2 SCHWAB CEO: MORE JOB CUTS TO COME / 4 DIGITAL WAVE HITS EMERGING MARKETS / 12 SURVEY: ADVISERS' OUTLOOK FOR Q4 / 18 BILL WOULD RAISE RMD AGE TO 75

NOVEMBER 2-6, 2020

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To fee, or not to fee?

IF BIDEN AND THE DEMOCRATS WIN, ADVISERS MAY FACE MORE CHANGES IN REGULATIONS RELATED TO HOW THEY CHARGE CLIENTS PAGE 8

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INSIDE

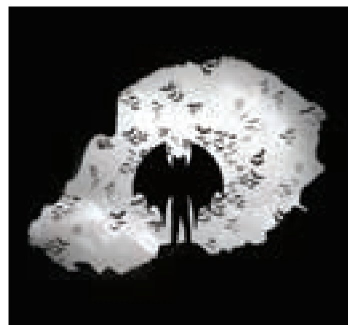
NOVEMBER 2-6, 2020

4 On Advice
6 Editorial
12 Numbers Game
14 On Retirement

16 Fiduciary fright

With more 401(k) suits, insurance costs are soaring, and many plan sponsors are forgoing coverage.

20 Comic relief



Ric Edelman explains why he asks clients if Batman needs life insurance, and why you should ask, too.

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Schwab laying off 1,000; CEO says more 'to come'

BY BRUCE KELLY

THE CHARLES SCHWAB Corp. said last week it was eliminating about 3% of the combined workforces of the Schwab and TD Ameritrade businesses, which accounts for about 1,000 employees, the company said in a statement.

"These reductions are part of our efforts to reduce overlapping or redundant roles across the two firms, but the combined firm will continue to hire in strategic areas critical to support our growing client base," according to the company, which added that the laid-off employees could apply for newly available jobs at the company.

Schwab completed its acquisition of TD Ameritrade on Oct. 6. The combined firm will oversee about $6 trillion in assets managed by registered investment advisers who used either Schwab or TD Ameritrade Institutional as a custodian.

Senior executives, including TD Ameritrade Institutional president Tom Nally, have left the new enterprise in recent weeks.

High-level departures include institutional product specialist Dani Fava, now with Envestnet; Skip Schweiss, former president of TD Ameritrade Trust Cos., who's on deck to become president of the Financial Planning Association; and longtime spokesperson Joseph Giannone, who is joining Dow Jones.

KEY POINTS

- Schwab announced layoffs after TD acquisition.
- CEO Walt Bettinger alluded to more cuts to come at the annual Schwab Impact virtual conference.

"We've had to part ways with some incredibly talented people," CEO Walt Bettinger told 2,100 virtual attendees at the 30th annual Schwab Impact conference in the keynote presentation last Tuesday, confirming that additional job cuts are "still to come."

'THE NATURE OF COMBINATIONS'

"Unfortunately, it's the nature of combinations like this," Bettinger said. "By combining our forces and continuing to operate through our clients' eyes we're going to be stronger than we could have ever been separately."

The keynote discussion with Schwab's head of adviser services Bernie Clark provided the first and most transparent comments from the two executives since the $22 billion acquisition of TD Ameritrade closed last month.

Citing a full consolidation that brings together $6 trillion worth of assets and is expected to take up to 36 months, Clark said, "It's early days," and that the company is focused on keeping lines of communication open during the process.

"Diving into it, we're trying to create as much transparency as we know," he said. "We want to be clear, honest and transparent in the things we know, and in the things we don't know."

—With Jeff Benjamin

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Missing adviser charged with fraud by FBI

CHRISTOPHER W. BURNS

BY BRUCE KELLY

THE FBI LAST week charged a missing Atlanta financial adviser, who went on the lam ahead of an investigation by the Securities and Exchange Commission, with one count of mail fraud.

Last Monday, the Federal Bureau of Investigation said it had issued a warrant for the arrest of Christopher W. Burns, 37, who has been missing since he left his home on Sept. 24, according to a statement.

That was the day before he was supposed to turn over documents related to his businesses to the SEC. Burns is also under investigation by the Internal Revenue Service, according to the FBI.

The host of a local weekly radio show, Burns conducted business through a number of entities, including Investus Advisers, Investus Financial, Dynamic Money and Peer Connect, according to the agency, which believes the adviser has defrauded a number of victims out of hundreds of thousands of dollars.

Financial advisers under duress from regulators and investigations were commonplace during the financial crisis of 2008, and some even fled in an attempt to escape scrutiny into their businesses and practices.

Investus Advisers has no assets under management, according to its most recent Form ADV filing with the SEC. Christopher Burns is listed as the firm's principal and chief compliance officer.

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Labor releases rule that could curb ESG in retirement plans

BY MARK SCHOEFF JR.

THE DEPARTMENT of Labor released a final regulation Friday that could curb the use of socially responsible investing in retirement plans, although the text of the rule was revised to take out references to environmental, social and governance factors.

The regulation, first introduced in June and then opened for a 30-day comment period, has been on a fast track for approval before the end of the first Trump administration.

It drew more about 8,700 public comments, the vast majority in opposition. Critics assert the rule will chill increasingly popular ESG investing in company-sponsored retirement accounts.

The rule amends the investment duties regulation of federal retirement law, which has been in place since 1979. It requires plan fiduciaries to select investments and strategies based solely on how they will affect the plan's financial performance, or so-called pecuniary goals.

"This rule will ensure that retirement plan fiduciaries are focused on the financial interests of plan participants and beneficiaries, rather than on other, non-pecuniary goals or policy objectives," Labor Secretary Eugene Scalia said in a statement.

Fiduciaries should not sacrifice returns, increase risks or raise costs of a plan in order to pursue nonpecuniary objectives, such as environmental, social and governance investing, agency officials told reporters.

CONTINUED ON PAGE 22

Biden favored among adviser pundits

BY MARK SCHOEFF JR.

TREND LINES LOOK bad for President Donald Trump with the election nearing its end.

He's trailing Democratic presidential nominee Joe Biden by significant margins in most national and battleground state polls. Coronavirus cases are spiking again, while the prospects for a pandemic stimulus package in Congress have faded.

But don't count Trump out, said Greg Valliere, chief U.S. policy strategist at AGF Investments.

"You underestimate Donald Trump at your own peril," Valliere said last Tuesday at the virtual Schwab IMPACT conference. "He has phenomenal energy."

In 2016, Trump stunned Valliere and most other election analysts, who had predicted a victory for Democratic presidential nominee Hillary Clinton.

But this election differs from four years ago, Valliere said. This time, Trump is trailing Biden significantly in fundraising, facing a huge gender gap with female voters and losing support among seniors. Even more damaging is the unrelenting coronavirus pandemic.

Biden has the edge in what will likely be a close race, Valliere said. The candidate who attains 270 or more votes in the Electoral College will win the election.

"I make [Biden] the favorite to get about 300 electoral votes," Valliere said. "That's hardly a landslide but it should be a very narrow victory."

SLIM MARGIN

Brian Gardner, chief Washington policy strategist at Stifel, also is predicting Biden will prevail by a slim

CONTINUED ON PAGE 22

Raymond James 'very pleased' with recruiting during COVID-19

BY BRUCE KELLY

RAYMOND JAMES Financial Inc. reported a net increase of 84 advisers in the quarter ended in September, despite the difficulties presented by COVID-19 and the general slowdown in travel and business due to the pandemic.

The firm now hit a new high of 8,239 advisers across its varied platforms at the end of September, a net increase of 228 for the prior 12 months, or a bump of 2.8%.

Raymond James has been one of the leading recruiters of financial advisers for the past several years, drawing advisers from competitors with the promise of a more adviser-focused culture. The firm said earlier this year it would rely on technology and online meetings to conduct virtual recruiting during the pandemic.

During a conference call with analysts last Thursday to discuss fiscal fourth-quarter earnings, CEO Paul Reilly said that he was "very pleased" with the firm's recruiting across channels, including its traditional employee group, its independent contractor broker-dealer and its registered investment adviser.

RECORD REVENUE

Reilly added that the potential for recruiting growth was particularly strong in future quarters as there was pent-up demand from some advisers who are looking to leave wirehouse firms. Those advisers did not want to move quite yet because branch offices have been in large part closed and made a change in business venue tricky, he said.

Meanwhile, Raymond James reported record annual net revenue of $8 billion and adjusted annual net income of $818 million. The firm said in September it was laying off about 4% of its workforce, or more than 500 employees.

