with more than 500 offices.

"We think scale matters," he said. "It's not just about a higher assets under management number. Larger firms can deliver more to their advisers and to their clients."

## LARGER DEALS

Mark Bruno, managing director at Echelon Partners, said larger deals have become the trend in the age of

CONTINUED ON PAGE 23

Contents © Copyright 2020 by InvestmentNews LLC. All rights reserved. Vol. 24, No. 27, July 13, 2020. InvestmentNews (ISSN 1098-1837) is published weekly except for the 1st & 3rd week of July, the 1st & 3rd week of August, the 1st week of September and the last week of December by InvestmentNews LLC. The agent is Crain Communications Inc., 1155 Gratiot Avenue, Detroit, MI 48207-2912. Periodicals postage paid at Detroit, MI and additional mailing offices. POSTMASTER: Send address changes to InvestmentNews, Circulation Dept., 1155 Gratiot Avenue, Detroit, MI 48207-2912. U.S. subscription price: $89 a year.

# Retail ETFs attract institutional buyers

BY JEFF BENJAMIN

**AS FEE PRESSURE** continues to spread across the financial services industry, low cost is starting to trump even the benefits of liquidity and tighter trading spreads when similar strategies are placed side by side.

It's an important message for fund companies that have been holding onto the belief that bigger investors will continue to pay more for larger funds offering better liquidity.

That belief is a big part of the reason State Street Global Advisors had no problem rolling out SPDR Gold MiniShares ETF (GLDM) for 18 basis points in 2018 as a virtual replica of the much larger SPDR Gold Shares (GLD), which charges 40 basis points.

**1%**

PORTION OF INSURERS' ASSETS HELD IN ETFS IN 2019

## PALATABLE FOR RETAIL

Last summer when GLDM had grown to $860 million, State Street's head of SPDR Americas Research Matt Bartolini explained that the mini version of the gold ETF "allows us to target investors specifically."

GLDM, which has since grown to $2.7 billion and has a share price of $18, is seen as more palatable for retail investors, while the $70 billion GLD version's share price of around $170 comes with the liquidity and tighter spreads that should appeal to institutional investors.

But if the recent pattern of ETF buying by insurance companies is any indication, the parallel-market strategy might be going out the window.

An analysis of the asset flows from insurance companies during the first quarter into S&P 500 Index ETFs shows a clear preference for lower fees.

According to CFRA, during the first three months of 2020, insurance companies invested more than $580 million across Vanguard S&P 500 ETF (VOO), iShares Core S&P 500 ETF (IVV) and SPDR S&P 500 ETF (SPY).

But of those assets, less than $41 million went to $278 billion SPY, which charges just over 9 basis points. The $150 billion VOO attracted more than $301 million of those first-quarter investments, and the $198 billion IVV attracted $238 million.

VOO and IVV charge 3 basis points each.

## LARGE AUDIENCE

The ETF industry should be and probably is paying attention because insurance companies, which only had about 1% of their total assets in ETFs in 2019, are seen as increasingly interested ETF investors.

"I would have expected if insurance companies were buying ETFs in the first quarter that more of the money would have gone into the more liquid SPY than the less liquid VOO," said Todd Rosenbluth, director of mutual fund and ETF research at CFRA.

"Insurance companies represent a relatively large potential audience and investor base that is slowly moving into ETFs," he added. "ETF assets are at $4 trillion today and will get to $5 trillion even faster if insurance companies are using them."

*jbenjamin@investmentnews.com*
*Twitter: @benjiwriter*

# Tech tools fall short of advisers' expectations

BY NICOLE CASPERSON

**FINANCIAL ADVISERS'** expectations for core tech tools are still outpacing what's available at most wealth management firms, despite heavy investments in technology, according to J.D. Power's 2020 U.S. Financial Advisor Satisfaction Study.

Firms have made a strategic shift to reallocate investments away from massive recruiting initiatives and toward improving the experience and productivity of existing advisers by investing in their technology platforms, said Mike Foy, senior director at J.D. Power.

## STILL A DISCONNECT

Yet, there is still a disconnect between the 92% of advisers who say they rely heavily on technology and the value that current technologies are providing, Foy said. In fact, just 48% of advisers say the core technology their firm currently provides is "very valuable," which shows there's still a level of dissatisfaction, Foy said.

The study measures satisfaction among six factors: compensation; leadership and culture; operational support; products and marketing; professional development; and technology. The findings are based on responses from 3,262 employee and independent financial advisors that was fielded from January through April 2020.

**"THAT NEEDS TO CHANGE IF FIRMS WANT TO WIN THE TALENT WAR."**

MIKE FOY, SENIOR DIRECTOR, J.D. POWER

"That needs to change if firms want to win the talent war," he said.

Leveraging technology to deliver a financial adviser experience that maximizes both loyalty and productivity is critical for success, Foy said, particularly given the risk of dissatisfied advisers taking clients to a com-

CONTINUED ON PAGE 23

# $500M female team moves from Morgan Stanley to Sanctuary

BY NICOLE CASPERSON

**BOWERSOCK CAPITAL PARTNERS**, a six-woman adviser team managing $500 million in client assets, is leaving Morgan Stanley to join Sanctuary Wealth's independent adviser platform.

The advisory firm is the first Morgan Stanley team Sanctuary has picked up this year and the third breakaway adviser to join the independent platform since June. Sanctuary has brought on approximately $1.1 billion in assets from former wirehouse advisers this year alone, according to company announcements.

The former Morgan Stanley team, which sets up shop in Lawrence, Kansas, is led by founding partners Emily Bowersock Hill and Kaylin Dillon, who together have spent more than two decades at the wirehouse, according to BrokerCheck records. The firm also includes director of operations Amy Clark, client operations specialist Kristine Flynn, research analyst Catherine Prestoy and senior registered operations specialist Kathy Olds.

**$1.1**

BILLION, TOTAL SANCTUARY HAS ADDED FROM WIREHOUSES THIS YEAR

Women-led adviser teams are a trend reshaping the industry, Sanctuary CEO and Founder Jim Dickson said in a statement.

## ACADEMIC BACKGROUNDS

In fact, being an all-female adviser team turned out to be one of the firm's greatest assets, Hill said in an interview. "If you could send me a qualified man, I'd hire him," she said. "We didn't set out by design to be all women, it turned out that way and it's a huge advantage in this business. The chemistry on our team is amazing."

The combination of an all-women

CONTINUED ON PAGE 23

# A tale of two PPP loans

The Paycheck Protection Program appears to have been a boon to small broker-dealers — those with about 150 or fewer retail-focused reps and advisers — and to midsize firms with 500 or fewer advisers.

The loan program was aimed at buoying businesses with fewer than 500 employees; loans were to be used to protect employees' salaries during the pandemic.

Plenty of small and midsize broker-dealers took the loan money; large firms were too big to apply.

BRUCE KELLY

ONADVICE

I have no issues with firms taking these loans if the money was to be used appropriately to aid employees during an unprecedented crisis. Whether or not broker-dealers needed the money to keep their doors open is another question.

My colleague Jeff Benjamin raised this issue regarding registered investment advisers lining up for taxpayer money back in the spring, when PPP was unveiled as part of a $3 trillion package to boost the economy amid the COVID-19 outbreaks.

Was it appropriate for RIAs, which rely heavily on technology and charge fees in the range of 1% of clients' assets, to take money intended to help small businesses whose employees can't work from home, like a mom and pop restaurant or bakery?

Like RIAs, broker-dealers charge fees on some client accounts; they also rely heavily on charging commissions on client transactions. Brokerage executives I have spoken to since the pandemic hit the U.S. in March have said trading has been particularly heavy as clients move in and out of positions, often seeking safety in cash or bonds.

### CASH REGISTERS RINGING

That means that the cash registers were ringing at small and midsize firms as they filled out their applications for the PPP program.

To my mind, it would be almost impossible for a broker-dealer owner or senior officer to turn down the chance to apply for and receive such funds, particularly as the brokerage industry continues to see small firms close or be acquired by giants such as LPL Financial and Advisor Group.

In other words, how could a broker-dealer ignore free government money, which taxpayers will have to pay back at some time down the road?

It's hard not to see the irony of the situation, though. The overwhelming majority of senior brokerage executives lean toward a politically conservative world view that preaches small government and less regulation. Federal bailouts are supposed to be anathema to such citizens.

Data released last Monday by the Small Business Administration showed at least seven small to midsize broker-dealers routinely covered by *InvestmentNews* took the loans.

Among them were: American Portfolios Holdings Inc., owner of American Portfolios Financial Services Inc., which got between $1 million and $2 million; Kovack Securities Inc., $350,000 to $1 million; and Geneos Wealth Management Inc., also $350,000 to $1 million.

"My responsibility is to protect my employees so they can serve the brokers and advisers," said Lon Dolber, CEO and owner of American Portfolios.

### WORKING ON WEEKENDS

Dolber said the huge unknowns facing the economy led him to apply for the loans, and he wound up hiring more employees and had staff working on weekends. "I took the opportunity to have that safety net," he explained.

> **KEY POINTS**
> - Heavy trading means B-Ds took in lots of revenue amid the pandemic.
> - Seven B-Ds routinely covered by *InvestmentNews* took PPP loans.

Senior executives at Kovack and Geneos did not return calls seeking comment.

Two other firms, Centaurus Financial Inc. and Berthel Fisher & Co., both received $350,000 to $1 million.

Senior executives from those firms also did not return calls seeking c°mment.

But perhaps the two most interesting broker-dealers to get PPP money are Newbridge Securities Corp., which recently revealed it ran a $9 million deficit last year, and Ascendant Alternative Strategies, which has close ties to GPB Capital Holdings, the private placement manager facing multiple investigations and investor complaints, which also received PPP money (see story below).

Newbridge got $1 million to $2 million, while Ascendant Alternative Strategies received $150,000 to $350,000. Senior executives with those firms did not return calls seeking comment.

The owner of GPB Capital is David Gentile, who is the co-owner of Ascendant Alternative, along with Jeff Schneider. Ascendant Alternative was the lead distributor of GPB private placements, which have no audited financial statements and haven't regularly paid investors distributions for almost two years. GPB is essentially dead in the water.

Will the taxpayers' PPP money help staunch the bleeding at Newbridge? Will Ascendant Alternative use its PPP cash to help investors who have seen the value of GPB private placements plummet?

As noted above, broker-dealers, like RIAs, generated plenty of revenues in March, April and May. So they caught a huge break; it's clear that the PPP money was intended for other types of businesses — those that stopped functioning.

It would be foolhardy for any type of business to turn down free cash. But it would be worse if that money and the opportunity it created to help broker-dealer employees or clients were squandered.

The care that Lon Dolber of American Portfolios showed for his workers should serve as an example for any business owner who took a PPP loan.

*bkelly@investmentnews.com*
*Twitter: @bdnewsguy*

# GPB gets millions in federal money while under investigation

BY BRUCE KELLY

**GPB CAPITAL HOLDINGS** and related companies, which are facing investigations and investor lawsuits, took from $3 million to $7 million in federal forgivable loan money for small businesses, according to a document released last Monday by the Small Business Administration.

Starting in 2013, GPB raised $1.8 billion from investors through sales of private partnerships, but it has not paid investors steady returns, called distributions, since 2018. One of its funds made a special distribution earlier this year.

Last year, the company delivered a blow to investors when it reported significant declines in the values of its funds.

More than 60 broker-dealers sold its private placements, commonly promising income from steady distributions.

### MONEY TO INVESTORS?

It is not clear whether any of the money GPB received from the Paycheck Protection Program, which was established to help businesses pay their workers amid the pandemic, will go to investors.

"Are they going to return that money to investors and call it a distribution?" asked Joe Peiffer, an attorney representing dozens of investors with complaints against the broker-dealers that sold GPB private placements. "The notion for the PPP program was to help struggling legitimate businesses, not for the taxpayer to bail out this scheme."

GPB is facing numerous difficulties. The FBI raided its offices in the winter of 2019; its former chief compliance officer was charged with obstruction of justice last October; and it has repeatedly missed deadlines for filing audited financial statements for its funds.

The company has been under investigation by the Securities and Exchange Commission and the FBI. And in May, William F. Galvin, secretary of the Commonwealth of Massachusetts, charged GPB Capital with defrauding 180 local investors who had purchased its private placements.

