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JULY 27-31, 2020

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MEGA RIAS ARE MUCH SOUGHT AFTER AS M&A ACTIVITY HEATS UP

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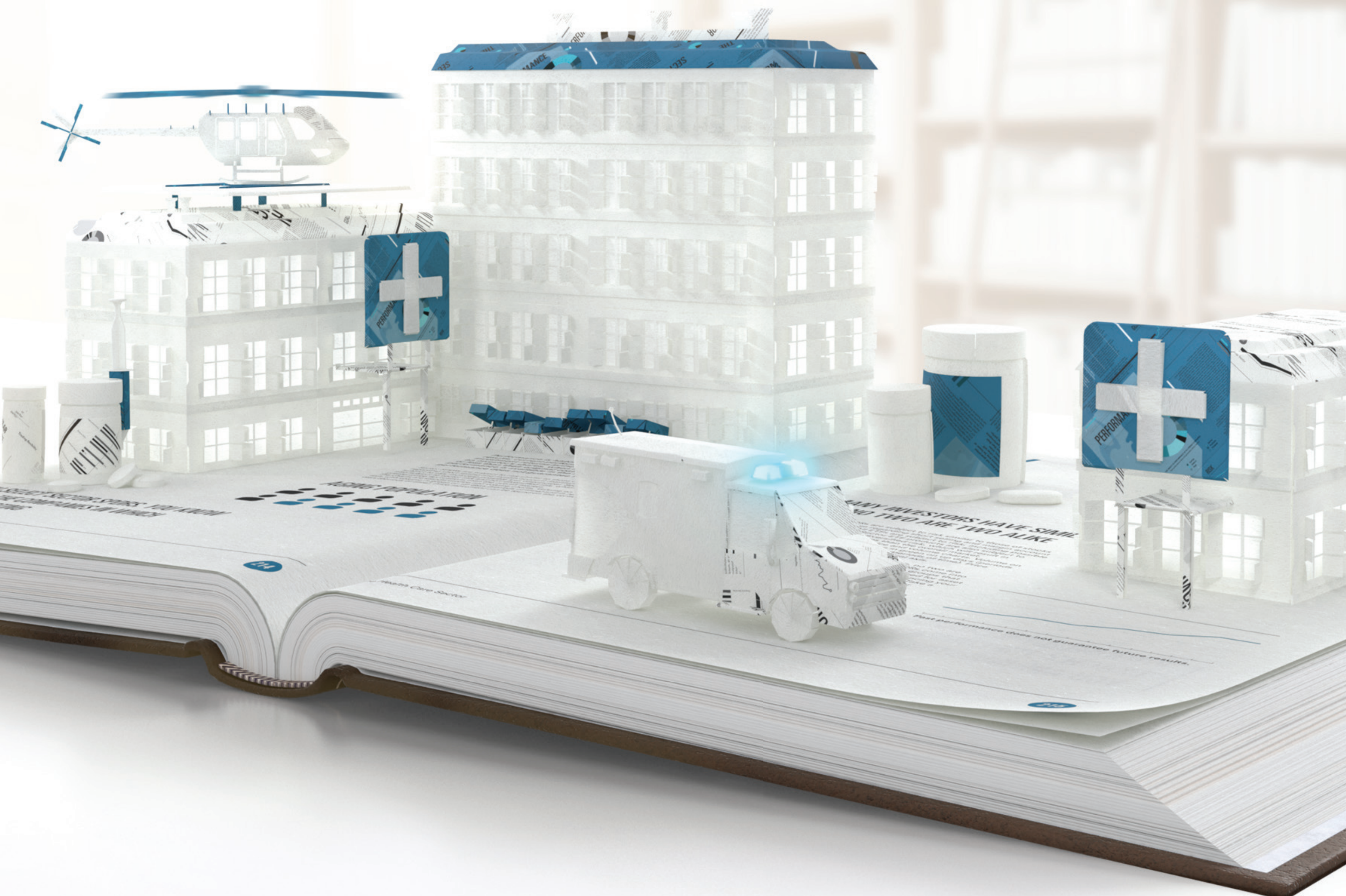

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Merck	MRK	5.20%
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AbbVie	ABBV	4.61%
Abbott Laboratories	ABT	4.31%
Thermo Fisher Scientific	TMO	3.82%
Amgen	AMGN	3.70%
Eli Lilly	LLY	3.69%
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Dani Fava's TD departure a sign of things to come

BY JEFF BENJAMIN

KEY POINTS

- Dani Fava joins Envestnet in a newly created role as TD-Schwab merger looms.
- More top-level departures are expected in coming months.

IN A MOVE DESCRIBED by many in the industry as a likely sign of things to come, popular TD Ameritrade Institutional product strategist Dani Fava has left the custodian to join Envestnet, where she takes on a newly created role as part of the recently established strategy office.

Fava, who developed into a popular presenter and fintech expert during her 12 years at TD, departs in the wake of last month's Department of Justice approval of Charles Schwab Corp.'s pending $26 billion acquisition of TD Ameritrade Holding Corp.

"Everybody knows the drill with these kinds of mergers, which means there is overlap and duplication," said April Rudin, chief executive of The Rudin Group.

"Just think about the strengths of Schwab and TD, and the overlapping core services," Rudin added. "Everybody can't stay, so this is also a good opportunity for companies looking for talent."

Fava declined to elaborate on how the pending megamerger affected her decision to leave TD, but said the origins of her departure go back to at least February, when she met with Envestnet CEO Bill Crager while attending the T3 conference in San Diego.

"I don't want to tie this move to the Schwab acquisition, but I find a lot of the same TD ideals and mission happening at Envestnet," she said. "It just seemed to make sense. Envestnet's mission is very much aligned with my own, which is to make financial wellness available to as many people as possible."

PREVIOUS ROLES

Fava joined TD in 2012 from Fiserv, where she was a product manager and strategist.

Most recently at TD she served as director of institutional innovation. She managed the launch of the iRebal portfolio rebalancing solution on the Veo platform and the Model Market Center.

In her new role, Fava reports to Rich Aneser, group head of strategy, who joined Envestnet earlier this year to build the new strategy office.

"I love TD and I loved their brand and what they represented for RIAs, and I'm grateful for the eight years I worked there," Fava said. "I really look forward to bringing that to a company that wants to

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DANI FAVA

UBS' private bank closure raises many questions

UBS' decision in June to shut down its high-end U.S. private bank for ultra-wealthy clients creates a host of questions for the advisers who work there and cultivate those oh-so-lucrative relationships.

BRUCE KELLY

ONADVICE

First off, UBS is keeping mum about exactly how many advisers are affected by the decision, which was announced internally at UBS in June and reported widely in the trade press recently. It's also not saying how much in client assets potentially will move.

How big an impact will this change, which takes effect at the start of 2021, make?

What's known is that UBS, like other large wirehouse banks, has been fighting to hang onto as many of its experienced advisers as it can and has also recently slowed down recruiting financial advisers, which is expensive and can drive up overall compensation.

LOWERING EXPENSES

Moreover, merging the operations of two disparate business units is a common way to stabilize or lower expenses for financial services companies with wealth management operations. How deep will the staff cuts go?

These advisers have reportedly been offered a path from banker to financial adviser, which means they would be compensated in the same way as UBS' typical advisers. That em-

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GPB Capital reports nearly $200 million drop in AUM

BY BRUCE KELLY

GPB CAPITAL HOLDINGS at the end of June reported a sharp decline in its regulatory assets under management over an 18-month period and several changes in management and financial oversight that are sure to spur more questions about the beleaguered alternative asset manager.

At the end of June 2019, the firm, which is facing multiple investigations from state and federal authorities, reported $238.6 million in regulatory assets under management, according to its Form ADV, which it filed with the Securities and Exchange Commission at the end of last month. A year and a half earlier, at the end of 2017, the firm had reported $434.3 million in AUM, for a decline of $196.3 million, or a drop of 45.2%.

HIGH-COMMISSION PRODUCTS

GPB Capital's business model is to raise money from investors through sales of high-commission products at dozens of independent broker-dealers and use that capital to buy businesses like auto dealerships or trash haulers. That means the drop in assets under management would likely not be due to swings in the broad stock market.

When asked about the reason for the decline in AUM, a spokesperson, Nancy Sterling, did not comment.

GPB raised $1.8 billion from investors starting in 2013 through sales of private partnerships, but it has not paid investors steady returns, called distributions, since 2018. Last year, the company delivered a blow to investors when it reported significant declines in the values of its funds.

AUDITOR'S RESIGNATION

The assets under management reported on GPB's Form ADV are under the roof of its registered investment adviser; those assets do not include those of other GPB-managed holding companies.

Meanwhile, GPB Capital also reported in the SEC filing other potentially concerning issues for investors and broker-dealers that sold the private placements. The company that provides valuations for the company's private funds has resigned; the auditor for one fund, Armada Waste Management, also resigned; and a new entity called High-

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Morgan Stanley rep charged with stealing $6 million from customers

BY MARK SCHOEFF JR.

THE SECURITIES AND Exchange Commission last Monday charged a former Morgan Stanley representative with stealing approximately $6 million from brokerage customers and an elderly investment advisory client.

The SEC complaint, filed in Maryland federal district court, alleges that Michael Barry Carter, a former adviser in a Morgan Stanley office in McLean, Virginia, falsified internal forms to make 60 unauthorized transfers from customer accounts from October 2007 through May 2019.

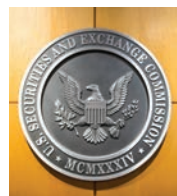
In a press release, the SEC said Carter pleaded guilty to parallel criminal charges filed by the U.S. Attorney's Office for the District of Maryland.

"As a financial advisor, Carter was entrusted with millions of dollars belonging to his brokerage customers, his advisory clients, and their families," Marc P. Berger, director of the SEC's New York regional office, said in a statement. "As alleged in our complaint, Carter instead took advantage of that trust for his personal gain."

Morgan Stanley fired Carter in July 2019 after allegations that he misappropriated client funds, according to his BrokerCheck report. He was barred by the Financial Industry Regulatory Authority Inc. in September 2019.

Morgan Stanley said it cooperated with the investigations of its former rep.