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LPL is preparing for increased levels of industry consolidation

BY BRUCE KELLY

LPL FINANCIAL, the biggest independent broker-dealer with 17,168 registered reps and financial advisers, sees more opportunity to grow through mergers and acquisitions, both by its advisers and at the corporate level.

"We do think the environment, as we look out for any number of reasons, including potential tax law changes, certainly drives more consolidation and activity on the M&A front," CEO Dan Arnold said Thursday afternoon in response to a question during LPL's conference call with analysts to review third-quarter earnings. "Whether that be at the adviser level or more at the corporate level, we see that the trajectory of activity trending up on both fronts."

BUY OR MERGE

Firms like LPL provide financing for their advisers to buy or merge with other advisers' practices. Arnold added that any deals would have to fit in three ways: strategically, financially and operationally.

CONTINUED ON PAGE 22

Is Waddell & Reed ready to make a comeback?

BRUCE KELLY
ONADVICE

A couple of years ago, Waddell & Reed Financial Advisors looked to be in disarray.

Thomas Butch, the longtime head of the broker-dealer, left at the end of 2017. The firm parted ways with hundreds of low-producing brokers and advisers, while some large teams left in the summer of 2018 for competitors.

Near the end of 2018, the firm even eliminated a special perk for its close to 1,300 advisers and reps; it said it would no longer lease office space for most of its independent contractor brokers and advisers, requiring them to find and relocate to their own offices by the end of 2020.

Taking freebies away from advisers is like denying children dessert: It's best not done if the goal is to keep harmony in the household.

The firm, the broker-dealer arm of Waddell & Reed Financial Inc., which also owns the Ivy Funds, is in the throes of change. And that's not easy.

Waddell & Reed has been overhauling its business for some time. Until several years ago, the broker-dealer's business model relied primarily on its brokers and advisers selling the parent company's proprietary, actively managed mutual funds.

And in the middle of October, Waddell & Reed Financial's stock price spiked to a recent high of $18.02 per share amid market speculation that it was bound to be the next manager of actively managed mutual funds to be snapped up, just as Morgan Stanley did at the start of the month when it said it was buying Eaton Vance.

KEY POINTS

- Waddell & Reed is in the midst of an overhaul as takeover chatter cools.
- The firm has been adding and recruiting advisers.

That's a lot for a management team to work through. But on a conference call last Tuesday with analysts to discuss third-quarter earnings, management stressed the growth of its wealth management franchise.

Waddell & Reed has recruited 32 advisers this year with $1.9 billion in assets at their prior firms and added 11 more in the three months that ended in September. That's impressive, as recruiting at big firms has been hampered by COVID-19 and the general slowdown of business across the economy.

Waddell & Reed has also built up its pipeline of advisers, according to Shawn Mihal, senior vice president of wealth management. The firm has signed or made offers to 17 more advisers who generate $8.2 million in annual commissions, Mihal said during the call.

"We are seeing the ability to bring advisers over from a variety of different types of firms," Mihal said. "So, still in the independent [broker-dealer] space, we're seeing opportunity there and the advisers that have joined this year, a considerable number come from independent, a few from wirehouse and a few from bank channels."

"The larger majority [are] really coming through the other independent channels making a transition over to Waddell & Reed," he added.

TIMING IS RIGHT

In an indication that turnabout is fair play in the current wealth management market, Waddell & Reed could go on the of-

CONTINUED ON PAGE 23

Digital demand stokes big returns in emerging markets

BY JEFF BENJAMIN

AT THIS TIME OF PEAK uncertainty, pairing the global pandemic with a wildly unpredictable U.S. presidential election, one might assume a reduced appetite for investments in the far reaches of the emerging markets.

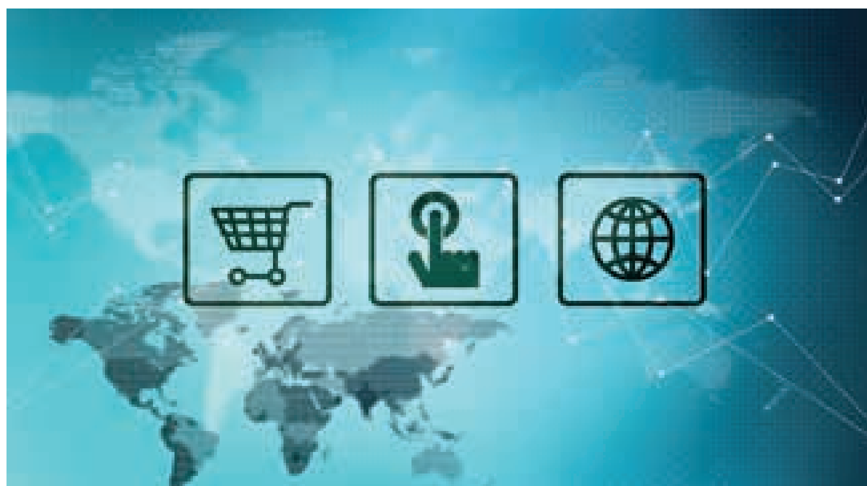
But as most financial advisers will attest and many will swear by, investing is about diversification, and real diversification requires a certain level of risk and adventure.

Consider the knockout performance of the $1.1 billion EMQQ Emerging Markets Internet & Ecommerce ETF (EMQQ), which is up 54% from the start of the year on the heels of a 34% gain last year. For context, consider the benchmark-tracking iShares MSCI Emerging Markets ETF (EEM), which is up 2.5% this year after gaining 18.2% last year.

The extreme disparity — and EMQQ is not the only example — is a reminder of where things are in the emerging markets these days and why financial advisers should tread gingerly into the space.

"This is a risk-on side of the market, and if the global economy recovers in 2021 the emerging markets could bounce back higher," said Todd Rosenbluth, director of mutual fund and ETF research at CFRA.

The 26 countries represented in the MSCI emerging markets index include a



41% weighting in China, a country that has demonstrated a relatively respectable 4% economic growth during much of the pandemic.

But while China and the so-called Northeast Asia cluster, including Taiwan and South Korea, get credit for containing the virus while not crippling their respective economies, the real strength of certain emerging market strategies concentrates on a trend the virus has propelled.

"Every consumer sector within the emerging markets is getting digitized," said Kevin Carter, who launched the EMQQ ETF six years ago.

"The thing that's emerging in the emerging markets is people," he said. "They want stuff and they want to move up, and I concluded that the broad market indexes were not the way to go for that kind of exposure."

The EMQQ fund tracks an index of just 83 stocks, two-thirds of which are from China and 100% of which are pegged to internet and e-commerce business.

"People in the emerging markets don't have traditional bank accounts and debit cards and TVs with a thousand channels; they're leapfrogging all that and going digital," Carter said. "The traditional infrastructure that we think of doesn't exist in the emerging markets. Kenya's gross domestic product is 80% phone-based right now."

"EVERY CONSUMER SECTOR WITHIN THE EMERGING MARKETS IS GETTING DIGITIZED."
KEVIN CARTER, CREATOR OF EMQQ ETF

In terms of concentrated emerging market bets, a similar story is found in the $3.3 billion KraneShares CSI China Internet ETF (KWEB), which is up 49% this year and gained 30% last year.

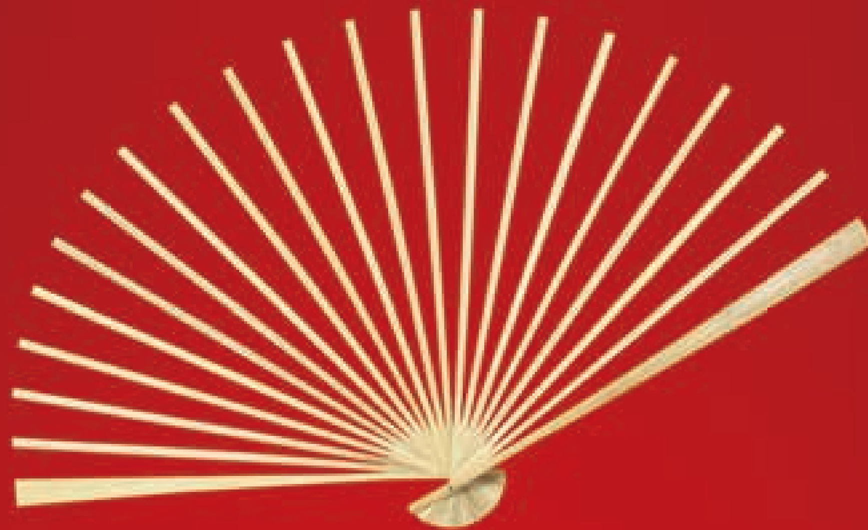
DIGITAL ACCELERATION

The flip side of this kind of bet on digital growth in the emerging markets is souped-up volatility in an already volatile category.