According to the Treasury's website, GPB Capital Holdings received from $1 million to $2 million in PPP loans, and businesses named GPB 5 and GPB 8 got the same amounts. Another entity, dubbed GPB Cars 12, got a loan of $350,000 to $1 million.

"GPB Capital Holdings received $1.3 million in PPP loans," a company spokesperson, Nancy Sterling, wrote in an email. "Both the application and use of funds was in direct accordance with the Small Business Administration guidelines."

Sterling did not comment about the related GPB businesses.

GPB focused on buying auto dealerships and waste management businesses with the aim of generating high single-digit returns for investors.

*bkelly@investmentnews.com*
*Twitter: @bdnewsguy*

AUGUST 4-5

# HEAR FROM WOMEN WHO EMPOWER OTHER WOMEN

**KERRY RYAN**
Salesforce

**DR. CATE SHANAHAN**
The ABC Wellness Program

**NAOMI LYNN**
Wells Fargo Clearing Services

**DR. RACHEL BUSMAN**
Child Mind Institute

**LIZ WEIKES**
J.P. Morgan Securities

**COLLEEN O'CALLAGHAN**
J.P. Morgan Securities

Visit inwomenadvisersummit.com for updated agenda.
RESERVE YOUR VIRTUAL SEAT TODAY

FOR SPONSORSHIP OPPORTUNITIES PLEASE CONTACT:

Dan Rubinetti
drubinetti@investmentnews.com
(o) 212-210-0432 | (c) 917-294-9517

Sabrina Straub
sstraub@investmentnews.com
646-437-7956

PRESENTED BY InvestmentNews

EDITORIAL / LETTERS / OP-ED / GUEST BLOGS

## EDITOR'S NOTE

### Maximizing your digital magazine experience

Since introducing the digital edition of *InvestmentNews* magazine in late March, we have been thrilled to see the engagement and value users have derived from it. In particular, users tell us that they appreciate having such ready access to the content.

GEORGE B. MORIARTY

Bringing back the physical version last month further informed our desire to deliver this magazine to you in all the ways that you need it.

I want this to be the best product it can be for you, so I'll address the most common, digital-focused question we've received: Can I make the text any bigger?

Yes, you can!

If you find the text too small, simply double-click on the title of the article and you will be presented with a reading pane in a clear font for your reading pleasure.

At the top left of that pane, you'll see a < character. You can click on that to increase the pane to your full window size, if you like.

When done, click the X at the top right of the pane and you can return to the original page. There is also an ellipsis on the bottom left that gives you five additional options, including adjusting the font, sharing, printing, listening to a narration or going to the full article view.

So, that's one question.

Now, are there any others?

*gmoriarty@investmentnews.com*
*Twitter: @geomoriarty*

# 'Lost and found' 401(k) bill is good for the advice industry

Lawmakers have proposed measures to simplify 401(k) plans for years — everything from promoting simpler fee disclosures to the nationalization of retirement accounts — to help Americans more efficiently save for retirement.

Legislation proposed by Sen. Elizabeth Warren, D-Mass., would establish a retirement account "lost and found" system that would help workers keep track of their savings in plans sponsored by former employers, as Emile Hallez reports on page 16. The bill requires the Treasury Department to create an online depository that would let retirement savers locate all of their former employer-sponsored accounts with the click of a button in an online database. "No more lost accounts — ever," the bill reads.

While not exactly novel, the legislation is a sound first step toward getting Main Street investors the tools they need to navigate notoriously complex defined-contribution plan networks and ultimately retire comfortably in their golden years.

The proposed registry would have almost immediate effects on retirement outlooks.

An estimated 30% of people have left account balances in plans sponsored by former employers, according to data from TIAA that was cited by Warren's office. With changing employment trends that are skewing toward shorter tenures at jobs than ever before, the percentage of orphaned retirement accounts is only likely to increase. Already, the amount of unclaimed assets that can be escheated to states is staggering, estimated at $100 billion, according to data from the Government Accountability Office cited in a summary of the bill.

**THE LEGISLATION IS A SOUND FIRST STEP TOWARD GETTING MAIN STREET INVESTORS THE TOOLS THEY NEED**

The holy grail is the idea of "auto-portability," a system that automatically reconnects plan participants with 401(k) savings they've inadvertently left behind or forgotten about after switching jobs. This proposal is a step in that direction. While the bipartisan bill will have its detractors, the lost-and-found registry would be populated with data companies are already obligated to report — helping to curtail any undue burdens placed on plan sponsors or record keepers.

Unfortunately, this isn't the first time the legislation has been floated by lawmakers. In fact, it's at least the third time since 2016 that Warren's office and others have introduced similar bills only to have them thwarted in Congress. With the unprecedented economic disruption caused by COVID-19 combined with political unrest in the wake of fatal police encounters, some experts believe other pressing social concerns could take precedence.

If the bill does make its way into law, it may also provide unforeseen benefits for advisers. Enhancing tools that let clients access their entire retirement savings will ultimately allow them to offer up a fuller financial picture to their wealth managers. The database could help advisers steer clients to a more comfortable retirement.

While the road to enacting the bill may be treacherous, legislation that makes the retirement account landscape easier for Americans to navigate ultimately helps put them on the right track to retirement — and that's a good thing for the advice industry.

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

**InvestmentNews**
The Trusted Resource for Financial Advisers
**InvestmentNews.com**

**Chief Executive Officer**
Christine Shaw, cshaw@investmentnews.com

**EDITORIAL**
**Chief Content Officer:** George B. Moriarty
gmoriarty@investmentnews.com
**Managing Editor:** Paul Curcio
**Deputy Managing Editor:** Sean Allocca
**Assistant Managing Editor:** Susan Kelly
**Special Projects Editor:** Liz Skinner
**Contributing Editor:** Mary Beth Franklin
**Senior Columnists:** Jeff Benjamin, Bruce Kelly
**Senior Reporter:** Mark Schoeff Jr.
**Reporters:** Emile Hallez, Nicole Casperson
**Director of Custom Revenue:** Matt Ackermann
**Senior Multimedia Manager:** Stephen Lamb
**Multimedia Project Manager:** Audrey Rose Joseph
**Special Projects Coordinator:** Brittney Grimes

**ART DEPARTMENT**
**Executive Art Director:** Scott Valenzano
**Associate Art Director:** Pablo Turcios
**Senior Graphic Designer:** Kyung Yoo-Pursell

**DIGITAL, CUSTOM AND RESEARCH**
**Research Analyst:** Devin McGinley
**Senior Operations Manager:** Gillian Albert
**Digital Operations Manager:** Thomas Markley
**Digital Operations Specialist:** Carla Flores

**DIGITAL/TECHNOLOGY**
**Digital Operations Manager:** Christian Eddleston
**Developer:** Jeff Paitchell

**ADVERTISING**
**Business Solutions Manager:**
Justine DeGaetano, Jdegaetano@investmentnews.com
212-210-0541
**Business Solutions Manager:**
John Shaughnessy, jshaughnessy@investmentnews.com
212-210-0112
**Business Solutions Manager:**
Judith Kelly, jkelly@investmentnews.com
212-210-0167
**Account Executive:** Michelle Richard
mrichard@investmentnews.com, 212-210-0238
**Business Solutions Manager:**
Jason Anciulis, janciulis@investmentnews.com
312-280-3115
**Director of Revenue Operations:** Shara Richter
srichter@investmentnews.com, 212-210-0719
**Director of Event Sales:**
Dan Rubinetti, drubinetti@investmentnews.com
212-210-0432
**Business Solutions Manager & U.S. Events:**
Sabrina Straub, sstraub@investmentnews.com
646-437-7956
**Client Services Manager:** Caroline Murphy,
cmurphy@investmentnews.com 212-210-0476
**Client Services Manager:** Mike Charest
mcharest@investmentnews.com

**ADVERTISING OPERATIONS**
**Head of Digital Advertising Operations:**
Berta Franco, Berta.franco@bonhillplc.com
**Digital Ad Operations Campaign Manager:**
Kimberly Hall, khall@investmentnews.com
**Digital Ad Operations:** Jason Tebaldi

**AUDIENCE, MARKETING AND EVENTS**
**Director of Audience and Analytics:**
Ellen Brady, ebrady@investmentnews.com
**Email Marketing Specialist:** Nicole Chantharaj
**Audience Data Specialist:** Julie Vanderperre

**Marketing Director, Brand and Products:** Katie Downey
**Marketing Coordinator:** Morgan Mallon

**Marketing Director:** Sasha Burgansky
**Director of Event Operations:** Tara Means
**Events and Operations Manager:** Natalie Taylor
**Content Producer:** Letitia Bow

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

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

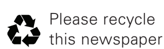
**INVESTMENTNEWS OFFICES**
**Headquarters:** 685 Third Avenue, New York, NY 10017-4024
**Bureau office:** Washington: 601 13th Street, N.W. Suite 900 South, Washington, DC 20005

**Advertising main number:** 212-210-0451

**BONHILL GROUP, PLC**
**Chief Executive Officer:** Simon Stilwell

**Head Office:** Bonhill Group, Plc
Fleet House, 59-61 Clerkenwell Road
London, EC1M 5LA

For subscription information and delivery concerns, please e-mail customerservice@investmentnews.com or call 877-812-1589 (in the U.S. and Canada) or 313-446-0450 (all other locations).



PRESENTED BY
**InvestmentNews**

# TUESDAY JULY 28, 2020
# 2:00PM-3:00PM ET

EARN CE CREDIT

## The Who, What, and Why of Digital Currency Investing

Your clients have questions about investing in digital currencies - we're here to provide some answers.

Over the next two decades, more than $68 trillion is due to transfer from older to younger generations, and younger generations are five times more likely to invest in digital currencies like Bitcoin. To that end, now is the time to better understand the digital currency asset class and address its growing interest.

Join InvestmentNews and Grayscale Investments, the world's largest digital currency asset manager, for a critical conversation about digital currencies. This webcast will provide practical and useful information about the who, what, and why of digital currency investing so that you can have more informed and in-depth conversations with your clients.

We'll be responding to your thoughts on:

- Who is interested in investing in digital currencies today?
- What do I, as a FA, need to know about digital currencies?
- Why would I recommend digital currencies to my clients and how do they fit into their portfolios?

**Register today for this free webcast.**
**Go to investmentnews.com/digitalcurrency**

**Accepted for 1 CE credit by the CFP Board.**

SPONSORED BY


### PANELISTS

**Tyrone V. Ross Jr.**
Director of Community
**Altruist**

**Michael Sonnenshein**
Managing Director
**Grayscale Investments**

### MODERATOR

**Matt Ackermann**
Director of Multimedia
**InvestmentNews**

Economic uncertainty created by the pandemic has advisers scrambling for a new investment road map — or at least a viable backup plan

# COVID-19 PUTS ALTERNATIVES BACK IN THE MAINSTREAM

BY JEFF BENJAMIN

While economists and market watchers debate whether the bull market in equities is over or just taking a breather, financial advisers overseeing the life savings and financial well-being of millions of retail clients are faced with the more immediate reality of an undefined market and economy.

The wild ride of 2020, which so far has included a 30% drop in the S&P 500 Index followed by a 40% rally, unprecedented government stimulus and bond yields offering next to nothing, presents an unclear outlook for traditional allocations of 60% stocks and 40% bonds. Many are looking back at the 2008 financial crisis as an illustration of the benefits of buying into market pullbacks.

CONTINUED ON PAGE 10

CONTINUED FROM PAGE 9

The focus is often on stocks' steep decline from late 2008 to the March 2009 bottom, and then the 39% gain for that year. But the reality is that it took the equity markets more than two years to return to their September 2008 levels. And according to iCapital Network, it took the S&P more than five years, until April 2013, to get back to its level at the start of the financial crisis in October 2007.

That's the kind of scenario that should have financial advisers scrambling for a new road map, or at least a viable backup plan, as the global economy and financial markets struggle to find their footing in the midst of a global pandemic. The new reality, triggered earlier this year by a still unfolding and unpredictable COVID-19 virus, is reigniting conversations around the potential for alternative investments to add diversity and hedge risk.

"Our thesis is, if we can access uncorrelated sources of return, we'll provide a smoother ride," said Jeffrey Nauta, principal at Henrickson Nauta Wealth Advisors. "Especially for clients in retirement, alternatives can dramatically improve the longevity of the portfolio."

Nauta's firm is looking for investments with different sources of risk that will behave differently than stocks and bonds. He has been allocating portions of client portfolios to alternative strategies for about 15 years, and currently 80% of his clients have between 20% and 40% of their portfolios invested in various alternatives.