"The advisor's employment was terminated as soon as his activity came to our attention, and we immediately reported the matter to the appropriate law enforcement and regulatory authorities and have been cooperating with their investigations," a spokesperson said in a statement. "There were a limited number of clients impacted and any money misappropriated by the advisor was returned."



"CARTER USED THE FUNDS HE MISAPPROPRIATED ... TO SUPPORT HIS LIFESTYLE."

SECURITIES AND EXCHANGE COMMISSION COMPLAINT

FALSE ACCOUNT STATEMENTS

Carter concealed his fraud from his clients by giving them false account statements while diverting authentic ones to post office boxes and fake email addresses he controlled.

"Carter used the funds that he misappropriated from the investors to support his lifestyle, which included hundreds of thousands of dollars of credit card bills, thousands of dollars of cash withdrawals, payments for a substantial home mortgage, and a luxury car," according to the SEC complaint.

The complaint said Carter, dually registered as a broker and investment adviser, began his fraudulent activity in 2007 by stealing from a 72-year-old brokerage client with whom he had "familial ties." At the end of his scheme — between December 2017 and May 2019 — he made approximately $1.5 million in unauthorized cash transfers from an 84-year-old advisory client's account.

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SEC nominee vows to hold financial firms responsible

BY MARK SCHOEFF JR.

A NOMINEE FOR the Securities and Exchange Commission told lawmakers last Tuesday she would work to ensure that financial firms are living up to the new broker investment advice standard.

Caroline Crenshaw, an SEC counsel who has been tapped by the Trump administration to fill a Democratic seat on the commission, said the agency should help financial firms comply with requirements to increase disclosure and curb conflicts of interest under the advice reform package that centers on Regulation Best Interest.

But when firms fall short on com-

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The perfect expense ratio for the ETF market

INSIGHTS
JEFF BENJAMIN

You gotta hand it to the marketing wizards in the asset management industry for continuing their efforts to find the sweet spot when it comes to fund expense ratios.

Oddly enough, free is not always the best price. As upstart Salt Financial is learning, even paying investors to buy your ETF can be a deterrent.

It turns out that even though financial advisers, the largest buyers of ETFs, place a premium on low fees, there is the notion that when something looks too good to be true, it probably is.

In the case of Salt Financial, the Salt Low truBeta US Market ETF (LSLT) was paying investors 5 basis points to own the fund for about a year, beginning shortly after it launched in March 2019.

Yet the fund was not able to attract even $9 million.

The fund has since hiked its expense ratio to 29 basis points and, pending shareholder approval of an acquisition by Pacer Advisors, the fee is set to climb to 60 basis points.

ZERO FEES

Meanwhile, there's the dogged effort by Social Finance to entice investors with an extended zero-fee policy for SoFi Select 500 (SFY) and SoFi Next 500 (SFYX).

The two funds, which have been operating with waived fees since launching in April 2019 and have committed to zero fees through at least April 2021, have not produced the impact that analysts were expecting.

According to CFRA, SFY has grown to just over $98 million, but SFYX has yet to reach the $12 million mark.

"Without charging fees, the assets in those funds are lower than I would have expected after 16 months," said Todd Rosenbluth, director of mutual fund and ETF research at CFRA.

SLICED AND DICED

The only other examples of zero-fee ETFs were launched in April of this year by BNY Mellon, which is approaching the teaser-rate strategy from a slightly different direction.

BNY Mellon US Large Cap Core Equity (BKLC) and BNY Mellon Core Bond (BKAG) represent the debut in the ETF space of a large, well-known asset manager that happens to be affiliated with a potential distributor through its Pershing custodian.

In less than three months on the shelf, the bond ETF has grown to more than $30 million, while the equity ETF is closing in on $37 million.

The asset levels from this admittedly small sample suggest that fees alone are not driving advisers toward certain ETFs.

"It's pure gimmick, and even if they have merit, there is already a deluge of ETFs, sliced and diced to stupidity levels," said Kashif Ahmed, president of American Private Wealth.

For taxable accounts, sometimes the prospect of zero fees don't justify moving assets to the cheaper version, especially when there are so many ETFs with near-zero fees.

IF YOU CAN'T ATTRACT $100 MILLION WITHOUT FEES, YOU MIGHT AS WELL START CHARGING.

"The zero-fee offer by itself isn't sufficient to prompt a move," said Ronsey Chawla, an adviser at Per Stirling.

"For instance, 0% versus 0.04% equates to just 40 cents for every $1,000 investment," he said. "This is likely within a bid/ask spread in a traditional transaction. So cost is only one characteristic among many in an investment consideration, and not worth obsessing over."

That point is driven home when you consider the relative success of JPMorgan BetaBuilders US Equity (BBUS), which was launched in March 2019 with a 2-basis-point expense ratio and has grown to $161 million.

That fund is not an anomaly. CFRA has identified more than three dozen ETFs across multiple investment categories that charge between 2 and 4 basis points.

The zero-fee game has not gained the same traction in the mutual fund space, but based on the success of the four funds launched by Fidelity in 2018, maybe the mutual fund industry should take heed.

Likely proving that brand names matter, the four Fidelity equity index funds combine for nearly $10 billion. And with "zero" in the fund names, it's a pretty safe bet that it's not just a teaser rate.

"The zero-expense ratio structure is permanent," a Fidelity spokesperson confirmed.

Meanwhile, in the ETF world, the market is sending a message that low fees alone can sometimes do more harm than good.

In essence, if you can't attract $100 million without fees, you might as well start charging a fee and take what you can get.

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The key for advisers working from home? It's digital

BY NICOLE CASPERSON

UNCERTAINTY SURROUNDING the coronavirus pandemic has made a hybrid work environment a part of the new normal. For advisers, that means embracing technology or risk falling behind.

Roughly four months after the novel coronavirus shuttered office doors across the country, firms are grappling with what back-to-office plans might look like. Wells Fargo & Co., for one, plans to have its more than 200,000 employees continue working from home until at least September, CEO and President Charlie Scharf said during the bank's most recent earnings call.

"It is too early to determine exactly when we will ultimately return to a more traditional work environment," Scharf said. "But we will be cautious about bringing people back into the office … and we will make these decisions by geography, by facility."

OUT OF OFFICE

Bank of America may allow its employees to return to the office in phases after Labor Day, but the bank doesn't have a timeline set in stone, according to a company spokesperson. However, employees have been told they will receive 30 days' notice prior to returning to the office.

For UBS, a hybrid work environment may be the new normal as a third of its 70,000 employees across 50 countries opt to work remotely on a permanent basis, chief operating officer Sabine Keller-Busse said in June.

According to an IBM survey of 25,000 U.S. adults, 75% of working Americans indicated they would like to continue to work remotely at least occasionally, while more than half (54%) say they would like to permanently work remotely.

In the meantime, financial advisers must ramp up their adoption of tech-driven tools to keep operations moving forward while maintaining engagement and interaction with clients amid market volatility.

DIGITAL ACCELERATION

Tools like DocuSign and eSignature have been around for years, and typically when BNY Mellon's Pershing Advisor Solutions would hold training sessions for advisers, maybe one or two would show up, said Christina Townsend, head of platform strategy.

"Now it's a sold-out show," she said. "We have hundreds of advisers coming to training and they're like, 'Why have I never used this before?'" In fact, adoption of tools, like eSignature, for example, increased 80% in the first two weeks of the pandemic among Pershing advisers.

At Merrill Lynch, digital adoption and engagement have skyrocketed. Advisers hosted approximately 98,000 Webex meetings during the second quarter, a more than fivefold increase year over year, according to the bank's most recent earnings report.

Moreover, the MyMerrill mobile app saw a 28% year-over-year rise in users during the quarter.

Fidelity Investments, too, has seen a significant increase in digital tool adoption during the COVID-19 pandemic as advisers switched to working remotely, said Lisa Burns, head of strategic platform development at Fidelity.

For example, the number of transac-

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PANDEMIC HAS MORE AMERICANS THINKING ABOUT A RETIREMENT RESET

SPONSORED BY

Alliance for Lifetime Income

Since COVID-19 and the subsequent market volatility, 7 out of 10 Americans are now pessimistic about their retirement plans and some are turning to lower-risk options for their retirement investments, according to Alliance for Lifetime Income surveys conducted in April and June.

The Alliance's online Retirement Reset Tracker surveys of Americans between 56 and 75 years old show that people have reset how they think about retirement, including when, how and where to retire. In particular, 1 in 4 pre-retirees are looking to reduce risk in their investments to protect their retirement.

For financial professionals helping their clients navigate during this volatile time, the message is even clearer: Your clients might be more interested than you think in securing their retirement income with an annuity. According to the latest CANNEX-Greenwald Guaranteed Lifetime Income Study, the percentage of consumers who are highly interested in annuities or already own one is three times the percentage of financial professionals who believe their average client is highly interested in annuities. The time is now to reach out to clients because almost 6 in 10 pre-retirees are reconsidering some aspect of their retirement plan.

PROTECTED INCOME IS A VITAL SOURCE OF CLIENT SECURITY AND COMFORT

The Alliance surveys indicate that the COVID-19 crisis, recent stock market turbulence and future unpredictability are causing a potential long-term shift in risk tolerance. Those still in the workforce — including those who have been recently laid off or furloughed — are more likely than retirees to shift toward lower-risk options; 29% of workers expect to lower their risk tolerance, while 19% of retirees said the same.

Meanwhile, among those who aren't concerned about the current market environment, 48% say having protected lifetime income in the form of a pension or annuity is one of the reasons they aren't worried. The No. 1 reason is having a diverse portfolio that can weather this kind of volatility.

For millions of Americans across generations, annuities have been a sound solution for clients because they:

- Provide predictable monthly income that is protected no matter what the market is doing.
- Help reduce the risk that they will outlive their money since payments can continue throughout retirement.

Chris Hernandez, a financial planner at Strategic Capital in Austin, Texas, says he hasn't been getting calls from clients asking to get out of the market, and he attributes at least some of this confidence to his use of annuities that protect their principal. During the Great Recession in 2008, "the people I met who already owned annuities weren't as concerned with the downturn, unlike those who didn't have annuities," he says.