In 2018, for example, when the U.S. was engaged in a trade war with China, EMQQ lost 30% and KWEB dropped 34%, while the more diversified MSCI

CONTINUED ON PAGE 23

What's your emerging market strategy missing?



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Opinion

EDITOR'S NOTE

Retirement bill offers glimmer of hope

This week, Mark Schoeff Jr. reported the on the Neal-Brady bill in the House (page 18). It's an expansive, bipartisan retirement savings bill.

There's a lot in the bill for pre-retirees, company sponsors and retirees. But the changes proposed for retirees jumped out at me. My tweet of the article led Arizona-based financial planner and portfolio manager Roger Nusbaum to retweet it, noting the benefits of optionality for retirees.

GEORGE B. MORIARTY

I asked him to elaborate, and I'll share his thoughts:

"Lifting the age for RMDs tends to be viewed as a perk for the wealthy, but RMDs are often a burden for retirees with six-figure retirement accounts as opposed to truly wealthy in the seven figures. As a matter of circumstance, a retiree in this situation is often forced to take a $20,000 to $30,000 distribution they may not need so that the government can collect its $4,000 to $6,000 in taxes. Where optionality comes into play is being able to take less money out of a traditional IRA at age 72 or 73, thus paying less tax that year and leaving more in the account to grow. It also creates circumstances where it may make more sense to meet any income needs or fill any income gaps taking a withdrawal from a Roth IRA, which of course would not be a taxable event."

The sponsors noted that this bill was partially a response to COVID-19's impact on savings and, at least based on this Twitter exchange, it's a hopeful sign that Congress will come up with real solutions that will help people.

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Advisers can't always rely on market performance

The stock market rally over the past decade was an absolute luxury for independent advisers. Over the course of those 10 years, financial advice firms experienced revenue growth on average in the double digits, according to the latest pricing and profitability study by InvestmentNews Research in conjunction with BNY Mellon's Pershing and The Ensemble Practice. Median revenue growth peaked at 15.5% in 2013, according to the data, and hit a low of just 5% in 2016.

Simply put, in an industry dominated by fees on assets under management, record-setting rallies equal revenue.

Of course, there are dozens of factors that have contributed to the trend, but there's no doubt market performance ranks high on the list. Considering the S&P 500's 11.6% surge in 10-year annualized gains and a 245% cumulative rally over the same time period, it's safe to say market performance played a significant role in the emergence and success of the independent channel.

Fast forward to 2020 and advisers may want to take stock. As the past six months have taught us, volatility is quickly becoming a way of life post-pandemic, and the rally of the past decade may be giving way to a new era of market turbulence. The problem for advisory firms is that overdependence on market growth may have caused firms to ignore basic business practices — like forming long-term marketing strategies or making capital investments in technology — according to the research.

The InvestmentNews Research survey found that firms are allocating less than 4% of their revenues to marketing and technology. According to the report, which queried more than 300 independent and hybrid advisers, even firms that expect marketing to jump-start growth are lacking the basics of sales management techniques. The research shows inadequate lead tracking, and advisers have very little individual accountability.

THE LACK OF A SOLID BUSINESS DEVELOPMENT STRATEGY FOR SOME PRACTICES HAS THE POTENTIAL TO CREATE WIDE DISPARITIES IN FUTURE GROWTH.

The lack of a solid business development strategy for some practices has the potential to create wide disparities in future growth. If AUM fees aren't as reliable as they have been over the past decade, will independent advisers struggle to keep pace?

While the data are striking, advisers have the advantage if blue skies suddenly turn stormy. During times of turbulence, clients are in need of additional hand-holding and the guidance that seasoned financial advisers are well positioned to provide. That means more opportunities for advisers to reach out to customers. Creating and maintaining those relationships is at the heart of wealth management, and advisers should relish times when they can provide counsel clients need to weather the storms.

For the independent channel to continue its unprecedented growth, advisers would do well to focus not only on the performance of the markets, but on internal systems, like marketing and technology, to ensure their practices are running soundly. Having the capabilities to reach out and help clients will be paramount if the markets — and associated fees from assets under management — suddenly falter.

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ELECTION POSES CHALLENGE

FRESH FOR REG BI

IF DEMOCRATS PREVAIL, REGULATORS MAY UPSET THE NEW REG BI STANDARD, LEADING TO BIG CHANGES IN FEE STRUCTURE — OR THEY MAY JUST LEAVE IT ALONE

BY BRUCE KELLY

Broker-dealers are starting to implement changes in how registered reps and advisers charge clients in the wake of Regulation Best Interest, which took effect in June, with some firms currently overhauling certain fees and charges to clients.

That is to be expected, particularly after a revamping of industry rules of the magnitude of Reg BI.

Jay Clayton, head of the Securities and Exchange Commission, said at an Oct. 19 industry meeting that financial advisers who are dual registrants (meaning they charge fees in advisory accounts and commissions in brokerage accounts) understand that they must know their customers and follow policies intended to curb conflicts of interest.

Indeed, broker-dealer executives and securities regulators are using buzz words like transparency and disclosure when discussing the changes to fees and charges made under the SEC's new rule, which is supposed to ensure that financial professionals registered as investment advisers and brokers act in their clients' best interests.

"The dual-hatted investment professional — the investment adviser-broker dealer who's now subject to [Reg BI] — is finding out that while the compensation models are different … the standard you owe your customer is very much the same," Clayton said at a virtual conference. "You're seeing it in the disclosures."

That's all well and good, at least for the present moment and immediate future. But just as the broad retail financial advice industry settles into operating under the new regime, will the Reg BI system last in its current form if former Vice President Joe Biden wins the White House?

Remember, Reg BI came after the current Republican administration of President Donald Trump moved to erase the Department of Labor's fiduciary rule, part of former President Barack Obama's legacy. The retail financial advice and securities industries despised the DOL fiduciary

CONTINUED ON PAGE 10

Advisor Group slashes its pricing on wrap accounts

Advisor Group is lowering fees on adviser-managed portfolios, commonly known in the industry as wrap accounts, by as much as 50%.

The pricing for such wrap accounts, based on client assets, now starts at 9 basis points, with larger accounts as low as 3 bps. Advisers determine the total fee to charge to clients, and the asset-based fee comes out of the total client fee.

Lower fees benefit advisers and their clients. There has been jockeying among broker-dealers since the Department of Labor's now-defunct fiduciary rule to change or reduce pricing models to diminish conflicts of interest created by certain charges and commissions.

Advisor Group, a network of close to 11,000 financial advisers, will also not raise various affiliation fees on advisers in 2021, according to CEO Jamie Price, who spoke last Tuesday to kick off a virtual version of the firm's annual meeting, called ConnectED.

"Our wrap pricing on adviser managed [accounts] has been extremely expensive," Price said. "We're going to cut it by 50%," he added, with the new pricing model among "the most competitive on the Street," leveraging Advisor Group's "scale and our clout."

"Adviser-managed asset-based pricing — sometimes referred to as a wrap — enables advisers to charge a fee that is not tied to the number of trades they make, removing any potential conflicts of interest based on the cost of the trade," Price said in a follow-up conversation with *InvestmentNews*. "We are focused on supporting the ability of our financial professionals to serve their clients in a fee-based relationship, which is where the future of wealth management is heading."

— Bruce Kelly

CONTINUED FROM PAGE 9

rule, so Trump's election in 2016 was a clear win for their interests. The biggest critiques of the DOL fiduciary rule were that it was expensive, would punish brokers who charged commissions and left firms wide open to costly attacks from the plaintiff's bar.

The election takes place Tuesday, a few days after this story was first published online at InvestmentNews.com, and Joe Biden has consistently led in a number of polls. Will a change from a Trump to a Biden administration signal more regulatory uncertainty regarding how advisers charge clients for brokerage assets and advisory accounts? What will happen if figures that Wall Street particularly loathes (think Sen. Elizabeth Warren, D-Mass.) are given prominent roles?

"The wild card with Reg BI right now is not what it says but how it is enforced," said John Rooney, managing principal at Commonwealth Financial Network, a large independent broker-dealer and RIA platform. "If you want to weaponize Reg BI like some ideologues on the left do, then it's likely you will have to reassess to meet their dictate."

"The big question to ask is who ends up in power in a potential Biden administration," Rooney said. "Will it be pragmatists or hardened ideologues who will advance an agenda regardless of the unintended consequences it may reap? I don't think we know that right now."

a question from an analyst during a conference call last fall. "I mean, at the level clients are paying, I think it's mid-70 basis points for advice on dollars of assets — it's a great value question. The advice pricing holds up as long as your clients are getting value."