## ALTS REPLACING BONDS

At Savant Capital Management, alternative investments are replacing large chunks of clients' bond allocations, according to chief investment officer Philip Huber. Savant clients have 10% to 20% allocated to alternative strategies.

"It's important to step away from a traditional construct and toward what are repeatable, evidence-based sources of return," he said. "The concept of diversification is why we look at these things, and that's more important today than in the past. Investors used to count on core fixed income for diversification, but you can't count on bonds to provide the same ballast they used to because of the rate environment."

Even with the increased stock market volatility, he said trimming stocks will dampen long-term portfolio performance.

"If you're using 60/40 as a starting point, you can either accept lower returns, take on more equity risk that will add volatility, or the third choice is to dare to be different and add things that are a little less familiar to people," Huber said. "It won't be easy because the more different you are from a benchmark portfolio, the more you open yourself up to tracking risks."

## RUNNING WITH THE HERD

While running with the herd when it comes to asset allo-

# Look beyond the fees to judge alts

When it comes to conducting due diligence on alternative investments, or most investments, too many financial advisers start and stop with the fees.

That's a mistake, according to financial intermediaries who spend time and resources studying alternative strategies.

While advisers should expect the fees on private alternative investments to be higher, sometimes a lot higher, than retail class mutual funds and ETFs, any focus on fees should be considered in the context of net returns, said Philip Palumbo, chief executive and chief investment officer at Palumbo Wealth Management.

Palumbo said a typical private equity or hedge fund fee might include a 2% asset-based fee and 20% of the performance.

"If it's not adding value, 2-and-20 is a complete waste of money," he said. "But I say, you can charge whatever you want if you're beating the index and adding value."

No doubt fees are often the initial and primary stumbling block preventing more financial advisers from even considering private alternative investments, which include real assets, private equity, private debt and hedge funds.

### IDENTIFYING VALUE

Stuart Katz, chief executive and chief investment officer at Robertson Stephens Wealth Management, said fees are only one of the many areas advisers should be focused on when conducting due diligence on private investments.

With private equity funds, and real estate in particular, Katz stressed the importance of identifying the value the portfolio manager creates.

"Some sponsors like to say they are very hands-on; they recruit management teams, maybe they cut costs, they create new products," Katz said. "All of that is supposed to generate more cash. That is a scarce skill set that would be associated with a high-quality sponsor in alternatives."

That approach would be considered operational improvement.

Another dimension of creating value is financial engineering, which means altering the balance sheet, including adding leverage to the business.

"Financial engineering skills are more commodity-like," Katz said.

The third method of adding value is simply buying an asset at one price and selling it at a higher multiple.

"Multiple expansion is difficult to replicate and difficult to time the market," Katz said. "You want to partner with alternative managers who are creating their own value. Our bias would be to partner with managers doing operational improvement."

### PRICE OF ADMISSION

Going back to fees, most investors in alternatives view them as an annoyingly layered necessary evil. They are the price of admission for investment performance that is less correlated with the broad stock and bond markets.

Even identifying all the fees can be a challenge.

"You have to dig down to the operating expenses in the private placement memorandum, and most are pretty transparent," said Eric Knauss, chief executive at Proteus, a platform specializing in providing RIAs access to alternatives.

Advisers should expect the standard management fee and performance fee, but should also know who is on the hook for fees related to legal, compliance, auditing, accounting, administration, consulting, borrowing and travel costs. Even employee salaries can be included in operational costs, which can be 7% or more, Knauss said.

"One disclaimer you'll see is some of the cost could be attributed to the management company and some to the fund, meaning the investors will pay," he said. "Some of the most egregious [examples of fee layering] are also the best performers, and that's the game."

Another thing to check is whether management fees are being charged on committed or drawn capital. This is especially important for newer funds that are in the asset-gathering stages but haven't yet drawn or invested any of the money.

Being charged on committed capital, as most private funds do, is basically being charged a management fee on idle cash.

One of the most important things to understand before partnering with a private fund is the so-called distribution waterfall, which details how capital is returned to investors as portfolio investments are sold and how it is split between the general partner and the limited partners.

The typical waterfall cascade first returns 100% of their initial investments to the limited partners or fund investors. Then investors are paid a preferred return, which is typically capped at around 7% for each year of the contract. These two levels are paid before anyone else.

Returns beyond the 7% preferred rate are split between the general and limited partners, and the balance tends to shift in favor of the general partner as the performance climbs.

"I think many investors, when they can't differentiate between a good investment and a bad investment, they just look at the cost," said Matt Chancey, wealth manager at Dempsey Lord Smith.

"You have to look at these kinds of investments on a net-of-fees basis," he said. "And you have to understand the waterfall."

Ultimately, the key is determining whether the fees create an "alignment of interests" between the general partner and the limited partners, Katz said.

"We genuinely believe alternatives are a robust opportunity set right now. But you need to be really careful, and the details really matter," he said.

*— Jeff Benjamin*

> **“THE CONCEPT OF DIVERSIFICATION IS WHY WE LOOK AT THESE THINGS, AND THAT’S MORE IMPORTANT TODAY THAN IN THE PAST.”**
>
> PHILIP HUBER, CIO, SAVANT CAPITAL MANAGEMENT

cation is often the safe bet in terms of client management, alternative investing purists insist that clinging to traditional models won’t cut it when the financial markets turn sideways and stay that way for a while.

“I think returns for stocks will be below historical norms for the next 10 years,” said Philip Palumbo, chief executive and chief investment officer at Palumbo Wealth Management. “Today is similar to the period in the markets right after the tech bubble blew up in 2000, and for the next 10 years alternatives beat the public markets.”

Private equity is one of the better places to be, said Palumbo, who is banking on private equity’s 30-year track record of beating the S&P 500 by four percentage points, annualized. He acknowledged the challenges of wandering off the beaten path toward these strategies.

“I can see a total value add of alternatives beating the S&P and that’s why this is when you want to be in managers that can hedge,” he said. “But the challenge is in finding the right managers.”

**DUE DILIGENCE**

Therein lies the rub when it comes to alternatives. Unlike most publicly traded retail-class fund categories, performance dispersion in the alts world can be extreme.

When pure alternatives are defined as real assets, private equity, private debt and hedge funds, financial advisers need to be prepared to roll up their sleeves to tackle the kind of due diligence that isn’t usually necessary when outsourcing asset management or just allocating across mutual fund style boxes.

“There is meaningful performance dispersion between the best and worst alternative investments, unlike the public markets,” said Stuart Katz, chief executive and chief investment officer at Robertson Stephen Wealth Management.

The enhanced due diligence required of alternatives may scare some advisers, but sticking with traditional models could be even more frightening.

Charles Lemonides, founder and portfolio manager of hedge fund manager ValueWorks, views the current equity environment as “winner take all,” in which a small percentage of public companies are pulling away from the pack in a way that spells risk.

“We’re in a period where once companies hit scale and can dominate, they become very, very expensive, and the companies that don’t succeed become very, very cheap,” Lemonides said. “And buying them just because they’re cheap becomes a bad idea, because not everyone participates in a changing economic world.”

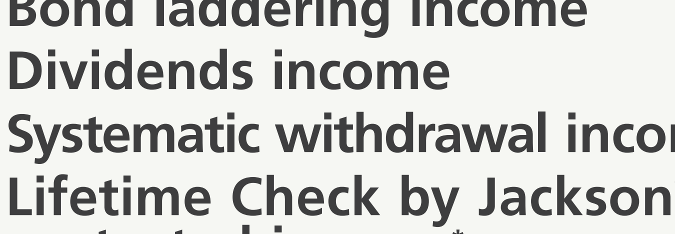
Thus, traditional long-only investors and portfolio managers are stuck with either chasing the winners off an eventual cliff or suffering the wrath of the less expensive losers.

Lemonides cited the plight of semiconductor giant Qualcomm in the late 1990s as an example of what he expects from some of the stocks currently leading the market’s charge.

“Qualcomm has been a huge success story, but they were also considered a huge success story in 1999 when shares went up 40-fold, and then the stock underperformed for 20 years after that,” he said. “It’s really hard to build a solid portfolio based on sector bets or long stock bets, and following a naïve investment approach into a market top is dangerous. You can get tremendous returns on the way up, but you also have to be quick and nimble enough to get out.”

*jbenjamin@investmentnews.com*
*Twitter: @benjiwriter*


## Ways to offer clients income that’s protected?



- Bond laddering income
- Dividends income
- Systematic withdrawal income
- Lifetime Check by Jackson℠ protected income*

***The principal value of the variable annuity will fluctuate based on the performance of the underlying investment options and may lose value.**

**Learn more about guaranteeing† your clients’ income through a variable annuity with an add-on benefit. Go to jackson.com/protected.**

†Guarantees are backed by the claims-paying ability of Jackson National Life Insurance Company® or Jackson National Life Insurance Company of New York® and do not apply to the investment performance of the separate account or its underlying investments.

Variable Annuities are long-term, tax-deferred vehicles designed for retirement, involve investment risks and may lose value. Earnings are taxable as ordinary income when distributed and may be subject to a 10% additional tax if withdrawn before age 59½. Add-on benefits are available for an extra charge in addition to the ongoing fees and expenses of the variable annuity.

**Before investing, investors should carefully consider the investment objectives, risks, charges and expenses of the variable annuity and its underlying investment options. The current contract prospectus and underlying fund prospectuses, which are contained in the same document, provide this and other important information. Please contact your representative or the Company to obtain the prospectuses. Please read the prospectuses carefully before investing or sending money.**

Variable Annuities are issued by Jackson National Life Insurance Company® (Home Office: Lansing, Michigan) or in New York by Jackson National Life Insurance Company of New York® (Home Office: Purchase, New York). Variable annuities are distributed by Jackson National Life Distributors LLC, member FINRA. May not be available in all states and state variations may apply. These products have limitations and restrictions. Contact Jackson for more information.

Jackson® is the marketing name for Jackson National Life Insurance Company® and Jackson National Life Insurance Company of New York®.

Not FDIC/NCUA insured • May lose value • Not bank/CU guaranteed
Not a deposit • Not insured by any federal agency

CVC24300 05/20

**90%** OF DEFINED-CONTRIBUTION PLANS HAVE IMPLEMENTED CORONAVIRUS-RELATED DISTRIBUTIONS, BUT FEWER THAN 5% OF PARTICIPANTS HAVE TAKEN ONE.

SOURCE: DEFINED CONTRIBUTION INSTITUTIONAL INVESTMENT ASSOCIATION SURVEY

# Social Security slows lump-sum payouts

Since writing about a Social Security claiming strategy in May that allows individuals who are older than full retirement age to request a lump-sum payout of retroactive benefits, I've heard other financial planners and Social Security experts promote the same strategy for seniors looking for an infusion of cash. Unfortunately, the Social Security Administration seems to have put the brakes on lump-sum retroactive benefits during the pandemic.

Individuals who are full retirement age or older when they file for Social Security have the right to request a lump-sum payment of up to six months of retroactive benefits. Because a portion of their past benefits are paid out in a lump sum, their future monthly benefits will be slightly smaller. Retroactive benefits can't be paid before full retirement age.

**KEY POINTS**

- Social Security seems to have put the brakes on payments of retroactive benefits.
- The move may be related to the pandemic.

For example, someone who files for Social Security at 67, a year after reaching their full retirement age of 66, can request a maximum lump-sum payment of six months of benefits. Their monthly benefits going forward would be paid as if they had claimed at 66 and six months.

But someone who files at 66 and 3 months could receive just three months of retroactive benefits, beginning with their full retirement age of 66. Individuals who file for benefits before their full retirement age are not eligible for lump-sum retroactive benefits.

## REQUEST DENIED

Recently, I received an email from a financial adviser whose client tried to use this lump-sum strategy, but had his request for retroactive benefits denied. The client filed for Social Security retirement benefits beginning in March, a few months before he turned 70. He requested two months of retroactive benefits for January and February.

"He was comfortable with taking a small reduction in his benefit to get a bit of extra cash up front," the adviser wrote. But things didn't quite work out that way.

The client received a notice from Social Security that read: "You are entitled to monthly retirement benefits beginning in January 2020. However, we cannot pay you for January 2020 and February 2020. We are unable to pay benefits for January and February because we need additional income."