People are mainly concerned about having enough income to cover expenses in retirement. In the Alliance surveys, 31% said they're less confident they'll have enough income for retirement after experiencing the Great Recession in 2008 as well as the downturn this year, and 20% of pre-retirees now expect to retire later than they originally planned to make up for recent investment losses. Only one-third are very confident they'll have enough income to cover expenses in retirement. Having a pension or annuity is an important reason people remain confident they'll have enough income to cover those basic expenses.

6 IN 10 PRE-RETIREES ARE RECONSIDERING SOME ASPECT OF THEIR RETIREMENT PLAN

The great retirement reset is here, and people are looking for ways to protect their retirement income. This is the perfect time for financial professionals to help their clients develop a truly diversified retirement "income" plan, one that includes annuities to protect part of their portfolio. Their retirement security may depend on it.

LEARN MORE AT:
ProtectedIncome.org/reset

Opinion

EDITORIAL / LETTERS / OP-ED / GUEST BLOGS

EDITOR'S NOTE

An eye on tomorrow

The legacy of *InvestmentNews* as the trusted resource to the advice community presents the staff with a unique responsibility that we cherish. Legacy can be a dangerous word because it implies a dependence on the past, but the strength of IN's legacy is that we have always kept our gaze forward, focused on the future of the industry.

GEORGE B. MORIARTY

Most recently, we announced our 40 Under 40 in the June 29 issue, where we highlighted the latest group of young advisers driving the industry forward. And now we are accepting nominations for our sixth annual *InvestmentNews* Women to Watch recognition program, where we highlight the women who will carry the advice community in the years to come.

The leaders we are looking for willingly share their expertise with others in the industry, especially other women, and give back to their communities.

Each year, the class is chosen by an *InvestmentNews* selection committee out of hundreds of nominations, and we share the stories of the exciting paths they took while building successful careers in the male-dominated financial services industry.

Are there women you know, maybe even within your firm or organization, who fulfill these criteria? If so, please tell us about their efforts. The nomination period ends Sept. 7, and we will announce the winners in November.

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DOL'S ESG PROPOSAL WOULD HURT RETIREMENT ACCOUNTS

The Department of Labor lost an opportunity to encourage investors to support causes that they hold close to their hearts with a proposed rule regarding the investment choices they're allowed in their retirement accounts. It's a proposal that also could end up damaging Americans' retirement security long-term if allowed to become part of the Employee Retirement Income Security Act.

The June 23 proposal reaffirmed standard thoughts on fiduciary responsibilities that suggest only financial risk and returns can be considered when managing employer-provided retirement plans. In a release, the DOL specifies that its motivation was to "provide clear regulatory guideposts" for plan fiduciaries given the increasing popularity of environmental, social and governance investing.

The proposal, which has been released for comment through July 30, makes clear that "non-pecuniary goals" that might relate to political or public policy shouldn't guide investments of pension funds. Previously, agency guidance has allowed ESG's benefits to count in tie-breaker situations when the investment performance of the ESG fund is the same as that of non-ESG funds that fiduciaries are also considering.

BETTER LONG-TERM PERFORMANCE

The trouble is that ESG products, which are designed to assess environment-related risks and opportunities, increasingly have been shown to weed out unforeseen financial dangers and thus, perform better in the long term. A 2019 study for the U.N. Principles for Responsible Investment found ESG-focused portfolios outperformed the MSCI Index over 10 years, and an IMF analysis determined that there was no evidence of underperformance.

Vikram Gandhi, the Harvard Business School professor who created the institution's first course on sustainable investing, said the Labor Department proposal fails to account for evidence that long-term investors like retirees are likely to earn better returns from investments that account for ESG criteria.

> **THE AGENCY COULD HAVE TAKEN A USEFUL STEP BY CLEARLY DEFINING ESG IN ITS PROPOSAL.**

Asked about the impact of this proposed rule, Gandhi told *InvestmentNews*' publication ESG Clarity US on July 16 that fiduciary obligations are very important and should not be compromised. "I would argue that by not incorporating ESG into the analysis, trustees will not be fulfilling their fiduciary obligations."

Thirteen Senate Democrats also weighed in with a letter to Labor Secretary Eugene Scalia on July 15 that said proposed restrictions on ESG investments "would discourage financial advisers from supporting racial justice" and pointed out that ESG investing results have shown "investors can both achieve strong returns while driving positive change."

The agency could have taken a useful step by clearly defining ESG in its proposal because the term is sometimes used interchangeably with descriptions like "socially responsible investing," or "ethical investing," which do include nonfinancial beliefs into investment choices, such as excluding gun manufacturers.

Instead, the Trump administration took a much harder line, clearly aimed against ESG investing in retirement accounts. That suggests the "political" motive that the proposal says shouldn't guide pension investments is what's really behind the introduction of this public policy proposal, which can be seen as a move to support the U.S. fossil fuel industry at a time when it's being hammered by the COVID-19 pandemic.

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

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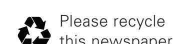

Where are the customers' yachts? 2020 version

GUESTBLOG
BOB KARGENIAN

In 1940, Fred Schwed wrote a book called "Where Are the Customers' Yachts?" He was a stockbroker turned author, and his book would become Wall Street lore. It's a story about a man visiting New York City who admires the yachts Wall Streeters purchased with money earned from giving financial advice to customers — only to wonder to himself where the customers' yachts were. (There weren't any.)

Today, that title is more relevant than ever. On July 6, the Small Business Administration released information on Paycheck Protection Program loans of $150,000 or more. The PPP is a forgivable loan program created by Congress to help struggling small businesses during the COVID-19 economic lockdown.

More than 1,400 companies in the database were identified as investment advisory firms, the vast majority of which use a compensation model that pays them a percentage of assets under management. If assets grow, either because of new money coming in or markets going up, fee revenue goes up. If assets decline, either because of losing clients or down markets, revenue goes down.

HYPOCRITICAL AT BEST

Some examples of advisory firms taking PPP ranged from a midsize firm in Los Angeles with $281 million in AUM, another based in Santa Monica, California, with $2.7 billion in AUM, and a much larger firm in Omaha, Nebraska, with $15 billion. The loans ranged between $150,000 and $350,000 in L.A., $350,000 and $1 million in Santa Monica, and between $2 million and $5 million in Omaha.

For any of the 1,400 firms that took a loan, it is hypocritical at best. At worst, it is disheartening for the profession, if not downright appalling. And I say that sitting on the same side of the table, as a founder (and acknowledged fiduciary) of a fee-only investment advisory and financial planning firm in business for 16 years.

The U.S. stock market has risen in three of four calendar years going back to the 1920s, so this is a wonderful business model for those who serve their clients well. But one does not get to play it both ways.

1,400
ADVISORY FIRMS THAT TOOK PPP LOANS

The PPP was designed for businesses with a significant interruption in revenue. Examples include the tens of thousands of U.S. restaurants, salons, shops, small manufacturing firms or even small professional services firms like law offices whose business largely ground to a halt.

By contrast, wealth managers did not suffer any interruption in their revenue and, unlike restaurants, it's an easy business to run from home. Sure, the market declined for the quarter. Maybe it will be down for the year. Who knows? Perhaps stocks will be down for three years in a row, like 2000 to 2002.

My company, TABR Capital Management, has just over $144 million in AUM. Yes, our revenue went down about 8% in our April billing cycle, reflecting the first three months of the year. Yet this was hardly different than the fourth quarter of 2018, when the S&P 500 fell almost 20% through Christmas Eve.

Let's say a firm is managing $500 million with a 1% average annual fee. That's $5 million in annual revenue, assuming no change. In the first quarter, diversified portfolios dropped around 12%. Now quarterly revenue is $1.1 million instead of $1.25 million. And you need a loan to sustain your business while crowding out actual locked-down businesses with dire payroll needs?

What kind of business are these firms running? Have they not put money aside for a rainy day, as we all counsel our clients? Where's the planning?

True fiduciaries remain a minority in wealth management, and they certainly don't take "free" taxpayer money from the government intended for those that are really hurting. It doesn't matter that it's legal. It's wrong.

Bob Kargenian is president of TABR Capital Management, a fee-only investment management and financial

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THE HUNT FOR MEGA RIAs

In a seller's market, the owners and CEOs of these firms can kick around the idea of selling to a giant bank or private equity manager, or even going public

By Bruce Kelly

Despite the widespread economic and social pain caused by the COVID-19 pandemic, it's shaping up to be another banner year for megafirms, those registered investment advisers with $5 billion or more in client assets.

The pandemic clearly threw a wrench into mergers and acquisitions of target RIAs during the first half of the year, but the market for acquisitions has already started to bounce back and the second half of 2020 looks bright. Megafirms thrive on M&A.

It's been an extreme year for all advisers and financial professionals. After falling 35% to its low in March, the broader stock market has bounced back sharply, with the S&P 500 only 3.4% below its February high as of last Wednesday's close. That means that while revenues fell about 15% for some RIAs at the end of the first quarter, they billed clients at a significantly higher level at the end of the second quarter.

Because of their size and scale, the mega RIAs are enjoying the attention of Wall Street, where many bankers and private equity managers are focused on acquiring privately held assets that throw off significant cash flow. That means the owners and CEOs of such firms can kick around the idea of selling to a giant bank or private equity manager, or even going public.

Recent history well illustrates such a notion. Two years ago, Focus Financial Partners Inc. listed its shares on the Nasdaq and raised $535

CONTINUED ON PAGE 12

TOP ACQUIRERS 2017-2019

Firm	2017	2018	1H 2019	1H 2020	Change from 1H 2019
Focus Financial Partners	19	22	14	3	-11
Mercer Advisors	5	8	4	3	-1
Wealth Partners Capital Group	3	5	3	4	1
Captrust Financial Advisors	4	3	5	3	-2
Wealth Enhancement Group	0	4	2	1	-1
Hightower Advisors	1	2	3	2	-1
Emigrant Partners	0	1	3	3	0
United Capital (no longer acquiring)	2	3	2	0	-2
Mariner Wealth Advisors	0	1	3	1	-2
Creative Planning	0	0	1	4	3
Allworth Financial	0	1	1	2	1
The Mather Group	0	1	1	2	1
Bluespring Wealth (Kestra)	0	0	0	1	1
Cerity Partners	0	0	2	2	0
Carson Group Partners	0	0	2	0	-2

Source: DeVoe & Co. tracking of RIA M&A activity. Excludes transactions less than $100 million and breakaways.