MUTUALLY EXCLUSIVE

Looking over their shoulders at the mutual fund industry, advisers see an industry that has seen fees pushed down radically over the past 20 years because of dirt cheap exchange-traded funds. While the fees financial advisers charge clients have eroded over the past two decades in the range of 15% to 20%, those fees for financial advice are not under the intense pressure experienced by mutual funds — at least not yet.

"Advisers' fees have come down, and advisers have to do more to show they are earning fees," said Eric Schwartz, executive chairman, at Cambridge Investment Research Inc., another large independent broker-dealer and RIA platform. "So it's kind of two contrary trends."

"Advisers are doing more than they used to do. They are not just divvying up clients' accounts into four mutual funds," he said. "Some firms now have an in-house accountant or operate more like a family office for a much smaller scale of client, not just for those with $100 million. The best advisers could potentially raise fees if they add value."

vestment Services Inc., which caters to advisers who are tax pros, is in the process of levying a new $60 annual fee for advisers' accounts at outside money managers, a popular way for advisers to conduct business directly with mutual fund companies like American Funds.

And starting in October, UBS

impact on pricing," she said.

A FINE MESS

Also worrisome for brokerage executives and advisers if Democrats win, at least in the short term, is the potential surge in fines and restitution firms could face in the wake of enforcement investigations carried

> **"ADVISERS HAVE TO DO MORE TO SHOW THEY ARE EARNING FEES."**
>
> ERIC SCHWARTZ, EXECUTIVE CHAIRMAN, CAMBRIDGE INVESTMENT RESEARCH

FEE JOCKEYING

The financial advice industry and broker-dealers that sell or recommend products are constantly jockeying on fees, with the great fear being that advisers' ability to charge in the neighborhood of 100 basis points — meaning 1% — of a client's assets may decrease in the coming decade.

Pricing and pressures on fees are without a doubt on the minds of senior brokerage executives. Last year, after discount brokers cut commissions to zero for certain trades, Morgan Stanley CEO James Gorman said it was valid to speculate about whether there will be increased pressure on advisory fees in the future.

"You are rightly questioning will there be pricing pressure on advice," Gorman said in response to

FORCING BIG CHANGES

The DOL fiduciary rule drove brokerage firms to propose big changes in mutual fund pricing.

For example, in 2016, months before the surprise election of Donald Trump, Merrill Lynch and Commonwealth Financial Network said they were banning commissions in retirement accounts and replacing them with advisory fees. After a federal appeals court in 2018 struck down the Department of Labor's rule, both firms continued to allow commission-based business. Other firms made similar proposals to flatten mutual fund commissions to avoid potential conflicts.

Reg BI is currently pushing larger broker-dealer to alter fees and pricing, though not to the degree of the defunct DOL fiduciary rule.

Pointing to Reg BI, Avantax In-

changed its billing for fee-based advisory accounts in the Americas, moving to daily averaging from quarterly in the arrears. This was done "in the context of Reg BI," said a person familiar with UBS who asked not to be named, and took into consideration best practices, billing and communication with clients.

"There's an ongoing criticism that Reg BI does not say what is in the best interest of the customer," said A. Valerie Mirko, a partner at Baker & McKenzie. "The impact I would expect with a Democratic-majority SEC would be to examine that, based on the two Democratic commissioners there now."

"That means, potentially, formal guidance which is more explicit and eventually puts brighter lines in place that would have a greater

out under a new regime. While the Trump administration was clearly pro-business and focused on deregulation and cutting corporate income taxes, what new penalties might a Democratic-led SEC or Treasury Department assess?

If the Democrats take the presidency and the Senate and keep the House, it would not be surprising if regulators ramped up activity, industry executives said. That's the expectation.

"Regardless who wins, the industry will focus on better disclosure of fees," Cambridge Investment's Schwartz said. "We'll be trying to think ahead of time what could be considered improper five or 10 years from now, not what was improper in the past."

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$3T ASSETS UNDER MANAGEMENT IN MODEL PORTFOLIOS AT THE END OF THE FIRST QUARTER.
SOURCE: BROADRIDGE FINANCIAL SOLUTIONS

How firms are handling fee pressure

BY JEFF BENJAMIN

WHILE THE FINANCIAL services industry in general might be feeling the pinch of ongoing pressure to lower fees, the financial adviser remains uniquely sheltered from the trend, as long as the adviser is ready to pony up more services.

A new report from Cerulli Associates offers the latest evidence that direct contact with investors gives advisers a leg up on justifying their fees.

The report, which focused on how investors value finance, found that 82% of adviser-reliant clients believe the advice they are receiving is worth the price, which suggests that advisers are an anomaly in the financial services industry food chain, where fees have been dropping for years.

The Cerulli research is in line with the latest pricing and profitability report from InvestmentNews Research, which shows that over the past two years only 24% of advisory firms adjusted fees. Of those firms that did adjust fees, 68% raised them.

The InvestmentNews data found that while advisory fees tend to fall as individual portfolios grow, the largest firms are generally commanding the highest fees. For clients with up to $1 million, for example, the average fee is 94 basis points, and the range from the smallest solo practitioners up to the largest super ensemble firms averages between 94 and 102 basis points.

The fees are typically lower for larger clients, especially those working with smaller advisory practices.

At the $10 million portfolio level, the average fee is 43 basis points, but the range goes from an average of 20 basis points at solo practitioners up to 79 basis points at the largest advisory firms, according to the InvestmentNews data.

Cerulli director Scott Smith said that while fees at the asset management and trading platform levels have been dropping, advisers are generally shielded by the fact they represent the hands-on planning process to clients.

"Demand for financial advice is climbing," Smith said. "A full 40% of investors surveyed in 2020 say they need more advice than before and 56% are willing to pay for it, which is up from 51% in 2019."

BEYOND PORTFOLIO FOCUS

Kashif Ahmed, president of American Private Wealth, represents the side of the advisory space where fees have not become an issue. "We charge for advice in a myriad of ways, and on the AUM pricing we are higher than the industry average of 1%," he said. "We have never had any pushback on the pricing."

Ahmed admits the client experience has grown beyond just a focus on portfolio performance, which is where some say the fee pressure begins as advisers are having to offer more services in order to hold fees steady.

"I'm definitely seeing pressure on fees, especially with new clients, and it has really become more prevalent in the last three to five years," said Ed Butowsky, managing director at Chapwood Capital Investment Management.

"The focus on fees has to do with the online options that are out there," he said. "I don't have a hard time justifying my fees, but I can go low if I need to."

Tim Holsworth, president of AHP Financial Services, sees fee pressure as relative. "The whole thing about fees is only an issue in the absence of value, and if fees end up becoming too much of the focus with a client it's almost never a good relationship," he said.

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KEY POINTS

- Reports from Cerulli and InvestmentNews focus on pricing and value.
- Both reports show how advisory firms handle fees relative to clients.

Adviser optimism rises for Q4

NUMBERSGAME
DEVIN MCGINLEY

Advisers are feeling a bit more optimistic than they were three months ago.

When InvestmentNews Research took the industry's temperature heading into the third quarter, 87% of advisers surveyed believed it was at least somewhat likely that the COVID-19 pandemic would trigger another significant market decline of 10% or more.

Heading into the fourth quarter, advisers are feeling more confident about financial markets, their businesses and the overall economy than they were in our last survey.

The survey of 106 financial advisers, was fielded in the first half of October and focused on plans for the coming quarter and sentiment about the year ahead.