MARY BETH FRANKLIN

**ONRETIREMENT**

What? Additional income? I thought perhaps the notice contained a typo and meant to say the agency needed additional "information." In any case, if someone is older than full retirement age and requests lump-sum retroactive benefits, there should be no need for additional information to justify the claim.

I contacted the Social Security Administration's national press office in Baltimore on May 21 and asked if there had been a policy change or temporary administrative holds on requests for lump-sum retroactive benefits.

"We temporarily adjusted our procedures to hold the release of retroactive payments to applicants who many need additional time to provide any necessary evidence due to unexpected circumstances from the COVID-19 pandemic," public affairs specialist Nicole Tiggemann replied to me by email.

"This procedural change allows beneficiaries to receive their monthly ongoing benefits while they provide us with the evidence required to release the other benefits," Tiggemann wrote.

## STRANGE MISSIVE

I asked several other Social Security experts for their interpretation of the strange missive from SSA.

"I have no idea what their explanation means," said Jim Blair, a 35-year veteran of the Social Security Administration and co-founder of the National Social Security Association, which trains financial advisers about the agency's rules and claiming strategies. "I can think of no reason why they would need income information to pay your reader his back pay."

Blair said a similar thing happened to one of his clients in his Premier Social Security Consulting practice and he suggested the client contact his local congressman for help.

"I hate to say it, but your reader may need to go the same route," Blair told me in an email

## SIMILAR PATTERN

Matthew Allen, co-founder of Social Security Advisors consulting practice said he has seen a similar pattern with clients, with SSA stating that it won't make retroactive payment until things reopen.

"We've resolved this successfully for quite a few clients," Allen said, adding the agency "is in compete disarray — as if that was even more possible than before." Social Security Advisors specializes in unraveling Social Security filing problems for a modest fee.

David Freitag, a Social Security and retirement expert with MassMutual, has his own theory about what may be going on.

"I think many of the senior people in the SSA are scattered across the country in the now-closed field offices," Freitag said in an email. "These senior supervisor types are not the ones on the national 800 number line. So, the folks in the call centers and the folks reviewing the application process are not as up to speed on the rules as they should be."

SSA closed its field offices to the public in mid-March because of the COVID-19 pandemic. In the absence of in-person appointments, the agency has been processing benefit applications online and over the phone, both through its national 800 number and through calls to local field offices.

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

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

## INmail

BY MARY BETH FRANKLIN

### Severance pay can temporarily boost Medicare premiums

**Michael:** I have clients, a married couple where the wife receives $400 a month in Social Security benefits. Her husband has not yet claimed Social Security but will receive $3,900 a month when he claims at age 70. He has a severance package that will pay him $300,000 a year for four years after age 70. Will the wife lose all of her $400 monthly Social Security benefits due to increased Medicare premiums triggered by her husband's severance package?

**MBF:** Once the husband claims his Social Security at 70, the wife should step up to a larger Social Security benefit based on up to half of his full retirement age benefit amount (not half of his larger amount at age 70). So she will have a bigger Social Security check to support higher Medicare premiums and surcharges that will be deducted directly from her monthly benefit.

Most retirees pay the standard Medicare Part B premium of $144.60 per month in 2020. But if your modified adjusted gross income is above a certain amount, you may pay a monthly high-income surcharge, officially known as an income-related monthly adjustment amount, or IRMAA. Medicare uses the income reported on your federal tax return from two years ago. MAGI consists of your adjusted gross income plus any tax-exempt interest.

Individuals with a MAGI of $87,000 or less in 2018, and married couples with a MAGI of $174,000 or less in 2018, pay the standard monthly Medicare Part B premium in 2020. People with incomes above those thresholds pay the standard Part B premium plus a high-income surcharge, ranging from $57.80 to $347 per month per person. Premiums and surcharges are per person so couples pay twice as much.

In 2020, a married couple with income between $376,000 and $750,000 would pay $462.70 per month per person for Medicare Part B, which pays for doctors' fees and outpatient services. Their high income would also trigger surcharges on their Medicare Part D prescription drug plan and they would still need to buy a supplemental Medigap policy to cover the deductibles and co-payments that traditional Medicare does not cover.

If clients' income subsequently declined, so would their Medicare premiums two years later.

# IRS expands tax breaks for coronavirus-related distributions

IRAALERT
ED SLOTT

The IRS released new guidance last month on taking coronavirus-related distributions from retirement plans in IRS Notice 2020-50.

Coronavirus-related distributions were created under the CARES Act to help those in need withdraw funds penalty-free from their retirement savings. The CARES Act also allows CRD income to be spread over three years and CRDs to be repaid within three years.

However, the CARES Act created an opening for the Treasury Department to expand the individuals eligible for this tax relief, and that is exactly what it did. CRDs are now available to a wider group of individuals.

## REDUCTION IN PAY

Under the original act, to qualify in the loss of income category, the individual had to experience adverse financial consequences as the result of an array of qualifying factors. The IRS has added these new factors: a reduction in pay (or self-employment income) as a result of COVID-19 or having a job offer rescinded or the start date for a job delayed as a result of the pandemic.

In addition, the new guidance lets an individual take a CRD if he or she has suffered adverse financial consequences because a spouse or a member of the household was affected by any loss-of-income qualifying factor (including the newly added ones). This opens CRDs up to many more individuals who are not sick but have suffered financially due to the pandemic.

For example, if Jill is not sick and has not lost her job, but is having financial problems because her husband had his work hours and pay reduced, she now qualifies for a CRD. She would not have qualified before these new rules.

For this expanded relief, a member of the household is someone who shares the individual's principal residence, which extends this relief up to more than just family. A roommate, partner or other nonrelated person living in the home would qualify.

Let's say Ian and Bob are roommates. Ian has an individual retirement account, but he's not sick and has not lost his job. But Bob has lost income from his business and is not able to pay his share of the rent. If this adversely affects Ian, Ian qualifies for a CRD, where he would not have previously.

The IRS provided another nice break on the repayment of CRDs. Repayment allows taxes paid on a CRD to be refunded by filing an amended tax return. But the IRS said that if the funds are returned before the tax return for the year was filed (including extensions), then the CRD income for that year would not count as income and no amended tax return would be necessary.

For example, Susan takes a $30,000 CRD from her individual retirement account in 2020 (2020 is the only year a CRD can be taken) and spreads the income over three years, planning to report $10,000 as CRD income in 2020, 2021 and 2022.

But things turn around for Susan in 2021 and she repays $10,000 to her IRA on March 30, 2021, and then files her 2020 tax return on April 10, 2021. Susan does not have to include any CRD income on her 2020 tax return. If Susan files an extension for her 2020 return, repays the $10,000 on Sept. 15, 2021 and then files her 2020 tax return on Oct. 12, 2021, she still does not have to include the $10,000 CRD as income on her 2020 return. However, if Susan files her tax return before she repays the $10,000, then she could not exclude the $10,000 from her 2020 return and would have to file an amended return to recoup the taxes paid in 2020.

## OTHER IRS CHANGES

**Beneficiaries**. While CRDs can be taken from inherited retirement accounts, they cannot be repaid by a beneficiary since a non-spouse beneficiary can never do a rollover. Any non-spouse beneficiary who takes a CRD will owe the tax.

**Death.** If a person takes a CRD and spreads the income over three years but dies before all the tax is paid, then the remainder of the CRD not yet included in income must be included on the deceased's final tax return.

**CRD certification.** The IRS provided a model form for an employee to certify to an employer that he or she satisfies the conditions for a CRD.

All of this adds relief for those in need, but remember that withdrawing early from a retirement account should still be a last resort. If the CRD funds cannot be repaid, there will be less available for retirement.

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

# IRS widens eligibility to undo required minimum distributions

BY EMILE HALLEZ

**LAST MONTH, THE** Internal Revenue Service came out with several fixes to its COVID-19 guidance related to retirement accounts, including allowing people to undo required minimum distributions they made in January.

The CARES Act allowed account holders to skip their RMDs for 2020. The IRS previously had said that RMDs from 401(k)s, individual retirement accounts and others to be rolled back, or undone, if the RMDs had been taken Feb. 1 or later. The earlier guidance extended the usual 60-day limit on rolling back RMDs to July 15 in light of the effects the pandemic had on the market and economy.

The new guidance not only makes RMDs that were taken in January eligible to be rolled back into accounts, but it also extends the deadline for doing so to Aug. 31. For those who take RMDs less than 60 days before that deadline, the usual 60-day limit applies.

A big question for advisers has been how to treat required distributions that clients wanted to undo, Ed Slott said in April. He said at the time that it was likely the IRS would extend "blanket relief" for all of 2020, given that the prior guidance created a wrinkle for any RMDs that were taken in January.

## EXTENDED TIMELINE

The IRS guidance also extended the timeline for rollovers to Aug. 31 for beneficiaries who have inherited IRAs, 401(k)s or other accounts. Additionally, the IRS said that the RMD repayments are not limited by the one-rollover-per-12-month-period rule.

Given the upward movement in markets since the CARES Act was passed in March, the incentives for account holders to reverse RMDs might be less clear than they were at the time. For example, the massive stock market drop earlier this year was seen as an opportunity, akin to a "sale," on Roth conversions, especially in light of RMDs having been waived for the year.

One account holder who took an RMD in late January and sought this change in guidance is now eligible to roll assets back, but said he isn't sure anymore if he will do so.

"Among the options are rolling it back and following up with a Roth conversion," Ira Newlander wrote in an email. "[It's] too soon to tell. It will likely be a function of market activity."

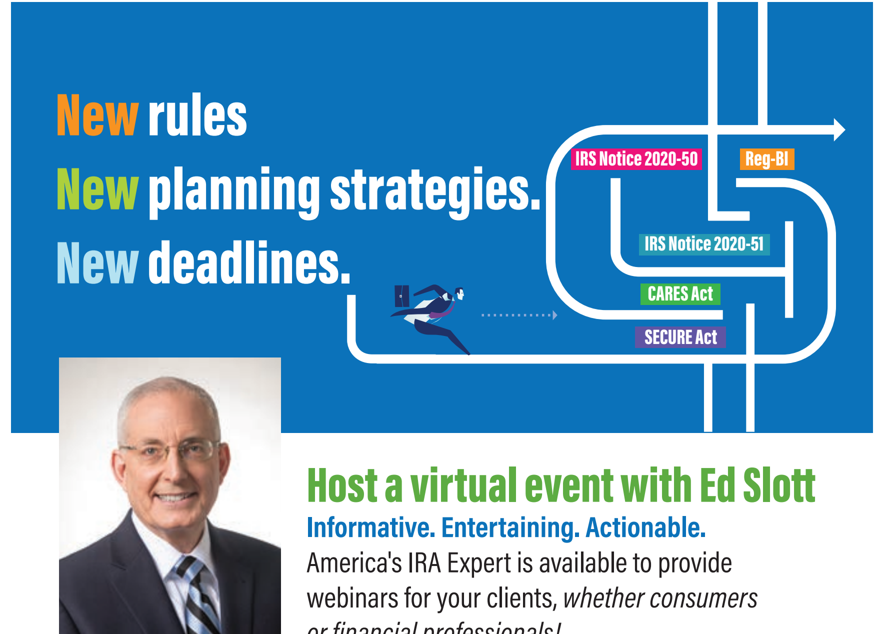
## CONTACT CLIENTS

Advisers should be proactive and contact clients who are likely to consider undoing RMDs, certified public accountant Marty Abo, managing member of Abo & Co., wrote in an email.

"You still want to evaluate if [it's] better to take [an RMD] this year or skip," Abo said. Account holders might need cash and "may be in low [tax] bracket[s] this year."

Another consideration is that some clients, especially small business owners or self-employed workers, who received forgivable loans under the Paycheck Protection Program might end up in higher tax brackets, he said.

*ehallez@investmentnews.com*
*Twitter: @emilehallez*



info@irahelp.com | (800) 663-1340
irahelp.com
Copyright © 2020 by Ed Slott and Company, LLC

# The pros and cons of podcasting to mine for prospective clients

GUESTBLOG
SCOTT HANSON

For 25 years, my business partner and I have hosted a financial topic radio program that, for the last five years, has also been available via podcast. For many years, our radio show was our No. 1 source of new leads for the firm. But that's all changed.

Last month, I wrote here that our radio program listenership has gone into decline (as most radio listenership has), but that we had surpassed 1 million downloads of our podcast.