CONTINUED FROM PAGE 11
million. Last year, in perhaps the single most validating move for mega RIAs, Goldman Sachs acquired megafirm United Capital for $750 million in cash.

"I would not be surprised if there was another United Capital-type transaction for a mega RIA," said Marty Bicknell, CEO of Mariner Wealth Advisors. "I'm a true believer that large, Wall Street firms will enter this space. I don't know when, but I'm convinced more will be coming."

SELLER'S MARKET

Megafirms are facing two drawbacks. First, large firms in the neighborhood of $1 billion of client assets that don't sell soon will only see their valuations rise because of the extraordinary demand from buyers, Bicknell said. Second, there are more and more buyers looking to build mega RIAs, and build them fast.

In the past year, the mega RIAs that have been among the most active acquirers include Creative Planning, Mercer Advisors, Cerity Partners and Captrust. Newcomers include CI Financial, a Canadian institution buying its way into the U.S. RIA industry, and Wealthspire Advisors, which was formed after Sontag Advisory and Bronfman Rothschild merged last year.

"The trend of more advisers leaving traditional firms to work at RIAs or open their own firms will continue and consolidation will increase," Bicknell said. "And the more people chasing the same number of deals will cause prices to go up."

WILD RIDE

The share price of Focus Financial, with more than $200 billion in client assets at the end of December, shows what a wild ride it has been for megafirms this year. After bouncing along in the range of $30 per share in January and February, it fell below $13 per share in March. Since then, it has rebounded and traded above $38 per share this month.

As *InvestmentNews* has reported over the past decade, the growth of the large RIAs, with $1 billion or more in assets, and the megafirms has been remarkable. A search of Form ADV filings reveals that increase: At the end of May, there were 274 RIAs with $1 billion or more in client assets, an increase of 45% since 2015, and 35 megafirms with $5 billion or more in assets, a jump of 24% over the past five years.

Deal-making was down dramatically during the first half, even as the field is getting much more crowded, industry executives and analysts noted. According to investment bank and consultant DeVoe & Co., the first half of 2020 saw 15 leading RIA acquirers, like Focus Financial and Mercer Advisors, complete 31 acquisitions; that compares to 46 by the same firms in the first half of last year, a drop of 33%.

Look for the megafirms to be extremely active in the second half of the year when it comes to buying smaller RIAs. Mercer Advisors, for example, has announced three acquisitions of RIAs since the end of June with combined close to $1.8 billion in assets.

PRESSING FORWARD

"It takes six to eight months to get a deal done," said Dave Barton, vice chairman and head of M&A at Mercer Advisors. "So the deals we are announcing now started before COVID-19 hit. And it was tough during the negotiations because revenues were off from 14% to 16% from the market peak in February. That's pretty significant."

"But we saw this as an opportunity to press forward and we decided to lean into deals," Barton said. "You're going to see a string of announcements coming from us."

"The RIAs that were holding back from selling were sitting on the fence," he said. "They knew it was a seller's market. Then the pandemic hit, the stock market dropped, and these same folks realized they didn't have the scale and capacity to do the work, campaigning and outreach that's necessary for hundreds of clients during a crisis. We have that scale."

"Those firms realize they need to join a scale player, that this is when you need a partner," Barton said. "You don't need a partner when the market is roaring. You need a partner when the market is going crazy and you're in jeopardy of losing your clients."

"IT'S A RISKIER ENVIRONMENT, AND THE BUYERS ARE TRYING TO MITIGATE RISK."
David DeVoe, managing director, DeVoe & Co.

"But there has been no price erosion for RIAs looking to sell due to COVID-19," Barton added. "It remains a strong seller's market."

MONEY DOWN

The abundance of private equity funds shopping for RIAs will also continue to spur the RIA M&A market, said Brian Hamburger, president and CEO of MarketCounsel, which advises breakaway brokers.

"Private equity money is not that patient," Hamburger said. "It's there to make a deal and if it doesn't, it will lose the ability to do them."

"When you have a private equity firm backing an RIA with an owner that has already cashed out, it's a lot easier to put those funds at risk because it isn't the founder's money anymore," he said. "That has something to do with firms continuing this pace of deals even though business logic says there is greater uncertainty in the market."

What's changed, executives and consultants said, is how big firms are structuring deals for RIAs. Before the pandemic, owners of RIAs with $1 billion in assets could receive 80% of the price at the completion of the acquisition.

Now, in the wake of the volatility in firms' revenues caused by the market sell-off, deals are commonly being struck that have a larger portion deferred for a period of time, like 12 months. That's an incentive for the seller to make sure as much as 100% of the firm's revenues wind up with the buyer.

"It was megafirms that were writing bigger checks up front, and when COVID-19 hit they dialed that back for good reason," said David DeVoe, managing director of DeVoe & Co. "It's a riskier environment, and the buyers are trying to mitigate risk."

"It's a new vintage of deals, with buyers putting 50% to 60% down, compared to 70% to 80% several months ago," he added.

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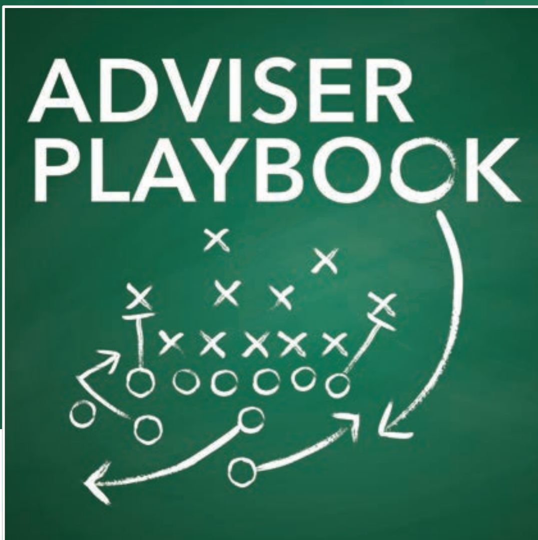

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OVERVIEW

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SOURCE: NBER WORKING PAPER

Timing a Social Security claim when you have kids

MARY BETH FRANKLIN

ONRETIREMENT

With the high incidence of divorce and remarriage these days, it's not unusual to hear stories about families headed by older fathers — some old enough to claim Social Security — with school-age children at home. When it comes to timing benefits for minor dependents, deciding when to claim Social Security is a major decision that's complicated by the father's age and whether he is still working.

KEY POINTS

- Parents' decisions on claiming Social Security can trigger benefits for their children.
- Children's benefits are payable up until age 18.

Two readers recently asked me similar questions about whether their clients should claim Social Security now to trigger benefits for their dependent children. For one, the answer was a slam-dunk yes. For the other, it is a more complicated not yet.

TRIGGERING BENEFITS

In the first instance, the client is 66, still working and earns about $150,000 per year. He and his wife have 8-year-old twins. Because earnings restrictions disappear at full retirement age, it makes sense for this client to claim Social Security retirement benefits now, triggering benefits for both children.

Normally, a child is entitled to 50% of a parent's full retirement or disability benefit. But there is a limit to how much a family can receive. The family maximum payment ranges from 150% to 180% of the parent's full benefit amount based on a complicated formula. If the total amount payable to all family member exceeds this limit, the Social Security Administration reduces each person's benefit proportionately (except the parent's benefit) until the total equals the maximum allowable limit.

Assuming the father's full retirement age benefit is $2,400 per month, each child would potentially be eligible for an additional $1,200 per month, for a family total of $4,800 per month. The family maximum in this case would be $4,313 per month, so dad would receive his full $2,400 per month and the twins would split the remaining $1,913, netting them each $956.50 per month.

Children's benefits are payable up to age 18, or 19 if the child is still in high school. I have often jokingly referred to this family benefit as the "Viagra college fund," suggesting that the added income can be a good way for older parents to help pay for college.

EARNINGS LIMIT

Another adviser asked for guidance on whether his 62-year-old client should claim Social Security now to trigger benefits for his 12-year-old daughter and his 55-year-old wife, who cares for their child. The client is still working and usually earns between $50,000 and $70,000 per year.

This situation is more complicated because the client earns significantly more than the annual earnings limit of $18,240 for people who are younger than full retirement age during all of 2020. If he claimed benefits at 62, his benefits would be reduced by 28.33% for claiming early compared to his full retirement age of 66 and 8 months.

50% PORTION OF PARENT'S BENEFIT CHILD IS ENTITLED TO

So, if the client was eligible for a Social Security benefit of $2,400 at his FRA, he would receive about $1,720 per month at 62. But his child's and wife's dependent benefits would still be based on 50% of his full $2,400 per month amount, subject to the family maximum limit.

Let's assume the client expects to earn $65,000 this year, substantially more than the earnings limit for 2020. Social Security would reduce his retirement benefit by $1 for every $2 earned over $18,240 this year. Therefore, his excess earnings of $46,760 would eliminate $23,380 ($46,760/2) in potential benefits, wiping out all of his retirement benefits for the year.

FORFEITED BENEFITS

But because two other family members also would be collecting on his earnings record and all of their benefits would be reduced because of the father's excess earnings, the family would receive about $28,000 for the year after satisfying the earning test reduction.

But it is too late to claim benefits this year because it would take six months of forfeited benefits to satisfy the earnings test, wiping out benefits for the rest of the year. Instead, he should file for benefits to begin in January 2021 and after satisfying the earnings test, the family would begin receiving benefits in the second half of the year.

In addition, Social Security will recalculate his benefit after he reaches full retirement age to give him credit for any month in which he did not receive benefits due to excess earnings.

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

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BY MARY BETH FRANKLIN

Estimating future Social Security benefits

Bill: A client of mine is trying to decide when to retire. She was born in February 1955. Her estimated benefit statement from Social Security says her monthly benefit will be $2,541 if she claims at her full retirement age of 66 and 2 months. She would like to retire now at age 65 but plans to wait until full retirement age to file for benefits. Her question: Is the estimated benefit predicated on her continuing to work at her current pay scale until she reaches age 66 and 2 months? Will she lose a chunk of benefits if she retires now but waits until next year to claim benefits?