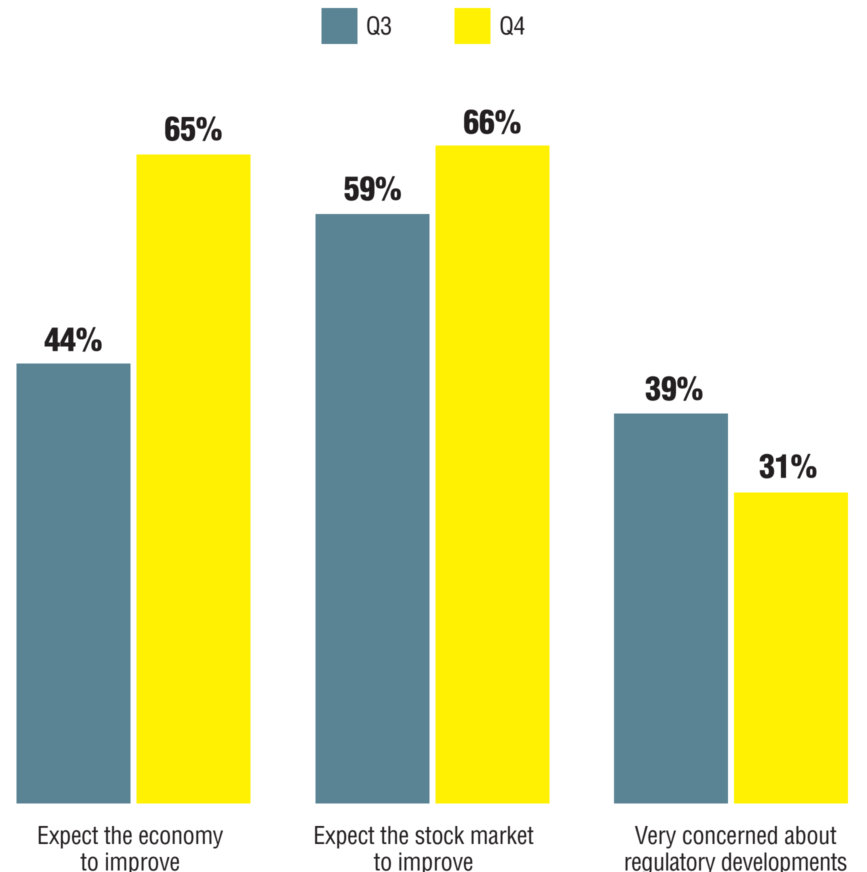
Adviser expectations for the overall U.S. economy were the most notable change from the third to fourth quarters, shifting from a negative to positive outlook. In the most recent survey, 65% of advisers expected economic growth over the next year, compared with 44% who felt similarly in the third quarter. Fewer than 25% of advisers surveyed this quarter anticipated a deterioration in economic conditions.

The rosier outlook was also reflected in views on financial markets. About two-thirds of advisers expected an improvement in the S&P 500, and the bulls were more bullish: Among advisers expecting growth in the index, the median projection rose from 7% to 9%.

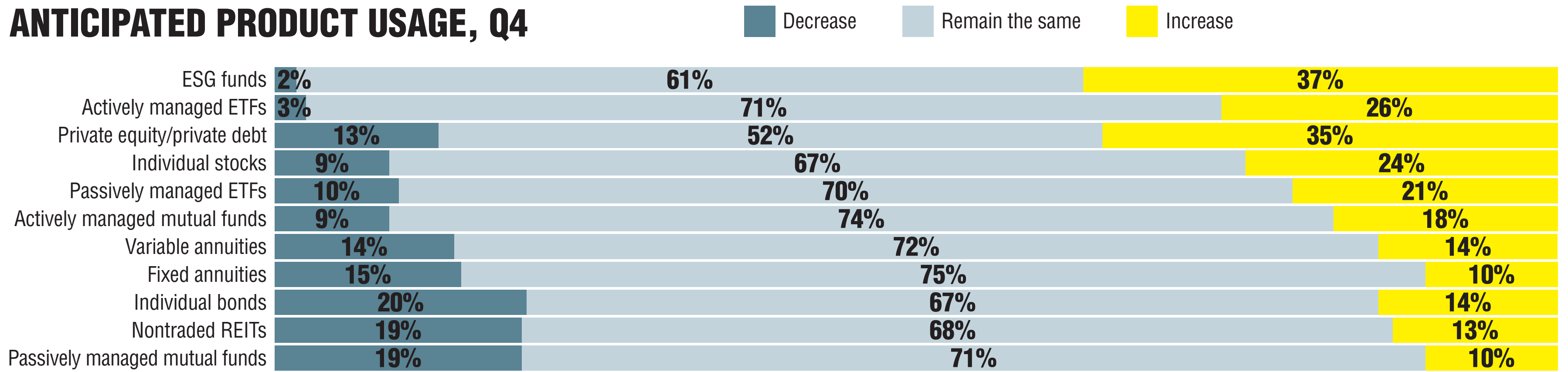
Notably, advisers were also less concerned about adverse regulatory developments. Despite the approach of a presidential election, the share of advisers very worried that regulatory and political shifts would hurt their business declined from 39% to 31%.

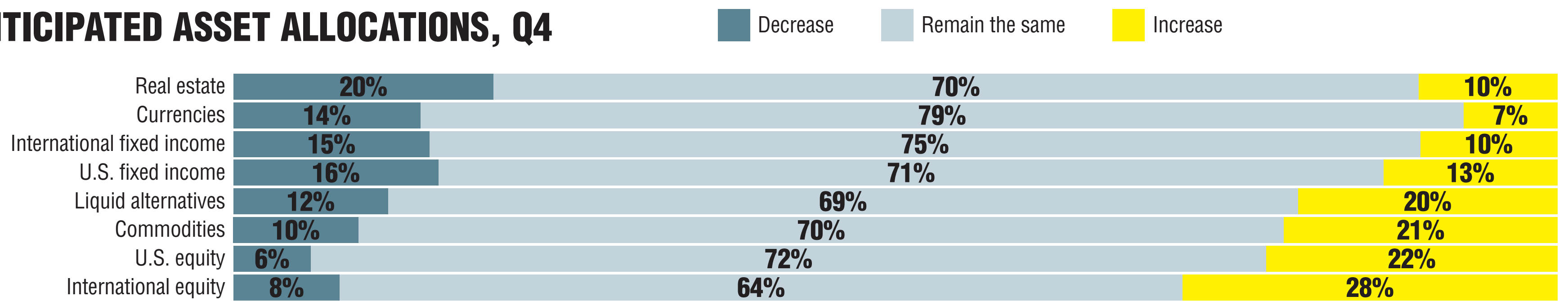
This survey was fielded by InvestmentNews Research. For more information on IN's research offerings, visit our data store or contact INResearch@investmentnews.com.

WHAT'S YOUR OUTLOOK FOR THE NEXT YEAR?



Source: InvestmentNews Research





Source: InvestmentNews Research

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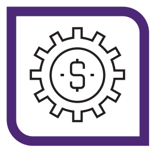

Planning

57% PORTION OF AMERICANS WORRIED THAT RISING COSTS POSE A RISK TO THEIR RETIREMENT SECURITY

SOURCE: STUDY BY ALLIANZ LIFE INSURANCE CO.

Addressing the longevity gap facing women

Women face a number of unique challenges in retirement largely as a result of lower lifetime earnings and their greater longevity relative to men. Consequently, many women will face a "longevity gap" during which they must be prepared to cover their expenses single-handedly, often during a phase of life when health care expenses are at their highest.

MARY BETH FRANKLIN

ONRETIREMENT

Health care concerns among older Americans have been heightened during the COVID-19 pandemic given the vulnerability of older people to the coronavirus. The latest statistics from the Centers for Medicare and Medicaid Services show over 1 million COVID-19 cases among the Medicare population and more than 284,000 hospitalizations. Nearly one-third of beneficiaries went home at the end of their hospital stay and 22% died, according to CMS. About half of the hospitalizations lasted seven days or less while 5% lasted more than 31 days.

Health care costs in retirement are a key priority for many clients. Six in 10 Medicare beneficiaries are concerned about future health care costs and 40% are worried a major health situation could lead to bankruptcy or debt, according to a new survey of 1,100 adults age 65 and older conducted by MedicareGuide.com. One-third of respondents said they would use retirement savings to treat a severe illness like COVID-19.

On average, women pay more for health care in retirement than men. The extra cost is primarily a result of women's longer life spans, rather than increased use of medical services.

Typically, women will live two to four years longer than their husbands, given similar health status, but those estimates can vary dramatically based on medical conditions such as high blood pressure, high cholesterol, heart disease, diabetes, cancer or tobacco use.

LONGEVITY ASSUMPTIONS

To address these disparities, some advisers assume that clients will live to age 90, 95 or even 100. Others may add five years to a financial plan if a client's parent lived into their 90s. While these approaches are well-meaning, no one wants to create a plan that overestimates longevity and restricts spending unnecessarily.

Instead of relying on anecdotal information, advisers can use personalized data and actuarial longevity projections to give clients a clearer understanding of their expected health care costs and put financial plans in place to cover those costs. Using a few key data points, including the state where an individual lives (which influences health care costs), their gender and whether they have one of handful of common health conditions, it is possible to forecast individual life expectancies and health care costs with much greater precision.

For example, a healthy 45-year-old man is likely to live until 87 and spend about $492,000 in health care costs throughout his retirement, according to a new white paper from HealthView Services, a leading provider of health care cost projection software used by financial advisers and financial institutions.

KEY POINTS

- On average, women pay more for health care in retirement than men.
- The extra cost reflects the fact that women live longer than men.