> **KEY POINTS**
> - There are more than 700,000 podcasts available.
> - Hanson's podcast surpassed 1 million downloads last month.

Yet, unfortunately, despite its popularity, when it comes to attracting new clients, our podcast is no substitute for the halcyon days of our radio show (or for modern digital marketing, for that matter).

Here's why.

While we certainly have folks who are loyal to our broadcast radio show, most listeners are people in their cars who tune in simply because that is what happens to be on the air at the time. Over the years, a person might catch a few minutes of the show dozens of times. Perhaps they liked what they heard, or realized that they needed professional financial help, and so one day they'd take out their phone (or go to our website) and schedule an appointment.

### RADIO'S DECLINE

But a financial topic podcast is generally much different than radio because listeners must actively seek out that specific topic and format, and that seems to result in a different type of listener.

Case in point: According to Forbes, there are more than 700,000 podcasts available today. With so many choices, it's unlikely a person who isn't steeped in knowledge about financial topics would pursue that specific a category of podcast.

As our radio listenership continues to decline, and our podcast audience grows, we've come to realize that the callers the podcast generates have become more sophisticated about investments and planning, and typically are only seeking validation of their approach.

But the news isn't all bad. Despite not generating as many leads as the radio show once did, relatively speaking. the podcast is still a valuable tool for our firm in a few key areas.

The first is client retention. Podcasts are a great way for us to communicate information on newsworthy financial topics such as the CARES Act or a sudden market decline. When something dramatic or newsworthy happens, we'll go into the studio and produce a special podcast that addresses the topic, and send that to our clients. (The "open" and "read-through" rates on such podcasts are excellent.)

Of course, the same goes for prospective clients who have already subscribed to our emails and newsletters and come to learn of our approach and philosophy via the podcast.

### LOCATING NEW ASSETS

And while many podcast callers are well-versed in finance and don't generally make great prospective clients (unless they get tired of doing it themselves), these sophisticated callers make for a quality podcast. They ask good questions that illustrate to listeners how complicated the overall investment and financial planning process can be.

In short, while podcasts are a great tool for serving existing clients (and nurturing those who are already interested in our firm), when compared to the number of leads radio generated 10 to 20 years ago, podcasts are a comparatively lousy tool for locating new assets to manage.

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

# The rise of teleadvising: Thriving in a virtual world

The world has spent the last couple of months learning how to work remotely with minimal, if any, in-person contact. People of all ages have adopted video conferencing, online meal delivery and other virtual interactions as staples of their daily lives in a way we could never have imagined only six months ago.

GUESTBLOG
JOE DURAN

It's not a coincidence that the businesses thriving through this pandemic have the most digitally native interaction with their clients. Wealth management advisers can learn a lot from the ways other industries have adapted to a virtual service world.

Entire industries have rethought every aspect of how they work. In health care, we see this in the rapid embrace of telemedicine, which uses telecommunications and information technology to provide access to medical care at a distance.

Why should at-risk patients come to the doctor's office, potentially exposing themselves or others to illness, if their needs can be met using remote diagnostics and a video conversation with the doctor? Our industry should ask itself a similar question: How can we see to the financial well-being of our clients if we can't meet them in person?

### THE IMPACT OF TELEADVISING

To extend the concept of telemedicine to our work, teleadvising is the use of telecommunication and information technology to provide access to financial care at a distance. We are in the relationship business, so what happens if that relationship is remote? How do you find clients and connect on a personal level, serve them well and run a practice if the world becomes more virtual? How prepared is your business to face this different environment? Let's take a look at three core functions every advisory practice relies on:

### SERVING EXISTING CLIENTS

The largest wealth segment (and therefore most of our clients) are folks over 60. Until recently, this demographic was also the slowest to adopt video technology. But they have now had months to get comfortable with virtual communication. While most of us would prefer to handle serious conversations face-to-face, many would jump at the chance to avoid a commute to the office for something like a routine update meeting. If over half of your meetings become vir-

# How to draw the line when clients challenge the plan

Three advisers reached out to me recently for coaching on how to address ultra-high-net-worth clients who want to do precisely what they hired their advisers to keep them from doing: making emotional decisions that minimize their short-term discomfort at the cost of their long-term success.

**GUESTBLOG**
**STEPHANIE BOGAN**

My advice? Begin slowly, by validating the invisible forces driving the challenge: "Yes, we can talk about your ideas for the portfolio. But we've talked a lot over the years about volatility and the discomfort it brings. Can you tell me why you feel so strongly about this change now?"

Take careful note of the client's response and use it as a bridge to clarify and get agreement on your role as the trusted adviser: "I hear you completely. You're worried that the current approach will [client's words] and that [new approach] will better solve for that."

### LOUD AND CLEAR

Mirroring your client's words back to them confirms that you hear them loud and clear and creates a space for your clients to hear you when you take the step to reclarifying your role:

"Ben, I'm here to be your trusted adviser. I take that responsibility seriously. But I'm a guide, not a guarantor. I can't predict when markets will rise or fall. No one has proven they can do that with any certainty. What I do really well is what you hired me for — to help you plan and to be a lifelong problem-solving partner who helps you tackle whatever conditions and circumstances come up along the way."

### TRUSTED ADVISER

Now, bring the client back to their goals: "Have your goals of [be specific] changed? If they've changed, we definitely need to review the portfolio strategy. If they haven't, let's walk through what you're proposing. If there is a strategy better suited to your goals, we'll pivot."

Based on what they shared, you should be able to explain why the current investment strategy remains best suited for their portfolio. But that approach doesn't have a high probability of success. Better to take one more step back:

"I understand the appeal of making a change; I do. But every time I and much smarter minds have taken a look at it, the overwhelming probability is that timing the market to avoid capital loss is more likely to backfire than a disciplined, diversified approach. It's not sexy, and on days like this it sure isn't comfortable. But the data says it's the best option we have. So I cannot in good conscience recommend a shift to the portfolio strategy."

Then reinforce that you fully appreciate your client's heightened emotional state: "Ben, I hear your concern. I see how worried you are that your son won't inherit the legacy that you've worked a lifetime to leave him."

With the client heard, validated and understood, you are now in a better position to serve up an alternate view of reality based more on modern economics: "I hope you can hear me when I say that I'm committed to helping you experience that legacy. If I thought there was a better approach, I'd recommend it without reservation."

I suggest reminding clients that your conversation around investments will be the same every time it comes up:

"Ben, I hope you always feel like I hear, appreciate and deeply consider your concerns. At times, your faith in our philosophy may waiver. I don't take this personally. I don't get offended. And I work hard to make sure, whenever we don't agree, that I'm defending your goals, not my own ego. I just want to remind you that when you feel you need to have these conversations, I welcome your call, but my response is going to be the same every time. Not because I'm stubborn, but because I'm committed to pursuing whatever course of action is most likely to help you live your legacy."

**MIRRORING YOUR CLIENT'S WORDS BACK TO THEM CONFIRMS THAT YOU HEAR THEM.**

Not all of these stories will end happily. To truly be a trusted adviser, you must be willing to draw a line between adviser and order-taker. If this conversation comes up more than a few times, it means the client is looking for something else, something you don't offer.

*Stephanie Bogan is a business strategist and high-performance practice coach, and founder of Limitless Adviser Coaching. You can reach Stephanie at learnmore@educeinc.com.*

---

tual, you'll need to have more interactive, sharable systems and tools to provide your clients with the same caliber of service virtually that they expect in person. Clients want to know they can get bespoke, custom advice, even when they can't be with you physically.

### ENGAGING NEW CLIENTS

Most advisers still grow their businesses through face-to-face referrals. What do you do when you can't hold education sessions, or take someone to lunch, or even host an office meeting? We still want to build lasting relationships with every one of our clients, but we need to find new, more interactive ways to build trust with prospects.

That means the first video meeting is likely to be more structured around diagnosing and evaluating the client's situation than the typical "get to know you" meeting most advisers have. It will also need to include demonstrations of the tools you use to stay connected and keep them informed.

We use behavioral diagnostic tools that inform us of a client's biases and preferences right at the beginning of the relationship. We design our systems with the final consumer in mind, not a professional user. We still need to build a personal connection, but having a more dynamic, interactive, client-friendly system shortens the trust cycle and primes advisers with specific, differentiated solutions right away.

**ENTIRE INDUSTRIES HAVE RETHOUGHT EVERY ASPECT OF HOW THEY WORK.**

We have found that empowering clients to use the tools themselves increases the sense of personal control they feel, and ultimately improves client satisfaction.

### OPERATING THE BUSINESS

We need to run businesses that can cope with the interruption of becoming completely virtual. In general, wealth managers were remarkably well prepared to work with clients in this situation. However, behind the scenes, process and operational structure did not always make the transition gracefully.

Team interactivity, workflow management and staff productivity are all crucial, whether you are in one office, multiple offices or working remotely. Creating and systematizing processes to digitize every aspect of client interaction will help you succeed in a future pandemic, but also will make you a better business in all situations.

### RETURN OF THE PANDEMIC

We can't ignore the fact that this pandemic accelerated many trends that were already in place. Digitally powered and bionic (human + digital) firms will be the winners, and the cost of not adapting will be higher than ever.

*Joe Duran is head of Goldman Sachs Personal Financial Management. Follow him at @DuranMoney.*

# Regulation/Legislation

SEC / FINRA / STATE REGULATORS / CONGRESS / FIDUCIARY / COMPLIANCE

## Senate measure would set up 'lost and found' for 401(k) accounts

BY EMILE HALLEZ

**SEN. ELIZABETH** Warren, D-Mass., is again pressing for a retirement account "lost and found" system that would help workers keep track of their savings in plans sponsored by former employers.

The bill, the Bipartisan Retirement Savings Lost and Found Act of 2020, is similar to legislation she and other members of Congress have co-sponsored in the past. The legislation tasks the Treasury Department with building an online system to track accounts.

"This means that with the click of a button, any worker can locate all of their former employer-sponsored retirement accounts," a summary of the bill read. "No more lost accounts — ever."

Such a system is necessary, as an estimated 30% of people have left account balances in plans sponsored by former employers, according to data from TIAA cited by Warren's office. That percentage is likely to increase, her office stated, given changing employment trends that are skewing toward more contract work and job tenure becoming shorter.

### JOB TENURE

"Young workers today switch jobs at much higher rates than their older counterparts," the announcement read. "The median job tenure for workers between 25 and 34 is less than three years, so workers could accumulate many different employer-sponsored retirement accounts throughout their working careers."

Further, small account balances can be eroded by administrative fees, the release noted.

There is already a massive amount of unclaimed money from retirement accounts that can be escheated to states, at an estimated $100 billion, according to data from the Government Accountability Office cited in a summary of the bill.

Participation in the DC savings system has become driven by inaction — workers often are automatically enrolled in plans and defaulted into target-date funds or other investments. Because workers in many cases do not interact with their accounts, many do little to maintain or update them after leaving an employer.

Under Warren's bill, employers would more easily be able to transfer those assets into target-date funds, for workers who separate from jobs and do not specify what to do with balances of less than $5,000 in their defined-contribution accounts.

In some cases, funds would be transferred to the Treasury, which would invest the assets in individual retirement accounts on behalf of the owners, unless workers claim the money.

ELIZABETH WARREN

That would also apply to account cash-outs of less than $1,000 when the owners fail to cash their checks, according to Warren's office.

"The mere fact that the bill got introduced on a bipartisan basis demonstrates the fact that lost and missing participants is a significant issue," Stephen Saxon, principal at Groom Law Group, wrote in an email. "A Federal registry that works hand-in-hand with the private sector 401(k) system's 80 million accounts would be a good start in addressing this problem, in my view."

### BIPARTISAN SUPPORT

But as with its prior iterations, getting the bill passed might not be easy.

"The short answer is that it is very hard to get anything passed," Saxon wrote. "It takes a lot of time and effort, particularly when there are other things in Washington, like the pandemic, to deal with."

The bill is co-sponsored by Sen. Steve Daines, R-Mont., and there is a companion House bill co-sponsored by Rep. Suzanne Bonamici, D-Ore., and Jim Banks, R-Ind.

The retirement services industry supports the measure, with lobbying groups such as the American Benefits Council, the ERISA Industry Committee, the Pension Rights Center and AARP advocating for it, Warren's office noted.

*ehallez@investmentnews.com*
*Twitter: @emilehallez*

## What Finra pays its top executives

The Financial Industry Regulatory Authority Inc.'s annual financial statement for 2019 showed the organization's compensation costs rose 10.1% from 2018. Here are five Finra executives who made $1 million or more in total compensation last year.