MBF: Retiring from work and claiming Social Security benefits are two separate events. Social Security calculates benefits based on your highest 35 years of average earnings and assumes you continue working and earning at your current level through full retirement age. But the monthly benefit you actually receive is based on the age when you claim benefits: It's less than the estimated amount if you claim before full retirement age, and more if you claim later, up to age 70.

With less than a year to go before your client reaches full retirement age, retiring now should not have a major impact on her benefits if she waits until she reaches full retirement age to claim them. For other clients who may have a bigger gap between the date they stop working and the date they plan to claim benefits, the impact could be more substantial.

The Social Security Administration has several calculators (https://www.ssa.gov/OACT/anypia/index.html) available on its website that let you play around with "what if" scenarios of retiring in one year and claiming benefits at a later date.

The Quick Calculator provides a rough estimate of your retirement benefits based on your current earnings. You can enter zero earnings for future years between the time you stop working and the year you plan to claim benefits. The results of both calculators are merely estimates. Social Security can't tell you your actual monthly amount until you apply for benefits.

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TECHNOLOGY / BUSINESS DEVELOPMENT / MARKETING / NEXT-GEN / CLIENTS / EMPLOYEES

Financial literacy is important for financial inclusion

Without financial literacy, the successful use of financial services to manage money becomes impossible. It is vital for the well-being of every consumer and community around the world. How can people be financially empowered if they don't understand the financial concepts required for money management?

FINANCIALLITERACY
MARGUERITA CHENG

Money management wasn't always so complicated. In past generations, cash was the primary payment method. Whether you were buying groceries, paying a utility bill or compensating your nephew for mowing the lawn, you could complete the transaction by pulling a few five or 10-dollar bills out of your wallet. As recently as 2015, cash was used 33% of the time, according to the Federal Reserve Bank of San Francisco. Yet a report this April from American Consumer Credit Counseling Inc. found that only 14% of Americans admit to using cash for everyday purchases.

UNDERBANKED

Consumers are turning to debit cards, credit cards, checks, and mobile and electronic payment methods to manage day-to-day spending. The more spending instruments available, the more complicated money management becomes.

A 2017 FDIC National Survey of Unbanked and Underbanked Households found 6.5% of households in the U.S., representing approximately 8.4 million households, were unbanked. Imagine how difficult living a meaningful life and achieving financial goals would be without proper access to a bank or other financial institution. It's a concern primarily among disadvantaged and low-income segments of society. Without essential services, adults don't have a secure place to save money, can't access loans or lines of credit, can't build a credit record and have no way to send or receive money to and from employers, doctors and schools.

6.5%
PORTION OF U.S. HOUSEHOLDS THAT ARE UNBANKED

Unless financial literacy becomes a primary focus, the problem of financial exclusion will continue to grow. As financial advisers, we have a unique role to play in promoting financial literacy.

More than anyone, we understand the language of money and how small financial choices can affect a person's future goals and objectives. We can help to expand financial inclusion by assisting people in understanding essential financial concepts and developing the skills, motivation and confidence to reach financial goals.

Many challenges stand in the way, from a simple lack of awareness about financial inclusion and financial literacy to systemic concerns regarding banking products and documentation processes. Making people, companies and government institutions more aware of financial inclusion is an excellent first step. The National Education Association has resources for teaching financial literacy, and you could offer to teach a high school course to educate future generations. Advocating for change in public policy on behalf of poor and underserved communities can also help. Although changing laws is difficult, pairing up with a fellow financial adviser to meet with state legislators can make a difference.

SMART MONEY

Volunteering at one of the many nonprofit organizations that provide financial literacy materials and education can go a long way to educate and improve financial inclusion. You may also volunteer at a local level, perhaps by offering to prepare a financial education curriculum for a middle school or high school teacher.

There are over 87,000 CFP professionals in the U.S., and the Bureau of Labor Statistics reports over 200,000 personal financial advisers. If we could work together to support financial literacy, the impact on financial inclusion would be enormous.

It's time to help our communities get more inclusive access to financial programs, products and systems. And that starts by teaching our children, families and people, young and old, the importance of smart money management.

Marguerita Cheng is chief executive at Blue Ocean Global Wealth.

Five questions wirehouse advisers need to ask themselves

GUESTBLOG
MINDY DIAMOND

Most wirehouse advisers don't typically spend a lot of time thinking about their end game. And industry studies bear out that truth: It's reported that some 70% of financial advisers do not have a formal or written succession plan.

With the average age of financial advisers in the late 50s, that's a pretty alarming statistic.

Yet the reality is that many aging advisers really don't have to think much about succession.

They work in a model that can take them from "cradle to grave" — that is, from novice in-house trainee to retire-in-place veteran. In fact, wirehouse sunset programs — which make it possible for advisers to monetize their life's work without having to change firms — are just the safety net that they can rely upon.

As one adviser put it, "Despite the imperfections with my firm, if I knew with certainty that there would be no further changes from now until the day I retire, I'd be inclined to commit to spending the rest of my professional life here." Unfortunately, guarantees like that don't exist.

DRIVING THE BUS

Life at the wirehouses has changed a lot — and the pace of change has accelerated in the last few years. Modifications to compensation, a hypervigilant compliance culture and a stringent regulatory environment have left advisers feeling vulnerable and with far less control over their business lives. And many struggle with their firms' "corporate agenda" driving the bus, as well as with "management to the lowest common denominator" hindering creativity and growth.

But there's even more at play: It's the frustrations being voiced by next-gen partners and junior members of the team that are hard for a senior adviser to ignore. These younger advisers recognize that being bound to a firm for the life of the retiring partners' sunset agreement could eliminate optionality and ultimately diminish the value of the business overall. Advisers often find their goals are out of sync with those of their firms.

Becoming aware of this incongruency has served as a resounding wake-up call for many senior advisers. To close the gap requires gaining further clarity on whether they should finish their careers where they are or opt to go elsewhere — and that process starts by answering these five thought-provoking questions:

"How have the changes at my firm impacted me, my team and my business?"

"Am I limited in any way as to the products, services and technology I can access on my clients' behalf?"

"Am I 100% confident in my relationships with my clients?"

"Is my team committed to me and are we all on the same page regarding our collective futures?"

"Are there options beyond my firm?"

While every adviser should assess the alignment between where he is and where he wants to be on a regular basis, it doesn't necessarily mean that the outcome is to make a move.

But it does mean that the most responsible and prudent course of action is for wirehouse advisers to be well-educated — making certain that finishing their career in place is indeed congruent with the goals of the entire team.

Mindy Diamond is founder and CEO of Diamond Consultants, a financial recruiting firm.

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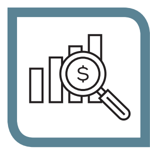

Industry

"FOR MANY ADVISERS THE HUMAN CONNECTION IS A CRITICAL PART OF DEVELOPING A TRUSTED RELATIONSHIP WITH CLIENTS."
— DAVID LEVENSON, PRESIDENT AND CHIEF EXECUTIVE OFFICER, LIMRA

Are advisers prepared for more M&A?

BY JEFF BENJAMIN

AS THE PACE of merger and acquisition activity in the RIA space ramps up following a three-month pandemic-related lull, the latest concern is around a gap in understanding the nitty-gritty details of what business consolidation is all about.

"Deal structures are rapidly evolving, and the industry is too dynamic to just say, 'I want to do M&A,'" said Brandon Kawal, principal of Advisor Growth Strategies.

Kawal, who surveyed a cross section of RIA buyers and sellers during the first few months of 2020, found that while owners generally had a realistic grasp of valuations, the increasingly complex nature of deal structures put most firms behind the curve when it comes to approaching a merger or acquisition.

CONTINUED CONSOLIDATION

Of the 96 firms surveyed, 51% said they are unprepared to engage in M&A opportunities, and 16% said they are only somewhat prepared. Almost a quarter of respondents admitted to having no idea how a deal would be financed.

Kawal said the findings are important because, looking past the slowdown in activity from March through May, consolidation is seen as a theme that will only gain momentum as more of the aging financial adviser population searches for succession planning solutions.

While M&A activity is dominated by large aggregator firms that have dedicated acquisition teams, Kawal said not all buyers are at that level of sophistication.

"On the buyer side, there's a need for education around what it takes to compete, which boils down to people, platform and process," he said. "The most established buyers have established platforms you can plug into, so it's important to know who you're competing against."

Sellers, which are often smaller and with less resources dedicated to M&A, can be especially vulnerable to the nuances of consolidation, Kawal said.

"On the seller's side, you need to know what the market is valuing," he said. "Before you go to the market, you need to know how to best prepare yourself to command what you want by knowing what buyers will value in your business."

"ON THE SELLER'S SIDE, YOU NEED TO KNOW WHAT THE MARKET IS VALUING."

BRANDON KAWAL, PRINCIPAL, ADVISOR GROWTH STRATEGIES

CORE FOCUS

David DeVoe, chief executive of DeVoe & Co., discounted the relatively small sample size of the research, but acknowledged the general premise that RIA owners haven't always given M&A the attention it deserves.

"It is true that most advisers are not prepared for M&A, and rightly so," DeVoe said. "Their core focus is supporting their clients; M&A for any seller is a once-in-a-lifetime transaction."

He recalled presentations to a couple of hundred people at conferences where 95% of the audience would identify themselves as RIA buyers.

"Everyone thinks they're a buyer, but very few fall into the category of qualified buyer," DeVoe said. "Qualified buyers have sourced capital, have a target profile, have a detailed integration plan, can articulate strategic value, and the list goes on. The devil is in the details. It takes expertise. It takes practice. Most sellers today are looking for a partner who has made one or more acquisitions before. They don't want to be a test case."

Mark Bruno, managing director at Echelon Partners, also warned against generalizing from such a small sample size.

"The motivation for engaging in a merger or acquisition can have a direct correlation with the level of preparedness," he said. "If a firm is strictly looking to be opportunistic, either as a buyer or a seller, in this market and has not given much previous consideration to M&A, they will naturally feel less prepared.

"There are, however, a number of firms that have been strategically planning for a merger, acquisition, sale or transition for years," Bruno said. "They've effectively laid the groundwork by conducting a real valuation, developing G2 leadership, and building infrastructure and operations that can help them absorb or integrate with another firm."