$200,000 MORE IN COSTS

The man's 43-year-old wife is likely to live until 90 and spend nearly $692,000 on her health care during retirement, including the last five years of her life, when she lives alone after being widowed. Although the woman's projected lifetime health care costs are about $200,000 higher than her husband due to her longer life, she can fund that amount by investing just $5,000 more today, assuming an investment in a balanced portfolio of 60% stocks and 40% bonds with an average annual return of 6%, the paper said.

With additional time and flexibility, women and their spouses may have a more reliable path to retirement prosperity. For example, advisers should focus on how one spouse's retirement income decisions, such as when to claim Social Security, will affect the other's potential survivor benefits.

Medicare costs are also a major consideration. When one spouse dies, the income threshold that can trigger monthly high-income surcharges is cut by 50%, potentially resulting in tens of thousands of dollars of additional health care costs for the surviving spouse. A financial adviser could address this potential challenge by recommending retirement income sources that do not count as part of Medicare's modified adjusted gross income formula, such as Roth individual retirement accounts, health savings accounts, life insurance or nonqualified annuities.

"Following these steps, women and their financial advisers can mitigate — and potentially even eliminate — the longevity gap and the other challenges that are common among female retirees," said Ron Mastrogiovanni, CEO of HealthView Services. "Financial advisers with the right tools and data at their fingertips have the power to help their female clients close that longevity gap."

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

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INmail

BY MARY BETH FRANKLIN

The best month to start Social Security benefits

Geraldine: I have a technical question. I have a client who turns 66 — his full retirement age — on Nov. 2. He plans to file for his Social Security benefits online. Should he request that his benefits start in November, December or January? If he selects his birthday month of November, will he receive his full retirement age amount or less?

MBF: Normally, the day of the month on which a person is born determines both when he or she is entitled to benefits as well as the amount of the benefit. But that's not the case when it comes to claiming benefits at full retirement age.

Unreduced benefits are payable beginning with the month you reach your FRA, regardless of what day of the month that is, according to the Social Security Administration. In your client's case, he will be eligible for his FRA benefit amount beginning in his birthday month of November. Those benefits would be paid starting in December.

There is a different rule for people who claim Social Security benefits before FRA.

Retirement benefits can begin the first month a person is age 62 throughout the entire month. Social Security follows English common law that finds that a person attains an age on the day before the birthday. For example, a person born Jan. 15, 2003, will attain age one on Jan. 14, 2004.

You must be age 62 throughout the entire month to be allowed to claim a benefit in the same month. Social Security deems that you will reach age 62 the day before your birthday. That means if you were born on the first or second day of the month, you will be eligible to claim the minimum benefit payable during the month of your 62nd birthday. But if you were born on any other day of the month, the minimum benefit payable would be claimed the month immediately following your 62nd birthday.

Retirement benefits are reduced for each month of entitlement prior to the month full retirement age is attained. Depending on birth year, full retirement age ranges from age 65 for some people up to age 67.

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401(k) suits send fiduciary insurance costs soaring

BY EMILE HALLEZ

THE EXTREME PACE of new 401(k) lawsuits this year is showing the legally precarious spot most plan fiduciaries occupy — a position that is only becoming more difficult.

It is rare for a plan to have a near-perfect design and documentation showing the prudent process that went into it, which provides the best defense against those lawsuits. But another protection, fiduciary liability insurance, is getting harder to come by.

Premiums, for example, are up by about 35% from a year ago. And coverage limits are now much lower, so employers must buy as many as five policies to obtain the level of coverage they need. The fees they must pay to renew policies have skyrocketed to as much as $2 million.

"Until this point, the fiduciary carriers just took it on the chin. For 10 years, these cases were manageable," said Daniel Aronowitz, managing principal at insurer Euclid Specialty Managers. "But now, the three to five cases [are] being filed per week."

Insurers have covered the cost of defending lawsuits and footed the bill for massive settlements.

The cases generally focus on investment-management fees and administrative costs. Many lawsuits, for example, allege that plan sponsors failed in their fiduciary duty by not considering index funds rather than actively managed products, not opting for the lowest-cost share class available, not using lower-cost vehicles such as collective investment trusts and not cutting administrative fees to a bare minimum.

Prominent litigators have said lawsuits have been necessary to get plan fiduciaries to comply with the Employee Retirement Income Security Act and operate their plans in the best interest of workers.

It's hard to argue with that; overall 401(k) costs have been declining for years, and many plan sponsors now clearly take their fiduciary duties more seriously, with the threat of litigation almost certainly being a consideration.

MASSIVE SETTLEMENTS

But the massive settlements struck in some of those cases — as much as $140 million in a lawsuit against Nationwide, for example — have attracted a horde of plaintiff law firms.

"2020 has just been an unprecedented year in terms of the suits filed," said Wendy Von Wald, fiduciary product manager at Travelers. "It's been quite astonishing."

One firm, Capozzi Adler, has brought dozens of new, nearly identical claims against plan sponsors, for example.

"I don't know that there are a lot of new plan sponsors out there buying insurance," Von Wald said. "Certainly, those that were [already] purchasing it, we've seen them looking for higher limits."

There has been about $1 billion in total settlements in defined-contribution plan excessive-fee cases over the past 10 years, Aronowitz noted, which has provided an incentive for the flurry of new lawsuits seen this year.

"There has been the most dramatic inflection point for the fiduciary liability insurance area that I've ever seen," he said. "The market is close to a crisis point."

Defendants have about a 25% chance of winning motions to dismiss — and if they don't succeed, they are very likely to settle, he said.

RISK FACTORS

The rates for fiduciary coverage depend in part on a plan's size, including assets and the number of participants, Von Wald said. But other factors that can increase the risk of a lawsuit, such as the inclusion of the employer's own stock as an investment within the plan, can raise prices, she said.

"It's a very difficult time in terms of being a fiduciary. There is certainly more scrutiny in terms of the due diligence that's required under ERISA," she said. "The way the marketplace is moving in addressing these types of class-action lawsuits will have an impact in the upcoming years, especially if we're seeing the settlements in the range we have in the past."

The retention rates that plan sponsors pay to renew coverage when a contract is up were once as low as zero, and more modest rates were about $100,000, Aronowitz said. Now, those rates are as high as $2 million, he said.

That is a big new cost for employers, but it's not the only one. Insureds often must show they've taken steps to de-risk their plans, which they do with the help of a risk management consultant, he said.

"If you are a plan sponsor in America … you can't do this alone," he said.

However, merely hiring a consultant does not give employers immunity, said Michael Kozemchak, managing director at Institutional Investment Consulting, a firm that works mostly with plans with more than $100 million in assets.

"It's a giant number of lawsuits that have been filed. I think all of them have a consultant," he said. "Showing up for [plan] committee meetings isn't going to keep you out of harm's way. I think that's a paradigm shift."

One problem is that employers work with consultants that have a similar mindset, Kozemchak said. "If the client is complacent, they hire people who are complacent. You see the personality marriage between a committee and a consultant, and I think that can be catastrophic."

BURDEN OF PROOF

Plan sponsors must thoroughly document that they went through a comprehensive process in selecting investments and services, though about 90% of them can't prove that in court, he said. That means having competitive bidding processes at least every three or four years for everything — record keeping, custodial services, the brokerage window, managed accounts and investments. But plan fiduciaries also need to keep tabs on investment performance and costs much more regularly, outside of issuing requests for proposals.

"Most consultants don't put formality around looking at the lowest cost funds every year," Kozemchak said.

The median size of a settlement in 401(k) litigation is currently about $10 million, he said. As insurers adjust prices and coverage limits, particularly at a time when many employers are facing their own financial challenges, there will likely be a gap in the coverage that plan sponsors need and what they can afford.

"That is creating a problem," Kozemchak said. "A lot of sponsors are going to be running naked."

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BIG CHECKS

THE BIGGEST 401(K) EXCESSIVE-FEE LAWSUITS HAVE BEEN SETTLED FOR MORE THAN $30 MILLION

	CASE	AWARD OR SETTLEMENT	YEAR CASE WAS FILED	YEAR CASE WAS SETTLED OR DECIDED	PLAINTIFF LAW FIRM
1	Haddock v. Nationwide Financial Services	$140 million	2001	2014	Stanley Law Group
2	Abbott v. Lockheed Martin	$62 million	2006	2015	Schlichter Bogard & Denton
3	Spano v. Boeing	$57 million	2006	2015	Schlichter Bogard & Denton
4	Tussey v. ABB	$55 million	2006	2019	Schlichter Bogard & Denton
5	Ybarra v. Board of Trustees of Supplemental Income Trust	$52 million	2017	2019	Franklin D. Azar & Associates
6	Pledger v. Reliance Trust Co.	$39.8 million	2015	2020	Schlichter Bogard & Denton
7	Bhatia v. McKinsey & Co.	$39.5 million	2019	2020	Nichols Kaster
8	Nolte v. Cigna Corp.	$35 million	2007	2013	Schlichter Bogard & Denton
9	Kruger v. Novant Health	$32 million	2014	2015	Schlichter Bogard & Denton

Sources: Groom Law Group, *InvestmentNews*

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Bipartisan retirement bill would increase RMD age to 75

BY MARK SCHOEFF JR.