**ROBERT W. COOK**
**Title:** President and CEO
**2019 compensation:** $3.16 million
**2018 compensation:** $2.88 million
**Percent increase, year over year:** 9.70%
**Cook contributed $825,000 of his total compensation for the two-year period to the Finra Investor Education Foundation.*

**TODD T. DIGANCI**
**Title:** Chief financial and administrative officer
**2019 compensation:** $2.66 million
**2018 compensation:** $1.15 million
**Percent increase, year over year:** 231%

**STEVEN J. RANDICH**
**Title:** Chief information officer
**2019 compensation:** $1.35 million
**2018 compensation:** $1.32 million
**Percent increase, year over year:** 2.30%

**ROBERT L.D. COLBY**
**Title:** Chief legal officer
**2019 compensation:** $1.16 million
**2018 compensation:** $1.15 million
**Percent increase, year over year:** 1%

**BARI HAVLIK**
**Title:** Executive vice president, member supervision
**2019 compensation:** $1.13 million
**2018 compensation:** $548,000
**Percent increase, year over year:** 203%

# DOL proposes standard to replace fiduciary rule

BY MARK SCHOEFF JR.

**THE DEPARTMENT OF** Labor announced June 29 that it is proposing a new regulation to govern investment advice in retirement accounts to replace a rule that was vacated more than two years ago by a federal appeals court.

The proposed regulation would provide exemptions under federal retirement law — the Employee Retirement Income Security Act — that would allow fiduciaries to receive compensation for advice that would otherwise be prohibited, such as third-party payments, as long as they act in a retirement saver's best interests.

Financial advisers would qualify for the exemption when working with 401(k) plans and individual retirement accounts if they follow impartial conduct standards, including: earning reasonable compensation, not making misleading statements and telling customers they are acting as fiduciaries.

In a separate rule, the agency reinstated the five-part test to determine who is a fiduciary. That test, which includes delivering advice on a regular basis, was replaced by a retirement advice investment rule promulgated by the Obama administration. The Obama measure was struck down by a federal appeals court in 2018.

"The proposal would allow a wide range of investment advice and services to ERISA plans and IRA investors and ensure that retirement investors receiving advice under the exemption get advice that is in their best interests," a senior DOL official told reporters on a conference call.

The proposal was published last Tuesday in the Federal Register with a 30-day comment period. Last Wednesday, consumer and investor advocacy groups asked the agency to extend that to 90 days because of the complexity of the measure. The DOL will be pressed to produce a final rule before year-end, and it is vulnerable to being overturned if Democrats win the White House in November.

The proposal says it applies to registered investment advisers, broker-dealers, banks and insurance companies, and their employees, agents and representatives.

## 'REGULATORY EFFICIENCIES'

But brokers who adhere to Regulation Best Interest, the Securities and Exchange Commission's new broker advice standard implemented June 30, will likely be deemed as being in compliance with the new DOL rule. The senior DOL official said the exemption would enable "regulatory efficiencies." Reg BI covers rollovers from 401(k)s to IRAs.

SEC Chairman Jay Clayton said the DOL collaborated with the agency on setting investment advice standards.

"I commend the Department of Labor for their efforts to clarify and align the standards of conduct that investment professionals must follow in providing advice to Main Street investors," Clayton said in a statement. "The proposed exemption … reflects in part the Commission's constructive and ongoing engagement with the Department."

Advocates for the original DOL fiduciary rule — which included a contract that allowed retirement savers to sue their advisers if they didn't act in their best interests — said the new rule was too weak to curb broker conflicts of interest.

Barbara Roper, director of investor protection at the Consumer Federation of America, said the SEC made sure that Reg BI was not a fiduciary standard. It allows many more conflicts than ERISA requirements and basing the new DOL rule on the SEC regulation is a "huge watering down of the standard," Roper said.

## DISCLAIMERS

She also said the reemergence of the five-part fiduciary test reopens loopholes in the definition of investment advice.

"That means firms will essentially be able to choose whether they want to operate under what's left of the fiduciary standard or disclaim away their fiduciary obligations," Roper wrote in an email.

Putting the five-part test in place again means insurance sales professionals who make one-time rollover recommendations may not be covered by the DOL proposal, said Jason Roberts, chief executive of the Pension Resource Institute. The Obama administration DOL fiduciary rule did cover sales by insurance professionals.

"If I didn't have a preexisting fiduciary relationship [with a client] and I don't [establish] an ongoing relationship through an IRA, then I'm certainly not subject to the DOL's interpretation," Roberts said. "And I'm not subject to Reg BI because I'm not a registered representative."

A DOL senior official confirmed Labor Secretary Eugene Scalia participated in drafting the advice proposal after being cleared by the agency's ethics office. Scalia was the lead attorney for the brokerage industry plaintiffs in the lawsuit that led to the Obama administration's fiduciary rule being overturned.

*mschoeff@investmentnews.com*
*Twitter: @markschoeff*

# XY Planning to focus on state advice standards

BY MARK SCHOEFF JR.

**A PLATFORM FOR FINANCIAL** planning firms that failed to overturn a new broker investment advice standard in federal court will now focus its attention on supporting states' efforts to establish their own advice standards.

On June 26, a unanimous three-judge panel of the U.S. 2nd Circuit Court of Appeals upheld the Securities and Exchange Commission's Regulation Best Interest, ruling the agency acted properly under the Dodd-Frank financial reform law in promulgating the measure. Reg BI took effect June 30.

One of the plaintiffs in the suit, the XY Planning Network, is not giving up its efforts to stop Reg BI, but is shifting its focus to states, such as New Jersey, Massachusetts and Nevada, that are developing their own advice rules.

"If we're not able to prevail at the federal level, XYPN will continue to be active with advocacy at the state level around the very basic principle that advice has only ever been and should always be fiduciary," XYPN co-founder Michael Kitces told reporters June 29.

In the suit, XYPN and Ford Financial Solutions, one of its members, argued that the SEC ignored congressional intent in the Dodd-Frank financial reform law to establish a uniform financial advice standard for investment advisers and brokers that subjects brokers to fiduciary duty, the requirement advisers meet under the Investment Advisers Act.

## BROKER BUSINESS MODEL

The SEC established Reg BI for brokers while maintaining the fiduciary standard for advisers and regulating them separately. The agency said it wanted to preserve the broker business model while strengthening brokers' advice obligation.

But plaintiffs in the Reg BI lawsuit, as well as states pursuing their own fiduciary rules, assert that Reg BI is too weak a standard to curb broker conflicts of interest.

**"I WOULD EXPECT SOME OF THESE STATES BECOME EMBOLDENED BY THE COURT'S RULING."**

MICHAEL KITCES, CO-FOUNDER, XY PLANNING NETWORK

The 2nd Circuit decision in favor of Reg BI shouldn't hamper the states, Kitces said.

"If anything, I would expect some of these states become emboldened by the court's ruling," he said. "If [Reg BI] really does become final, then any state that is concerned about the lower standard of Reg BI has all the more incentive to enact their own fiduciary rules. If the states think that the lower Reg BI bar is not enough, they certainly have the option of putting a higher bar in place to protect their states."

Knut Rostad, president of the Institute for the Fiduciary Standard, said that Reg BI "has toppled" the Investment Advisers Act and that disparate fiduciary activists should coalesce around state-level rules.

"They should recognize the emergency we're in," Rostad said. "They should act cohesively, act in a unified way toward the states to the end of getting the best possible fiduciary standard in each state."

But brokerage and insurance industry groups say Reg BI, reinforced by the 2nd Circuit ruling, should be the final word on the broker advice standard.

"It's time for the states to listen to the court, to refrain from pursuing politically motivated activist agendas and to embrace the SEC's national best interest standard," Chris Iacovella, chief executive of the American Securities Association, said in a statement released after the court ruling.

## LEGAL CHALLENGE

The American Council of Life Insurers also said Reg BI should apply nationwide.

"The court made the right call," ACLI chief executive Susan Neely said in a statement. "It affirmed enhanced consumer protections. The result is continued progress in safeguarding access for all consumers and securing harmonized standards across the country."

XYPN is not yet abandoning a legal challenge. Kitces said it is considering asking the full 2nd Circuit to hear the case or appealing the 2nd Circuit ruling to the Supreme Court.

*mschoeff@investmentnews.com*
*Twitter: @markschoeff*

"I DIDN'T CONNECT MY SMART THERMOSTAT TO MY GOOGLE ASSISTANT BECAUSE MY KIDS WOULD CONSTANTLY BE MESSING WITH THE TEMPERATURE! I'M NOT SURE WHAT I'D THINK ABOUT THEM CHECKING MY 401(K) BALANCE."

— AARON KLEIN, CEO, RISKALYZE



# Rollovers key to $1 billion Empower deal for robo

BY EMILE HALLEZ

**EMPOWER RETIREMENT'S** purchase of digital advice firm Personal Capital stands to bring the 401(k) provider fully into the financial wellness business, which could help it retain rollover assets.

The deal, announced June 29, will result in Empower bringing Personal Capital in-house, with the robo and human advice firm being slightly rebranded as Personal Capital, an Empower Company.

For Empower, the roughly $1 billion deal means significant customer-service additions that could make it much more appealing as a retirement plan provider. For Personal Capital, it means having vastly expanded access to clients — essentially the country's second-largest 401(k) record-keeping business.

"The market's shifted and over the last five years, where both the sponsor and the participant have higher expectations of providers like us to help them think through all their of their needs — not just retirement goals," Empower CEO Edmund Murphy said. "We see this as a way to further extend our value proposition to sponsors and participants, to address those evolving needs that the mass affluent investor has."

## VALUE OF ONLINE ADVICE

The importance of online advice is not lost on financial services firms. Many have scrambled to get into the market in some form, with the goal of winning over clients when they are early-career workers and just starting to amass assets. Brokerages that traditionally have seen clients come to them in their 30s or 40s will continue to see their business disrupted, said Dennis Gallant, senior analyst at Aite Group.

"There's a race to engage clients at an earlier stage," Gallant said. "Everybody's kind of moving down market … The workplace is the beachhead for this movement."

Aside from getting clients earlier, firms are seeking to be a one-stop shop, providing a broad range of services, he noted.

"THERE'S A RACE TO ENGAGE CLIENTS AT AN EARLIER STAGE."

DENNIS GALLANT, SENIOR ANALYST, AITE GROUP

The addition of Personal Capital's advice and account aggregation services also will significantly expand Empower's capabilities, and it provides Personal Capital an entry into the 401(k) market.

"They have some of the highest engagement rates that exist in the market today," Murphy said. "For those 1.4 million [account] aggregators, their 90-day engagement rate is 90%. That average customer is logging in 16 times a month, which is extremely high."

The combined companies will increase scale for each, and there are benefits to giving retirement savers access to a service that lets them view all of their financial accounts in one place, the companies stated.

## COVID EFFECT

The online advice and account-aggregation service was launched in 2009 by former Intuit CEO Bill Harris and NextCapital co-founder Rob Foregger.

"We started Personal Capital with the hope of changing the landscape of the investment industry. I think the company is doing just that, reimagining how financial services is done," Foregger said in a statement. "It's clear that the COVID effect is compressing the digital transformation of the investment industry by five years, if not more."

Earlier this year, Empower announced an arrangement with ETrade that allows clients to view their stock accounts alongside their retirement plan balances.

"We're entering a period of this transition from investment culture to advice," Gallant said. "The pandemic is going to drive more thinking toward financial planning."

The deal is expected to close in the third quarter, and integration will take place over 12 to 18 months.

Empower is part of Great-West Life & Annuity Insurance Co.

*ehallez@investmentnews.com*
*Twitter: @emilehallez*

# Orion and Brinker Capital unite to create competitive TAMP

BY SEAN ALLOCCA

**ORION ADVISOR SOLUTIONS** is merging with competing turnkey asset management platform Brinker Capital to create an investment management firm and technology provider with approximately $40 billion in managed assets.

The merger opens potential opportunities for the combined company and gives it the necessary scale to contend in a highly competitive industry — just behind TAMP powerhouses like Envestnet, SEI and AssetMark in terms of assets.

Private-equity firm Genstar Capital will invest in the business, as will Orion's existing backer, TA Associates, according to a release. Brinker's founder, Charles Widger, other Brinker executives, including CEO Noreen Beaman, and Orion CEO Eric Clarke are also minority investors.