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Advisers must address aging ranks: NASAA

INVESTMENTNEWS

A REPORT FROM the organization of state and provincial securities regulators found that brokerage and advisory firms need to address issues related to the aging of their increasingly older adviser workforce.

The report from the North American Securities Administrators Association's committee on senior issues and diminished capacity was based on a series of discussions that state and provincial securities regulators had with broker-dealers, investment advisers and compliance consultants to understand how the industry handles issues related to diminished capacity and cognitive impairment of financial professionals.

RED FLAGS

The report suggested firms encourage or even require all financial professionals to establish a succession plan regardless of age, and identified several areas for firms to consider, including whether appropriate staff are trained to recognize the red flags of diminished capacity and cognitive impairment. Those interviewed believe there are roles for regulators to play in identifying the problem.

"Addressing financial professionals with cognitive impairment or diminished capacity requires sensitivity and respectfulness. Each situation will present differently and firms will have varying resources to address these concerns," notes the report, which was prepared by a working group chaired by Claire McHenry, deputy director of the Nebraska Bureau of Securities.

Employee advisers rank the best brokerages: J.D. Power survey

See which firms have the most satisfied financial adviser employees

INVESTMENTNEWS

J.D. POWER SET out to uncover which brokerage firms get the highest marks for job satisfaction from their employee advisers. Its 2020 J.D. Power U.S. Financial Advisor Satisfaction Survey covers seven brokerages and is based on a survey of 3,262 employee advisers conducted from January through April 2020. The broker-dealers were measured on a 1,000-point scale based on six factors: compensation, leadership and culture, operational support, products and marketing, professional development and technology.

7 Wells Fargo Advisors
2020 score: 592
2019 score: 656
2019 rank: 8

6 UBS
2020 score: 619
2019 score: 701
2019 rank: 5

5 Morgan Stanley
2020 score: 713
2019 score: 682
2019 rank: 6

4 Merrill Lynch
2020 score: 718
2019 score: 665
2019 rank: 7

3 Ameriprise
2020 score: 743
2019 score: 793
2019 rank: 4

2 Raymond James & Associates
2020 score: 867
2019 score: 864
2019 rank: 2

1 Edward Jones
2020 score: 920
2019 score: 926
2019 rank: 1

Path to economic recovery expected to be turbulent

In survey of advisers' expectations for the next 12 months, the only consensus is that there's a rocky road ahead.

InvestmentNews surveyed the industry on its outlook as it heads into the second half of a year that has already sent markets, the economy and the day-to-day operations of financial advisory firms into uncharted territory. Advisers shared sentiments on their business en-

NUMBERSGAME
DEVIN MCGINLEY

vironment as well as their broad investing plans for the next quarter.

A majority (60%) of advisers expect the overall stock market to improve over the next year, though they were less confident about the underlying economy.

On median, bulls projected a 7% rise in the S&P 500 over the next 12 months, while bears projected a 12% decline.

Although advisers were generally optimistic that markets and economic activity will be higher a year from today, few predicted an entirely smooth interim. About half believe the S&P is highly likely to experience another pandemic-driven decline of 10% or more in the next year.

Most advisers were also at least moderately concerned that political and regulatory developments over the next 12 months could negatively impact their book of business.

FINDING ALPHA

ESG funds are poised to make gains over the quarter, with 45% of advisers who deploy the products in their portfolios planning to increase their usage. Other products that are expected to gain in popularity reflected an environment of uncertainty and an increased emphasis on finding alpha, with 28% of all advisers planning to increase their usage of actively managed ETFs and 21% expecting to purchase more individual stocks over the next three months.

Zooming out to underlying asset classes, real estate assets were poised for net selling as pandemic lockdowns cast doubt on the future of commercial real estate.

U.S. equities' leadership among asset classes may reflect advisers' collective expectation that the recession that began in February will be relatively short-lived. A plurality believe that it has either already ended or will have by the end of the year. Among the rest, few expect the recession to drag past the first half of 2021.

REMOTE WORK

Interestingly, advisers' view of the economic recovery appeared to be shaped by their work environments. Fifty-seven percent of advisers whose firms have already resumed onsite work expected the economy to emerge

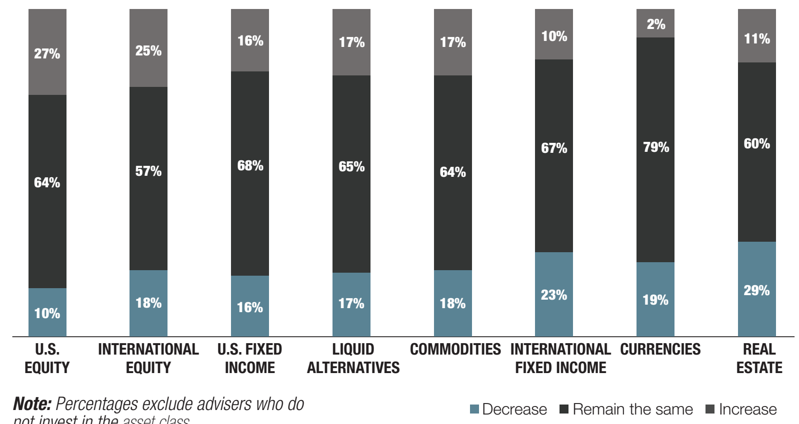
60% OF ADVISERS EXPECT THE OVERALL STOCK MARKET TO IMPROVE OVER THE NEXT YEAR.

from recession by the end of the year. But among advisers whose firms have permanently expanded remote work arrangements or plan to reopen later than September, only 32% expected the downturn to be so brief.

This survey, conducted via email between July 6 and July 16, includes responses from 159 financial advisers and closely related professionals. All respondents worked at industry firms, and more than 90% personally managed client assets.

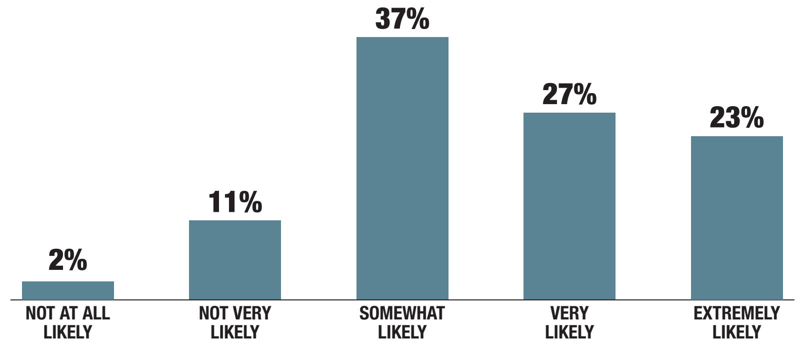
For questions about IN Research offerings, contact INResearch@investmentnews.com.