BIPARTISAN LEADERS of the House tax-writing committee introduced an expansive retirement savings bill last Tuesday that would allow people to save longer and set aside more money for retirement, and expand automatic enrollment in company retirement plans.

The 132-page measure, Securing a Strong Retirement Act, contains about three dozen provisions and was written by House Ways and Means Committee Chairman Richard Neal, D-Mass., and the panel's top-ranking Republican, Rep. Kevin Brady of Texas.

The measure builds on the SECURE Act, which Congress approved late last year. It incorporates a number of retirement savings provisions that have been introduced by other lawmakers and is similar to a Senate bill sponsored by Sens. Rob Portman, R-Ohio, and Benjamin Cardin, D-Md.

The Neal-Brady legislation would raise the age at which participants must begin withdrawing money from retirement plans from 72 to 75 and would exempt lower balances from required distributions. It would increase limits on retirement plan catch-up contributions for people 60 and older. It also would increase a tax credit that encourages low- and middle-income people to save for retirement.

The bill would require automatic enrollment of employees in newly established company retirement plans. It would increase incentives for small businesses to start plans and allow nonprofit organizations to participate in multiple employer plans. It also would allow companies to match a retirement plan contribution with an employee's student debt payment.

Neal said the bill responds to retirement savings setbacks resulting from the coronavirus pandemic that have added to ongoing retirement security challenges.

"COVID-19 has only exacerbated our nation's existing retirement crisis, further compromising Americans' long-term financial security," Neal said in a statement. "In addition to meeting workers' and families' most pressing, immediate needs, we must also take steps to ensure their well-being further down the road."

> **KEY POINTS**
> - The Neal-Brady bill introduced in the House would raise the age at which participants must begin withdrawing money from retirement plans.

The timing of the bill's introduction is odd, coming just days before the election and a little over two months before the end of the congressional session. There's a chance that parts of the Neal-Brady measure could be included in a government funding bill or other legislation considered during a lame-duck session.

The Insured Retirement Institute, a trade association for the retirement savings sector, plans to launch a lobbying push for the bill, which contains several parts of the five-point policy plan the group has been advocating.

"The measures contained in this bill have the potential to have dramatically beneficial effects on the retirement system," said Paul Richman, IRI chief government and public affairs officer. "Action is required now, not later, to begin addressing the immediate [retirement savings] problems and longer-term problems."

If the Neal-Brady bill does not become law before the end of the congressional session late this year, it would have to be reintroduced in 2021. Getting it out now serves as a marker that it will be a House Ways and Means Committee priority next year.

TIAA supports the legislation.

"We believe that as Congress works to refine this bill, ultimately it will improve the retirement readiness of Americans and help millions attain a secure financial future," Chris Spence, TIAA managing director of federal government relations, said in a statement.

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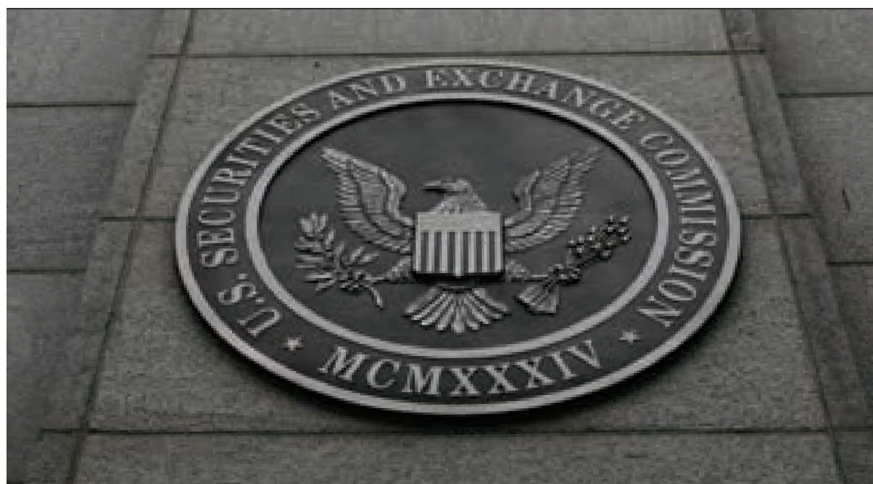

Dems object to SEC no-action letter

BY MARK SCHOEFF JR.

DEMOCRATIC MEMBERS of the Securities and Exchange Commission have objected to agency staff providing leeway to broker-dealers that have not properly established customer protections when borrowing securities from them.

In a no-action letter Oct. 22 to the Financial Industry Regulatory Authority Inc., Elizabeth Baird, deputy director of the SEC Division of Trading and Markets, said some brokers are violating the customer protection rule, which requires them to deliver collateral to customers from whom they are borrowing fully paid and excess margin securities.

The brokers did not physically turn over the collateral — such as cash, Treasury bills or notes, or an irrevocable letter of credit from a bank — to their customers. Instead, the collateral was deposited in the lender's securities account at the broker-dealer or in a bank account in the name of the broker-dealer.

The customer protection rule requires brokers to safeguard customer securities and cash so that there's no delay — or shortfall — returning them if the brokerage fails.

The SEC no-action letter gives the brokerages that are violating the rule until April 22 to come into compliance.

Democratic SEC members Allison Herren Lee and Caroline Crenshaw said the no-action letter was misguided because it provided cover to continue inappropriate behavior for another six months.

Lee and Crenshaw said the broker-dealers are "seeking to minimize their costs" by depositing the required collateral into brokerage accounts or at the broker's bank. Because they're maintaining control over the collateral, customers may not be able to access it.

"Whether these arrangements violate [the customer protection rule] is not a close call," Lee and Crenshaw wrote in a statement. "In the midst of a historically volatile year for the nation's markets, acquiescing to the continuation of this conduct for up to six months presents an unacceptable risk to investors."

They said no-action relief can be provided when conduct "may touch upon a gray area of regulation."

But the circumstances surrounding the brokers' securities lending were crystal clear — they are breaking the rule, Lee and Crenshaw said.

A no-action letter "should not provide a grace period for compliance with clear violations of law — especially violations that put investor funds directly at risk," they wrote. "Here, the potential harm to customers arising from the conduct goes to the very heart of the Customer Protection Rule and should be remediated without delay."

It is unusual for SEC members to step in on a no-action letter, which are issued by agency staff. In this case, the commission needs to weigh in, Lee and Crenshaw said.

"[T]he question here is whether an extended, across-the-board grace period for such violations should be granted, and that decision falls within the discretion of the full Commission," they wrote.

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IN Webcasts

THURSDAY, NOVEMBER 12, 2020 | 4:00PM-5:00PM ET

The Race to Scalability

60% of advisers still keep their investment function in house, but at the same time, they are looking for places where they can find efficiencies and grow their business.

Key takeaways from this webcast will include:

- The "why" around the importance of keeping the investment function in house
- Changes in how advisers are utilizing external investment managers
- The types of external investment managers advisers are using
- A look at the future of the industry and the most streamlined ways to scale a business

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$54.8B TOTAL THIRD-QUARTER ANNUITY SALES, WHICH WAS UP 13% FROM THE SECOND QUARTER, BUT 8% LOWER THAN THE YEAR-AGO PERIOD

SOURCE: SURVEY BY THE SECURE RETIREMENT INSTITUTE

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

To help clients understand personal finance, make it fun

As financial advisers, we all know that most Americans are woefully mismanaging their personal finances. And we all know why: Most lack the education they need to make effective financial decisions that are in their best interest.

Few Americans are taught about money by their parents. Fewer take any classes about the subject in school, and it's a rare employer that provides any advice or information about personal finance to its workers.

Yep, America is a land of financial illiterates. And that's why most people find the topic intimidating, confusing and even downright scary.

We can improve the situation by doing something that few advisers ever attempt: Let's make personal finance fun.

It's a routine approach for us at Edelman Financial Engines. Here's just one example, using perhaps one of the most hated and confusing aspects in all of financial planning: life insurance.

KEY POINTS

- Most Americans aren't well-informed about personal finance.
- One way to deal with that is to make discussions enjoyable for clients.