Brinker Capital's investment management business will be unified with those of Orion's CLS Investments, an ETF strategist working with over 6,000 financial advisors and 1,300 qualified plan sponsors to manage nearly 45,000 investor portfolios on the Orion platform. That business line will be rebranded as Brinker Capital Investments.

Terms of the deal were not disclosed.

## INVESTMENT CAPABILITIES

Thirty-year-old Brinker already manages $24.5 billion in client assets as of June for more than 4,000 registered investment advisers at insurance broker-dealers and independent broker-dealers. The investment platform's Wealth Advisory service provides advisers with a portfolio management team, tax management and ESG, banking, lending and trust services.

"The Genstar team came to us and asked us what we would think about combining our businesses," Clarke said. "Their investment capabilities have such a great reputation and the work they do around behavioral finance was something that really interested us."

"THE WORK THEY DO AROUND BEHAVIORAL FINANCE REALLY INTERESTED US."

ERIC CLARKE, CEO, ORION

Also joining the Orion family are Brinker's Behavioral Innovation Lab and proprietary investment strategies, including the Destinations mutual fund portfolios, which have more than $12 billion in assets and a 25-year track record, according to the release.

Rumors circulated in January that Orion was up for sale by private-equity investors TA Associates. The PE firm acquired Orion (formerly known as NorthStar Financial Services Group) in 2015, and reportedly was working with Raymond James to sell Orion for an estimated $1.875 billion.

Orion has more than 850 employees and works with 2,000 advisory firms.

*sallocca@investmentnews.com*
*Twitter: @theseanscoop*

# RETIREMENT INCOME SUMMIT

AUGUST 10-11 & 17-18 **VIRTUAL EVENT**

PRESENTED BY

THE LEADING RETIREMENT PLANNING CONFERENCE, NOW – FROM THE COMFORT OF YOUR HOME

Our 4-day virtual event will help you make an impact on your clients' future, as you guide them on a path to continued financial security.

# Hear from the Industry Experts

**ED SLOTT**
President
**Ed Slott and Company, LLC**

**MADDY DYCHTWALD**
Award-Winning Author
& Co-Founder
**Age Wave**

**MARY BETH FRANKLIN**
Contributing Editor
**InvestmentNews**

**KRISTI RODRIGUEZ**
VP, Thought Leadership
**Nationwide Financial**

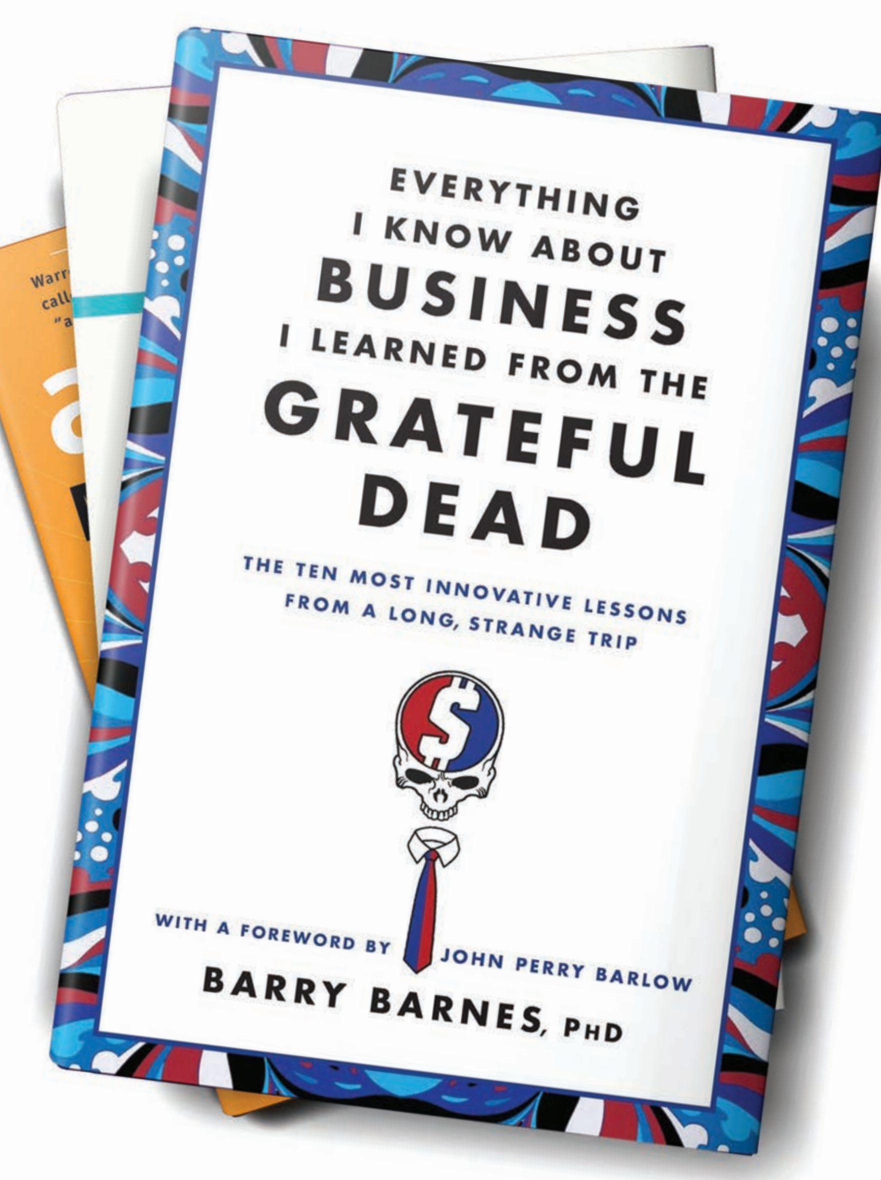
**MICHAEL KITCES**
Partner and Director
**Pinnacle Advisory Group and Co-Founder XY Planning Network**

**REGINA PHELPS**
Founder
**Emergency Management & Safety Solutions**

**RESERVE YOUR VIRTUAL SEAT**

**For sponsorship opportunities please contact:**
Dan Rubinetti | drubinetti@investmentnews.com | (o) 212-210-0432 | (c) 917-294-9517
Sabrina Straub | sstraub@investmentnews.com | 646-437-7956

**theretirementincomesummit.com**




# Books to keep you busy at the beach

It's summer, which means you may have some time to pick up a good book. We asked advisers and industry executives to recommend two books: one about business, the other on another topic. Here are the business books; we'll list their other recommendations in our next issue.

**AARON KLEIN,** CEO, Riskalyze

**The Amazon Management System**
**Ram Charan and Julia Yang**
This is a fascinating read that takes a look at one of today's most interesting companies and breaks down the six components of their strategy. It's truly insightful if you want to think about how to put these forces to work building a competitive advantage for your business.

**STEVEN SKANCKE,** Chief economic advisor, Keel Point

**The Party:** The Secret World of China's Communist Rulers
**Richard McGregor**
Essential to understanding the world's most populace country and second largest economy, its leadership and immutable mission, 'The Party' describes the organization and operation of a political, governance system whose number one goal is preservation of the Communist Party of China through the Central Committee and its Organization Department.

**PHIL BUCHANAN,** Executive chairman, Cannon Financial Institute

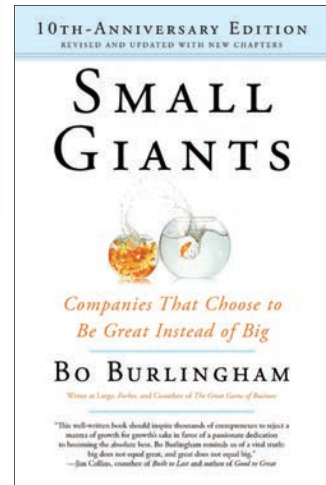
**Start with Why**
**Simon Sinek**
I advise every person in a client/customer/patient influencing position to read Sinek's book. It is a seminal work along the lines of 'How to Win Friends and Influence People' by Dale Carnegie in that it has led tens of thousands of professionals to reimagine their communication and influence strategies.

**DOUG KETTERER,** CEO, Atria

**The Presidents Club**
**Nancy Gibbs and Michael Duffy**
This book tells of the history of presidents for the last six or so decades and reveals experiences of the leaders of the United States that can be teachable moments for anyone who is a leader.

**RUSS HILL,** Chairman and CEO, Halbert Hargrove

**Small Giants**
**Bo Burlingham**
It really does convey the message from its tagline: 'Companies That Choose to Be Great Instead of Big.' With all the focus on growth, stepping back to understand the real purpose of your business often doesn't occur. It's easy to accept someone else's definition of success; in fact, it's difficult to resist.

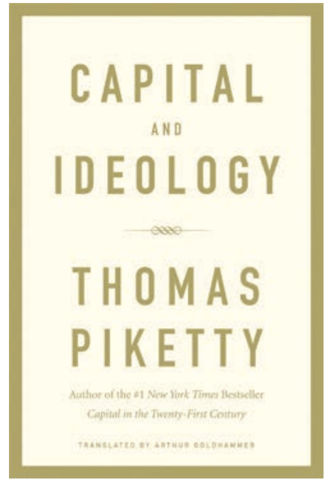



**JUDY MARLINSKI,** Head of product and advisory solutions, Fidelity Institutional

**The Fearless Organization:** Creating Psychological Safety in the Workplace for Learning, Innovation, and Growth
**Amy C. Edmondson**
One of my favorite business books for anyone managing a large, multi-function organization. Dr. Edmonton's research describes the positive impact on reducing error rates, problems and mistakes when an organization achieves a high level of trust, transparency and shared accountability for excellence.

**SHERYL O'CONNOR,** Co-founder and CEO, Income Conductor

**Rewirement:** Rewiring The Way You Think About Retirement!
**Jamie Hopkins**
The book's title encapsulates Jamie's main message that people need to 'rewire' their thinking about investing and planning when it comes to retirement. The strategies they used while successfully accumulating their wealth are very different from the strategies they must use to successfully distribute their wealth.




**SAM BROWNELL,** Managing director, Stratus Wealth Advisors

**Capital and Ideology**
**Thomas Piketty**
This book is a slow read given the dense material but I believe it is important to challenge our beliefs about capitalism, even if the system has been working for us. If there is a better way to make sure that the economy is growing to the benefit of all, we should be willing to listen and make changes.

**LUKE WINSKOWSKI,** Head, Thrivent Advisor Network

**Mindset:** The New Psychology of Success
**Carol Dweck**
I'm rereading this book from 2007 and it's remarkably relevant to the current macro environment. It's all about how our mindset can separate those who prosper vs. those who stagnate in midst of challenge and change.

**HOWARD LUTZ,** Senior vice president, Intercontinental Wealth Advisors

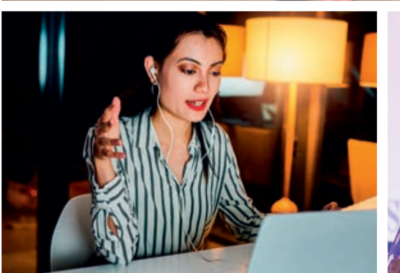
**Everything I Know About Business I Learned from the Grateful Dead**
**Barry Barnes**
It's not new, but worth rereading because of the particular relevance to the world in which we are currently living. The lessons shared from the band's ability to adapt to changing times and circumstances are exactly what we need as we try to lead our business into this 'new normal.'

*jbenjamin@investmentnews.com*
*Twitter: @benjiwriter*

20+
EVENTS

3000+
ATTENDEES

LIMITLESS
OPPORTUNITIES



# Connect with Financial Advisers and grow your business with InvestmentNews' in-person and virtual events.

**Become a partner**

- Increase BRAND AWARENESS and COMPANY PROFILE
- Strengthen your company's image as a trusted THOUGHT LEADER
- Build your pipeline with hundreds of QUALIFIED LEADS

**INTERESTED IN BECOMING EVENTS' SPONSOR? CONTACT**
Dan Rubinetti at drubinetti@investmentnews.com | 917-294-9517
Sabrina Straub at sstraub@investmentnews.com | 646-437-7946

investmentnews.com/events

# T. Rowe Price finds a path that leads to the ETF market

BY JEFF BENJAMIN

**T. ROWE PRICE** is the latest asset manager to jump into the semitransparent active ETF market with four funds expected to launch later this year.