EXPECTED ASSEST ALLOCATION CHANGES OVER Q3

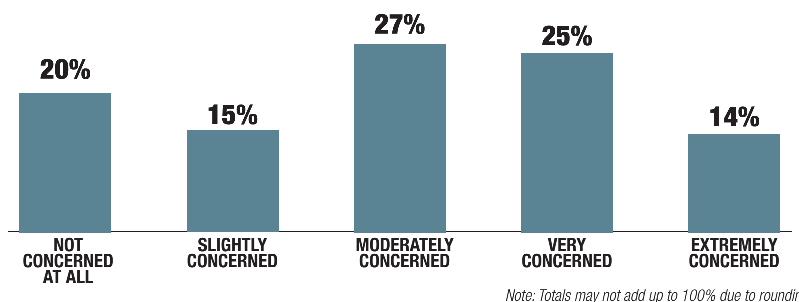


Note: *Percentages exclude advisers who do not invest in the asset class.*

LIKELIHOOD OF ANOTHER SIGNIFICANT STOCK DECLINE

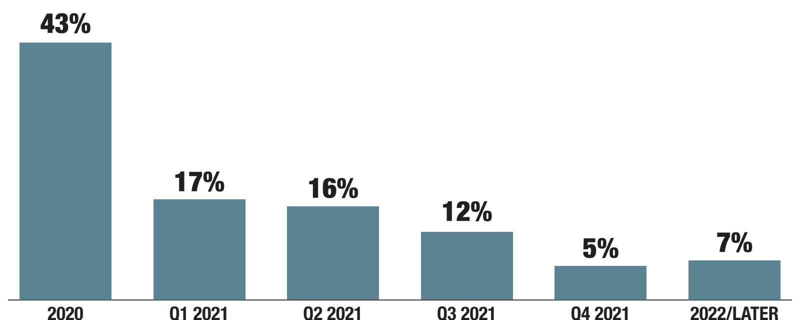


CONCERN ABOUT REGULATORY/POLITICAL IMPACTS

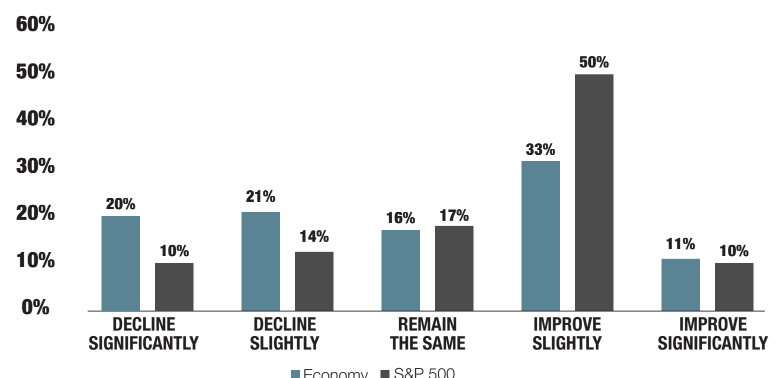


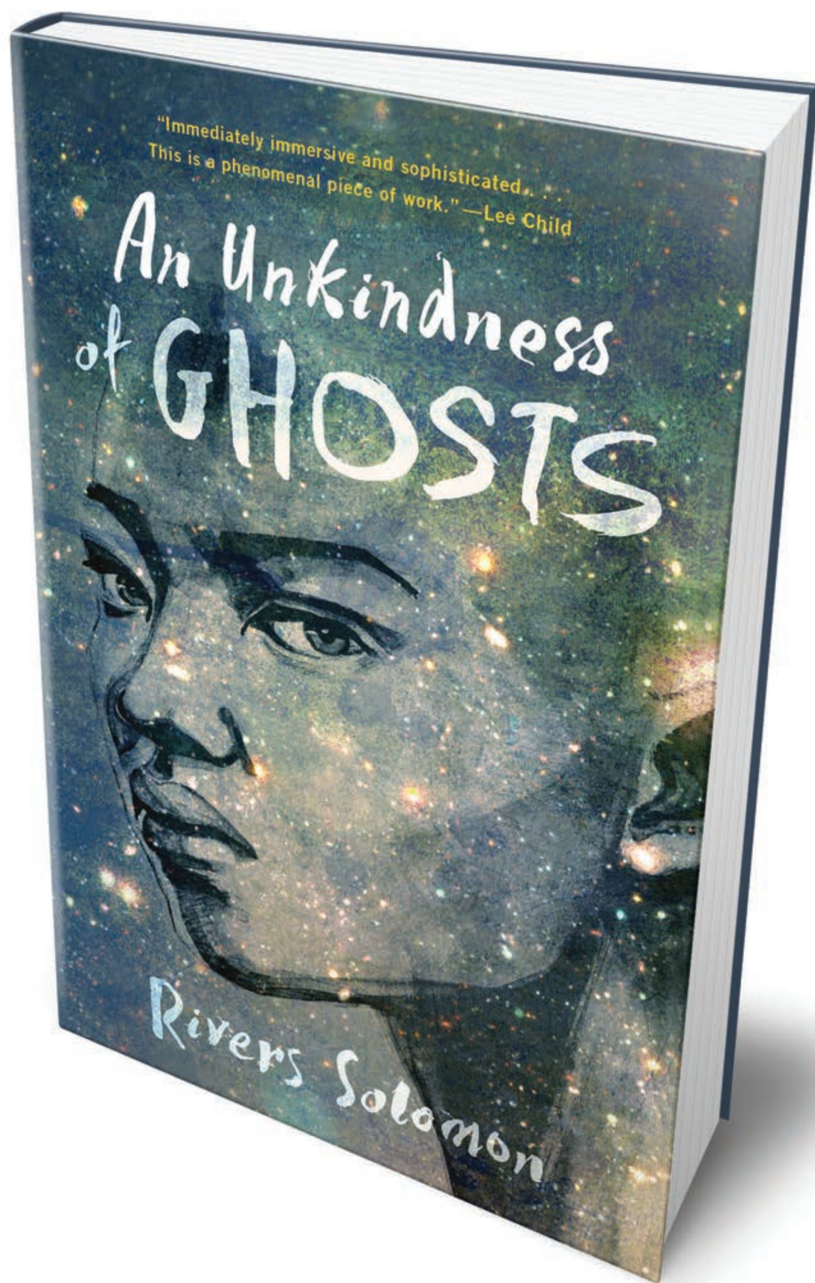
Note: Totals may not add up to 100% due to rounding.

WHEN WILL THE RECESSION END?



EXPECTATIONS OF THE ECONOMY AND S&P 500 OVER THE NEXT 12 MONTHS





More 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 on business, the other on another topic. We listed the business books in the previous issue; here are the rest of their picks.

AARON KLEIN, CEO, Riskalyze

Dream Big
Bob Goff

I've had the great pleasure of meeting Bob and speaking at the same event as him; he's a ball of ferocious energy, joy, and love. In this book, he unlocks the pathway to getting out of whatever rut you're in, dreaming about what you really want to achieve, and doing it. You won't be the same after reading this book.

STEVEN SKANCKE, Chief Economic Advisor, Keel Point

The Boys in the Boat: Nine Americans and Their Epic Quest for Gold at the 1936 Berlin Olympics
Daniel James Brown

An inviting, enjoyable read for any lover of sports or competitive spirit, 'The Boys in the Boat' inspires with key characters overcoming humble beginnings and human tragedy to find value and belonging with others, team and individually.

PHIL BUCHANAN, Executive Chairman, Cannon Financial Institute

Songs of America
Jon Meacham and Tim McGraw

Meacham and McGraw take an incredibly objective look at what was occurring in the U.S. at what are now known as historic events and break down the power of music (both the lyrics and the artists, as applicable) as it proceeded or eventually told the story of watershed moments of the American Experiment.

DOUG KETTERER, CEO, Atria

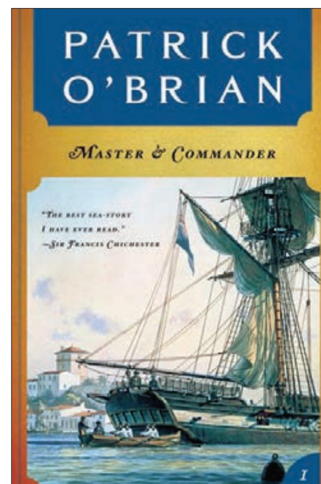
The Gold Standard: Building a World-Class Team
Mike Krzyzewski

Coach K recounts his experience in leading some of the most talented basketball players on the planet in this book, and it truly offers tremendous insight for anyone who is trying to lead a team to success, whether it be a sports team or a business.

RUSS HILL, Chairman and CEO, Halbert Hargrove

The entire Aubrey-Maturin series, beginning with Master and Commander
Patrick O'Brian

Though it may sound daunting to hear of essentially a single novel about the Royal Navy during the Napoleonic Wars, in 20 volumes with about 7,000 pages, my interest never flagged. Patrick O'Brian's mastery of nautical details is incredible, especially since he was never at sea; he's been favorably compared with Jane Austen in style and depth.



JUDY MARLINSKI, Head of Product and Advisory Solutions, Fidelity Institutional

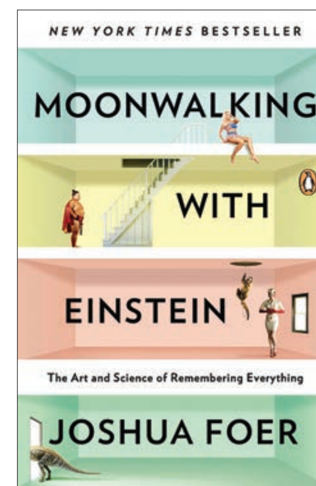
Pachinko
Min Jin Lee

Min Jin took 20 years to write this epic tale of a multigenerational Korean family that finally immigrates to Japan. The book illustrates with amazing detail the hardships, cultural biases and stereotypes between Japan and Korea and the desperate measures taken to just survive over the last 100-plus years.

SHERYL O'CONNOR, Co-founder and CEO, IncomeConductor

Moonwalking with Einstein
Joshua Foer

Ever meet someone at a conference you know you've met before but you can't remember their name, where you met them or in what context? In his highly entertaining, instant best-selling book, journalist Joshua Foer gives the keys to your 'memory palace' that will allow you to remember not only names, faces and phone numbers, but the order of multiple decks of cards, endless lists of numbers or words, practically anything you want to remember.



SAM BROWNELL, Managing Director, Stratus Wealth Advisors

Pale Rider
Laura Spinney

This is a book about the 1918-19 Spanish Flu pandemic. For such a monumental historical event, the fact that even history buffs like myself don't know much about the Spanish Flu is troubling, especially given our recent trouble grappling with the right responses to the coronavirus.

LUKE WINSKOWSKI, Head, Thrivent Advisor Network

The Unkindness of Ghosts
Rivers Solomon

Rivers Solomon is a rare science fiction author – black, lesbian, female … I heard her speak on the radio and decided to pick up the book. It's gritty, raw and uncomfortable. And it's a remarkably beautiful read during a time that I am trying to expand my perspective in a totally different way.

HOWARD LUTZ, Senior Vice President, Intercontinental Wealth Advisors

American Dirt
Jeanine Cummins

In today's political climate, the controversy surrounding the author and who has the right to tell this story is equally thought-provoking and worthy of ongoing family dinner table discussion. It's the combination of current timing and the long overdue need for systematic reform that make this book a top read for me.

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WORKING FROM HOME

CONTINUED FROM PAGE 6

tions using eSignature for money movement more than doubled between February and April, according to Fidelity. Digital tool adoption for both clearing and custody account opening also grew, including a 45% increase in new account eSignature adoption for custody in the same time period.

Yet all the technology tools many firms are touting as the pandemic has forced remote work "don't matter without a stable, secure and scalable platform," Burns said.

RIAS EMBRACE TECH

The main reason advisers in traditional work environments who are now remote struggle is because they tend to have legacy infrastructure, said Baltimore-based RIA Facet Wealth's chief technology officer Paul Martin. "That tech infrastructure is set up assuming everybody is sitting in the same physical location, and then they stick a firewall in front of it and think it's secure."

To promote remote work, Plano, Texas-based Insight Wealth started to adopt several technologies to maintain productivity remotely, including encrypted virtual meetings via Zoom, secure document exchange with DocuSign and a cloud-based encrypted server for client files.

The nine-adviser firm manages $435.6 million in client assets and allows employees to come and go in the office as they see fit.

However, the RIA has experienced challenges with clients wanting to engage more via mobile devices.

"I have protocols and best practices for tech usage I advise clients to take not only with me, but with other providers," said Josh Hargrove, a financial adviser with Insight Wealth.

HUMAN INTERVENTION

In one instance, a client sent Hargrove a screenshot over text regarding a pension distribution and asked a question about it.

"Any time a client randomly sends me a text or an email that I know hasn't been encrypted, I always have to take a moment to remind them we have tech tools in place to securely engage and exchange information with each other," he said.

For Atlanta-based Gratus Capital, providing its employees with a cloud-based network where they could "just plug in anywhere" was a top priority as well, said Todd Jones, director of investments.

The RIA has 15 advisers with about $2 billion in client assets under management, according to its latest Form ADV. With its new cloud-based software, the firm will permanently operate in a hybrid work environment as client demand for digital processes increases, Jones said.

"What advisers and clients are finding is processes had too much human intervention," said Michelle Feinstein, BNY Mellon Pershing's director of technology client engagement. "An adviser can be on video with a client walking them step by step through an online application, which is so much better than scheduling a meeting a week from now to work on paper."

On the West Coast, Private Ocean — which boasts $2.2 billion in client assets under management and has 24 advisers — uses Amazon WorkSpaces and requires that all client-related information be shared through the portal, adviser Steve Branton said.