The $1 trillion Baltimore-based asset manager follows American Century, Legg Mason and Fidelity Investments into the arena of actively managed portfolios that trade throughout the day like a stock and exchange-traded fund, but only disclose their holdings on a trailing quarterly basis like a mutual fund.

This marks the first move into the ETF space for T. Rowe, which traces the regulatory approval process for the new active ETFs back to 2013, according to Tim Coyne, the asset manager's head of ETFs.

"This is very exciting and it's a natural extension for T. Rowe because it's about providing access to these four strategies for ETF investors," he said. "This is phase one. We're looking to develop a more comprehensive ETF product line."

### MUTUAL FUND MODEL

The first four ETFs will include Blue Chip Growth, Dividend Growth, Equity Income and Growth Stock, all of which are modeled after well-established mutual fund strategies at T. Rowe.

"They are using existing, highly popular and strong performing active strategies with a total of more than $170 billion in assets," said Todd Rosenbluth, director of mutual fund and ETF research at CFRA.

"While some investors will stay loyal to the mutual fund, either by inertia or they don't want to incur capital gains or other reasons, other investors will be interested in the new products," he said.

### PROXY BASKET FOR PRICING

There are multiple models to provide ETF market makers enough information to price the underlying active portfolios without exposing the underlying holdings. T. Rowe is using a proxy basket for pricing, but is also disseminating each fund's net asset value every 15 seconds throughout the trading day.

> **"WE'RE LOOKING TO DEVELOP A MORE COMPREHENSIVE ETF PRODUCT LINE."**
>
> TIM COYNE, ETF CHIEF, T. ROWE PRICE

In terms of selling licensing agreements to other asset managers looking to get into the semitransparent ETF space, Coyne said there is nothing to announce yet, but he also didn't rule it out.

"We have had conversations with other asset managers, and we continue to develop that," he said. "There could be more to share on that, but as of now we have not entered into any licensing agreements."

*jbenjamin@investmentnews.com*
*Twitter: @benjiwriter*

# Fidelity settles 401(k) lawsuit for $28.5M

BY EMILE HALLEZ

**FIDELITY INVESTMENTS** is settling a lawsuit involving its own 401(k) plan for $28.5 million, according to court records.

The settlement resolves a class-action case brought in 2018 that alleged the firm breached its fiduciary responsibility to plan participants by including its own products on the plan menu. The company had been similarly targeted in a prior lawsuit that it settled in 2014 for $12 million. As part of that, the company agreed to rebate revenue sharing from mutual funds on the plan menu back to the plan.

That measure was criticized by plaintiffs in the more recent case as "an accounting gimmick," as the company reportedly adjusted its discretionary profit-sharing contributions to participants based on the amounts that had been returned to their accounts, according to court records.

### SOME CLAIMS

Earlier this year, the court found that Fidelity was not liable for some of the claims lobbed against the firm, though claims that the firm failed to monitor plan fiduciaries could proceed.

The company agreed to settle the case in June. However, the amount of the settlement was not disclosed until July 2.

"Fidelity believes that this lawsuit lacked merit and that its management of the plan complies fully with the Employee Retirement Income Security Act," a company spokesperson wrote in an email. "We feel we offer a generous 401(k) plan that provides high value and offers superior levels of customer service."

### OPTED TO SETTLE

The company opted to settle in order to avoid further costs and distraction associated with the case, the spokesperson said.

The firm "anticipates that approximately 80% of this settlement payment (after payment of attorneys' fees) will go into the Fidelity Plan," the statement read. "Fidelity determined that it makes sense to settle the lawsuit at this time."

Law firms representing the plaintiffs — Nichols Kaster and Block & Leviton — had not filed for attorneys' fees at the time of publication.

Along with the monetary aspect of the settlement, the plan's fiduciaries agreed to more closely monitor record keeping fees and investment options, according to the agreement.

*ehallez@investmentnews.com*
*Twitter: @emilehallez*

EXPLORE YOUR NEXT MOVE...
THE ADVISER CENTER
INVESTMENTNEWS.COM/ADVISERCENTER
Call: Letitia Buchan at 212-210-0451
Email lbuchan@investmentnews.com
FEATURED FIRMS

You choose your path, we'll pave the way.
Find integrated technology, personalized support and the backing of a strong Fortune 500 brand.
voya.
VOYA FINANCIAL ADVISORS
855.698.4900 | VoyaFA.com
Voyafarecruiting@voya.com
Securities and investment advisory services offered through Voya Financial Advisors, Inc. (member SIPC). CN1194492_0521

THE InvestmentNews ADVISER CENTER
MAKE THE SMARTER MOVE

# MEGAMERGER

CONTINUED FROM PAGE 2

COVID-19 when many of the smaller RIAs have had to refocus their resources on managing their businesses and clients. According to Echelon's most recent deal report, 16 of the 35 firms acquired during the second quarter had more than $1 billion under management.

"A growing portion of the deals in the RIA industry have involved some of the largest, most established firms in the market," Bruno said. "They tend to have some of the most strategic leadership, and they have also made investments in their people, technology and other programs that can be scaled through a merger."

Terms of the deal were not disclosed, but Zayed emphasized that it is a merger.

### PARTNERSHIP WITH AMERILIFE

In July of 2019, Brookstone partnered with AmeriLife Group, which is now backed by the private equity firm Thomas H. Lee Partners. AmeriLife is a marketer and distributor of life and health insurance, annuities and retirement plans that partners with insurance carriers through a national distribution network of over 150,000 insurance agents and advisers.

Brookstone will maintain both companies' headquarters, in Chicago and Grand Rapids.

The five key executives from the two firms will be retained, serving in the following capacities: Zayed as CEO; Darryl Ronconi as president and chief operating officer; Jason Wenk as executive director; Jason Crump as a vice president of relationship management; and Joel VanWoerkom as a vice president of operations.

"This is a unique opportunity for both firms and our affiliated advisers," Wenk said. "Both companies have spent significant resources in building out the platform and programs they consider to be their competitive advantages. Now, we can leverage each other's strengths to deliver a more robust experience to our adviser clients."

*jbenjamin@investmentnews.com*
*Twitter: @benjiwriter*

# SANCTUARY

CONTINUED FROM PAGE 3

team blends well with the members' academic backgrounds, Hill said, noting she holds a Ph.D. in History and Political Science from Yale University.

Founding partner Kaylin Dillon was also trained in non-financial academic disciplines, Hill said. She holds M.A. and B.A. degrees in East Asian Studies as well as a B.A. in French Language and Literature from the University of Kansas and says working in the financial world is just like learning another language.

With the transition, Bowersock Capital Partners is looking to present clients with a wider array of investment choices, both public and private, now that the firm is a part of the Sanctuary platform, Dillon said in a statement.

Ramping up technology adoption is also top of mind for the firm. "As a smaller firm, backed by a partner with extensive resources, we are able to be nimbler and adopt new tools and technology that will benefit our clients as they become available," Dillon said.

The Indianapolis-based Sanctuary Wealth network currently includes more than 36 partner firms across 14 states with approximately $3.7 billion in managed assets listed on its most recent Form ADV.

*ncasperson@investmentnews.com*
*Twitter: @nicolecasperson*

# SOCIAL DISTANCING

CONTINUED FROM PAGE 2

challenging, with 74% saying that this year's market roller coaster has caused some level of disruption. Sixty-seven percent said the same about low interest rates, according to the report.

Despite the need for social distancing measures, about a third of advisers have continued to work in their physical office locations, and another third are there at least some of the time, the survey found. The remaining third said they are now working exclusively from home.

### RAY OF HOPE

However, about 80% of advisers said they are optimistic about maintaining business and serving their existing clients, the report noted. "The advisers feel that even in this socially distant environment, there are still opportunities to grow their client base," DeWitt said.

A separate survey Limra published earlier this year, its 2020 Barometer study, found that a quarter of U.S. adults are considering hiring a financial adviser. About half of people said they would research potential advisers on social media, that report found.

### FINANCES SUFFER

More than half of advisers said in the more recent survey that they feel positive about taking on new clients in the current environment, and 61% said they are optimistic about prospecting.

But their views of their businesses' finances are less rosy. Just 30% said they feel positive about their total revenue this year, while 22% were neutral, and 47% do not feel good about it. On profitability, 37% said they were optimistic, but 36% said they were not, results of the survey show.

*ehallez@investmentnews.com*
*Twitter: @emilehallez*

# REG BI

CONTINUED FROM PAGE 2

Cook described initial Finra examinations in a similar way during an interview Tuesday with Financial Services Institute CEO Dale Brown.

"Our main focus is going to be on good faith efforts to comply with the compliance obligation," Cook told Brown. He added that most Reg BI exams would occur as part of a brokerage's cycle exam rather than being conducted as stand-alone reviews.

Kurt Wolfe, regulatory counsel at Troutman Pepper, said firms will find the Finra exam forecasts useful.

"It's helpful because it puts a little more meat on the bones of what firms should expect exam staff to look at," Wolfe said.

### AN ARRAY OF DISCLOSURES

Under Reg BI, brokers are prohibited from putting their financial interests ahead of those of their clients. They also have to meet an array of disclosure obligations — including filing and delivering Form CRS to clients — and identify and mitigate conflicts of interest.

Those Reg BI obligations are a much heavier lift than the compliance prong. Over time, the SEC, Finra and firms will get a better handle on how to meet them, Finra's Wrona said.

"They've done their best to make sure that they're acting in the customer's best interests, but they may find with some experience that certain ways of dealing with obligations isn't as effective as they had anticipated," he said. "And so they'll make changes, they'll tweak their policies and procedures or approaches to issues. So it'll be somewhat evolving over the course of the next year or two."

But some questions are already cropping up. Meredith Cordisco, Finra associate general counsel, indicated on the podcast that Reg BI does apply to high-net-worth clients of institutional firms and that it may or may not apply to family offices.

"If you're working on a recommendation to a human being, you are almost certainly in Reg BI land," Wolfe said.

*mschoeff@investmentnews.com*
*Twitter: @markschoeff*

# TECH TOOLS

CONTINUED FROM PAGE 3

petitor. According to the J.D. Power study, 19% of wirehouse advisers intend to leave their firms within the next two years. Meanwhile, one in 10 independent advisers have considered leaving their firm within the next two years.

### CORE TECHNOLOGY

According to the InvestmentNews Research 2020 Adviser Technology Study, firms spent a record 3.7% of revenue on technology in 2019, a significant increase from the 3.2% of revenue that was spent in 2018, which was also the average of spending, on a percentage of revenue basis, for the previous six years.

"Firms have to ensure that the core technology is really strong, all while bringing on new tools that are critical for advisers' success in the future," Foy said. "On top of that, there are so many different tools advisers need in order to succeed in managing their practice. You have to be able to deliver those to them in a way that's integrated and allows them to move in and out of these tools easily as their needs dictate."

### ARTIFICIAL INTELLIGENCE

When it comes to integration, currently just 21% of advisers in both the employee and independent channels say their tech platform is "completely integrated" with features such as single sign-on, data-synching and workflow, according to the study. Further, just 9% of advisers are currently using innovative tools like artificial intelligence, although adviser satisfaction with technology is 95 points higher, on a 1,000-point scale, when they use AI tools.

Edward Jones took the top spot with highest overall satisfaction among employee advisers with 920 points out of 1,000, a score that Foy said is rare. Despite coming in second overall with a score of 867, Raymond James & Associates was ranked as the most attractive firm for employee advisers if they had to move elsewhere. Fidelity ranked best in terms of technology satisfaction, according to the study.

**3.7%**

PORTION OF REVENUE FIRMS SPENT ON TECH IN 2019

### RECENT ENHANCEMENTS

However, the study does not include the recent enhancements in tech workstations many major firms have implemented lately, like Merrill Lynch's new tech-driven workstation, Client Engagement Workstation, Foy said.

"The rollout of these new workstations was after our survey," he said. "It'll be interesting to see how some of the newer workstations move the needle on this over time."

*ncasperson@investmentnews.com*
*Twitter: @nicolecasperson*

# 2020 ADVISER TECHNOLOGY STUDY

## NOW AVAILABLE!

Order your copy today at
investmentnews.com/technologystudy

**KEY TAKEAWAY:**

98%
OF FIRMS AGREE –
THE DIGITAL CLIENT
EXPERIENCE IS
IMPORTANT TO
FIRM SUCCESS

SPONSORED BY
Laserfiche® | LPL Financial

PRODUCED BY