"WE WERE ABLE TO JUST IMMEDIATELY START WORKING FROM HOME."

STEVE BRANTON, ADVISER, PRIVATE OCEAN

"We are also using Zoom, which runs outside of the remote desktop server," Branton said. "But we require that no client-related information be shared in the chat functionality — only screen sharing."

The San Francisco-based firm developed its technology to promote remote work dynamics following the California wildfires last year, which turned out to an advantage for the firm when COVID-19 hit, Branton said. "We were able to just immediately start working from home."

As firms of all sizes accept that technology is a business imperative, tech providers, moving forward, can accelerate the conversation beyond the adoption of simple tools like eSignature, Pershing's Feinstein said.

"Advisers have reevaluated their business models and are now looking for other ways technology can enhance efficiency and scale," she said. "That's the silver lining in all of this."

CYBERSECURITY CONCERNS

But with greater technology adoption comes greater risk. Every firm — from wirehouses to small RIAs — has become dependent on an expanding digital infrastructure. That, in turn, has made advisers vulnerable to cybercriminals and foreign adversaries.

According to an IBM Security study released in June, prior to the pandemic, 80% of 2,000 respondents worked from home either rarely or not at all prior to the pandemic. More than half are now doing so with no new security policies to help guide them.

This shift to working from home has exposed new security risks and has left nearly half of those employees worried about impending cyberthreats in their new home office settings, according to the study.

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THE InvestmentNews ADVISER CENTER
MAKE THE SMARTER MOVE

Securities America warns of service slowdown as consolidaton begins

BY BRUCE KELLY

SECURITIES AMERICA INC., one of the major broker-dealers in the burgeoning Advisor Group network, last Monday warned its advisers of longer than usual times to deal with advisers' phone calls as it begins a major merger.

The notice regarding slowdowns in services comes as the firm is in the process of absorbing 1,200 advisers from Advisor Group's recent acquisition of Ladenburg Thalmann Financial Services Inc.

Snafus in technology or service, irritating and at times infuriating to financial advisers, are common during large broker-dealer mergers. Advisor Group said in May it was going to shut down three of the Ladenburg firms and move those advisers over the summer onto the platform of Securities America, the largest broker-dealer that was part of Ladenburg.

"Due to high call volumes, we are experiencing longer than normal wait times," according to the memo sent to advisers, which was signed by Theresa James, vice president of advisor experience at Securities America. "We appreciate your patience."

The broker-dealers that are being merged into Securities America are Investacorp, Securities Service Network and KMS. Investacorp is the first firm to move its advisers to Securities America.

Joseph Kuo, a spokesperson for Securities America, said that the firm "anticipated the rise in volume due to the transition of Investacorp over the weekend and increased staffing proportionately to accommodate."

LOWERING COSTS

Consolidating broker-dealers is typically a way for large networks like Advisor Group to lower costs, as separate back offices and employees for each firm often deliver similar services to advisers.

"We've found mergers and fast growth are frequently a recipe for overwhelming back office capabilities," said Jon Henschen, an industry recruiter. "The firms that do the best transitions are the ones that assertively gap out the advisers' moves so that the back office is not overwhelmed by work volume," he added.

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Koch Industries being sued over its 401(k) plan fees

INVESTMENTNEWS

KOCH INDUSTRIES, the parent of Georgia-Pacific, Infor and other companies, is being sued for allowing the record keeper of its 401(k) and other defined-contribution plans to charge fees that plaintiffs contend are excessive, according to a complaint filed in federal court in Atlanta.

As reported by Pensions & Investments, the class action charges that Koch Industries breached its fiduciary responsibilities as administrator of the $8.1 billion Koch Companies Defined Contribution Master Trust, which serves about 60,000 participants, by failing "to prudently and loyally monitor and control" the expenses incurred by the plans' record keeper, Alight Solutions. Alight was not named in the lawsuit.

The complaint further said that Alight charged "up to six times more than what similarly sized plans would have paid for such services" and that these actions cost the plans and their participants "millions of dollars in excessive fees."

The plaintiffs, David Kinder and Tracy Scott, are residents of Arkadelphia, Arkansas. One is a participant and the other a former participant in the Georgia-Pacific Hourly Plan.

UBS

CONTINUED FROM PAGE 4

phasizes the advisers' value and is extremely positive.

Finally, is the private bank adviser's relationship with clients established in a way that makes it extremely difficult for the adviser potentially to leave UBS and perhaps start working at a rival firm with those elite clients? The fight for the control of the client between the adviser and the firm has never been more intense, and this change by UBS has to be looked at in that context.

You better believe that UBS' rivals, including Morgan Stanley, Merrill Lynch and the host of giant registered investment advisers, are trying to figure out answers to those questions and whether they can convince these elite UBS advisers to change firms.

UBS, which has more than 6,000 financial advisers in the United States and the Americas, wasn't offering much in the way of comment.

"We are committed to providing our clients with the best that UBS has to offer," a spokesperson said.

UBS has been overhauling its wealth management business in the United States for more than two years, integrating it into its global wealth management franchise.

This latest move is no surprise, but leaves the private banking advisers involved with plenty of questions.

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DANI FAVA

CONTINUED FROM PAGE 4

foster innovation and do similar things to move the profession forward."

Industry recruiter Danny Sarch said most large mergers lead to attrition and send employees "looking for greener pastures."

"When a bigger institution takes over a smaller institution, it creates uncertainty," he said. "The new company will only need certain people. But it's the same in any business that achieves economies of scale by cutting the most expensive things, which are payroll and real estate."

DEPARTURE 'BITTERSWEET'

Carolyn McClanahan, director of financial planning at Life Planning Partners, described the news of Fava's departure as bittersweet.

"Schwab and TD have totally different cultures, so I would expect some departures just from that aspect," she said.

On hearing the news that Fava was not going to another custodian, McClanahan elaborated, "She is so smart and doesn't really fit in with a custodian."

Michael Kitces, head of planning strategy at Buckingham Strategic Partners, said it was "only a matter of time before top TD Ameritrade talent began to look for alternatives rather than take the risk of layoffs."

"I would anticipate we'll see more departures from TD soon, as the current team there tries to evaluate whether they see a future for themselves with Schwab, whether they'd rather explore and pursue opportunities at other firms, or even if they decide to cross over and join or launch their own advisory firm instead," he added.

Fava, who lives in Staten Island, New York, had been commuting to TD's Jersey City, New Jersey, office. Once it's safe to go back to offices, she will be commuting to Envestnet's Berwyn, Pennsylvania, office.

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SEC NOMINEE

CONTINUED FROM PAGE 5

pliance, the SEC must respond, Crenshaw said at a hearing of the Senate Banking Committee.

"We have to hold those firms accountable when they are not appropriately mitigating conflicts of interest," Crenshaw said.

She was responding to a question from Sen. Sherrod Brown, D-Ohio, and ranking member of the banking committee. Last month, Brown, a Reg BI skeptic, sent a letter to the SEC urging the agency to put teeth into the measure through enforcement.

Brown, who is seeking separate SEC enforcement data related to Reg BI compliance, asked Crenshaw whether there are "ways to get the most out of the rule."

'CHANGING THE STATUS QUO'

Crenshaw said Reg BI must deliver on its promise of investor protection. Under the regulation, brokers are prohibited from putting their financial interests ahead of those of their customers.

"We need to make sure over time that rules are actually changing the status quo for investors," she said.

Crenshaw, who has worked at the SEC for seven years and has served as counsel to two recent Democratic members, Kara Stein and Robert Jackson Jr., was one of two SEC nominees appearing before the Senate committee.

The other was Hester Peirce, a current Republican member who has been re-nominated for a full term. Kyle Hauptman, a nominee for the National Credit Union Administration Board, also testified.

DIGITAL CURRENCIES

Crenshaw would replace Jackson on the five-person SEC. She told committee Chairman Mike Crapo, R-Idaho, that one of her priorities would be to ensure "retail investors are getting the high-quality investment advice they deserve."

In her response to Crapo, Peirce, who has served on the commission for two years, said she wanted to address unfinished business if she is confirmed, including helping the agency shape policy on digital currencies.

"Crypto is clearly going to be here to stay," Peirce said. "I would like us to set up a regulatory framework that works well for crypto. We have some of the structure in place to do that but we have a lot more work to do."

WARREN'S QUESTIONS

The pairing of a Republican and Democrat increases the chances that both Peirce and Crenshaw will be comfortably approved by the committee and then confirmed by the full Senate.

But it became clear at the hearing that at least one senator will vote against Peirce.

Sen. Elizabeth Warren, D-Mass., criticized Peirce for being too soft on the regulation of private equity, which she asserted dismantles companies and puts workers out of jobs.

Warren pressed Peirce on whether she supports more disclosure for private equity firms. Peirce told her that private equity investors have more leverage to make those firms turn over information. The agency should concentrate on disclosures for retail investors, Peirce said.

"Nothing in your record suggests you're willing to take on powerful interests to protect either investors or workers," Warren said. "That's why I think it would be a mistake to confirm you for another term."

Crenshaw and Peirce would join SEC Chairman Jay Clayton, a political independent, Republican member Elad Roisman and Democratic member Allison Herren Lee on the panel.

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GPB CAPITAL

CONTINUED FROM PAGE 5

line Management Inc. was formed at the start of this year to manage GPB's business affairs.

Sterling said both the Armada Waste auditor and the valuation provider resigned without cause and that the company had no additional information about Highline. She also said that GPB hired a new valuation provider.

A RED FLAG

GPB has been promising investors for years it would produce audited financial statements; so far, nothing has been revealed. An auditor resigning from a fund is commonly regarded as a red flag by investors and advisers.

"How did GPB evaporate half the money?" asked Joe Peiffer, an attorney representing dozens of investors with complaints against the broker-dealers that sold the GPB private placements. "All this would be answered if GPB could get the audit it's been promising done but I suspect that is not forthcoming."

GPB is facing numerous difficulties. The FBI raided its offices in the winter of 2019; its former chief compliance officer was indicted last October and charged with obstruction of justice; 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 private placements from broker-dealers that sold the products and charged steep commissions of 7% to 8%.

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