Few clients want to talk about it. No one wants to spend money on it. But we have found a way to create a conversation that is always filled with laughter — and results in the client agreeing to get the insurance policy they need. How do we do it? We ask our clients one simple question.

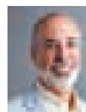
Does Batman need life insurance?

You're already smiling.

After a fun dialogue about superheroes and favorite movies, and the comic books we read (or didn't read) as children, we return to the question. And almost every client's response is, "Yes, of course, Batman needs life insurance."

After all, everyone knows that Batman engages in very risky behavior; his odds of dying are pretty high.

But as a financial planner, you know the truth: Batman, aka billionaire Bruce Wayne, has no need for life insurance. Bruce is unmarried, with no



FINANCIALLITERACY
RIC EDELMAN

living parents and no children. With no one financially dependent on him, Batman has no need for life insurance. (Protecting Alfred via his estate plan is a different matter — and the opportunity for another fun conversation.)

So who does need life insurance?

Homer Simpson.

Laughing yet?

Homer, we explain to our clients, is the sole wage earner in his family. Marge and the kids are at great financial peril if Homer dies.

This simple conversation — funny, disarming, engaging — is all it takes to help our clients put life insurance into proper context. They get it, and that lets them get the life insurance they need to protect their family.

It's time for the financial planning community to stop showing off. Enough with the multicolored charts and graphs. Stop using jargon and graduate school terminology that you use (let's face it) partly to impress your clients but mostly to intimidate and bully them into acquiescing to your entreaties.

Talk with your clients the way you talk with your friends. Make it fun.

And then, when they agree that Batman doesn't need life insurance, you can ask them if he needs disability insurance coverage — and whether he can quality for a policy!

Ric Edelman is founder of Edelman Financial Engines.

The secret to closing prospects

Many advisers I've spoken to over the past six months are frustrated they're not closing as many new prospects during this unique time. They believe prospects are just "stuck." People seem to be waiting for something to happen, whether that's for a vaccine to come out, the election, or some other catalyst that will let them feel comfortable making a change from what they're currently doing.

Nine times out of 10, the reason advisers are not gaining traction with these potential clients is that they're leading with investments.

After introductions and some friendly banter, many advisers feel the need to pull out their pitch decks or Callan charts. Unfortunately, within seconds, they sound like every other adviser the prospect has already met. Within minutes, the prospect's eyes start to glaze over.

So how can you approach a first meeting differently to improve your prospect closing ratio?

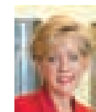
First, be relatable. Clients want someone who is real and transparent on a personal level, not salespeople who show them canned pitch decks. Clients want you to listen to them, but they also want to know about you. They want to have a real connection. So let that happen.

LESSONS LEARNED

Here's an example of how to do that: "You may be wondering how I got into this business and why I am uniquely qualified to help you with your financial planning." Then tell your story.

Your story should reveal some lessons you've learned along the way. Make sure to show them you've made it through successfully. You want your prospects to see you as an "overcomer." Overcoming in spite of one's circumstances is always appreciated.

It's also important to keep in mind that your story will backfire if all you



GUESTBLOG
ERIN BOTSFORD

focus on are your industry accolades; it only works when you exhibit humility.

RISK MANAGEMENT QUESTIONS

Once you've established rapport, you can start to ask your prospects about themselves and then bring it around to their financial situation. Instead of talking about their portfolio, lead with a discussion of risk management and risk tolerance. Why? The fear of loss is a far greater driver than the opportunity for gain. I've found this especially true for wealthy people.

I've created more than two dozen questions on risk management topics, including the titling of financial accounts, automobiles and rental properties. How much umbrella liability insurance do they have? Have they updated their medical powers of attorney?

Most people typically have numerous risk management issues, which I note could expose them to potential lawsuits. By asking these questions, I am demonstrating my value.

Once I finish with the risk discussion, I focus on estate planning.

The key takeaway: If you want to improve your ability to close potential clients faster and at a higher rate, stop leading with a discussion of investments.

I've never used a Callan chart or an investment pitch deck in a prospect meeting. My experience and the experiences of other advisers that I coach show that you'll see an immediate interest from your prospects, and you'll love the outcome you receive.

Erin Botsford, a 30-year veteran of the profession, now runs the Elite Advisor Success System and Spend the Day Mastermind programs.

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Retirement Plan Advisers Prepare For 2021

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American Century Investments

JASON ROBERTS
Founder and CEO
Pension Resource Institute

MODERATOR

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Chief Content Officer
InvestmentNews

Following an unprecedented year, plan participants face unique challenges with rising healthcare costs on top of financial uncertainty. This webcast will focus on how RPAs can help participants wade through the challenges they will face in the year ahead and prepare them for financial security beyond. Moderated by InvestmentNews Chief Content Officer George Moriarty, the panel will include American Century Investments' Glenn Dial, Vice President of Retirement Strategy, Jason Roberts, Founder and CEO of the Pension Resource Institute, and Greg Ungerman, DC Consulting Lead at Callan, LLC.

The topics discussed will include:

- The urgency for sponsors to revisit suitability of TDFs. Volatility has forced unemployment and involuntary early retirement on participants. How does that reality shape the TDF glide plan?
- Why retirement plan advisers need to return to the basics of fiduciary monitoring.
- Planning for healthcare. It's the big variable and RPAs need to take the lessons of 2020 to better prepare the participants.

Register today for this free webcast.
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Most investors regret having tapped their 401(k)s early

BY EMILE HALLEZ

The pandemic has prompted few workers to dip into their retirement accounts early, but more are now considering it, according to a report last week from Edelman Financial Engines.

Roughly a third of people said they have taken 401(k) loans or early withdrawals at some point in their lives, the survey found. About 60% of those who have taken loans or early distributions from their 401(k) accounts said they regretted it — yet just as many said they would likely do so again.

The report is based on a survey of about 1,900 retirement plan participants conducted from Aug. 20 to Sept. 2. About half said they have significant stress related to their finances, which often had a negative effect on their job performance, according to the report.

A survey released last Wednesday by Principal Financial found 19% of people have pulled money out of any type of savings account over the past four months. Just 3% of workers took money early from retirement accounts, compared with 5% of retirees, that survey found. More often, workers dipped into emergency savings — 9% said they have done so. Only 1% pulled money early out of IRAs, while about as many have taken hardship withdrawals from 401(k)s, according to the report.

1%
OF PEOPLE HAVE TAKEN MONEY EARLY FROM IRAS: PRINCIPAL

401(K) LOAN ACTIVITY

Principal found that only 2% of people have taken loans from their retirement accounts.

Yet plan record keepers have generally said that 401(k) loan activity remains low amid the pandemic, if not even at lower levels than the providers saw during the same time in 2019.

Data provided to *InvestmentNews* by several large record keepers, including Vanguard, Fidelity, Ascensus and Principal, mostly showed that new loan applications were down on an annual basis, although the average size of requested loans was considerably higher.

CARES ACT DEADLINE

Sept. 23 marked the deadline for plan loans at the $100,000 limit allowed under the CARES Act, meaning that loans must conform to the normal $50,000 ceiling. However, plan participants who are eligible for coronavirus-related distributions, or CRDs, have until the end of the year to request them. Taxes on CRDs can be paid over three years, and participants can pay back their accounts during that time.

Over the summer, plan providers reported that few workers had taken CRDs, citing percentages in the low single digits. In early September, John Hancock Retirement said less than 1% of its participants had taken a CRD, for example. A report last week from the Public Retirement Research Lab showed similar findings for government employees.

Figures from one plan provider, Alight Solutions, showed 4% of the roughly 4 million participants in its plans had taken CRDs as of Sept. 30, with an average withdrawal of $21,000.

However, the record unemployment seen during the pandemic could boost that, especially given the lack of additional COVID-19 relief from Congress.

Without the $600 weekly unemployment checks provided under the CARES Act and smaller amounts under the subsequent Lost Wages Act, many who have lost work during the pandemic likely have few resources for covering expenses.

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LPL

CONTINUED FROM PAGE 3

The brokerage industry has been a hotbed of consolidation for the past 10 years. The costs of technology and compliance keep rising, while profit centers like charging commissions on stock trades are disappearing completely at some firms. Interest earned on clients' cash accounts, once an easy way to generate profits, also has been greatly diminished.

Over the last decade, large firms have bought small or midsize broker-dealers, which have seen their profit margins erode. But recently megamergers, such as Charles Schwab's acquisition of TD Ameritrade, have become more prominent.

LPL has been a recent buyer both of broker-dealers and service firms.

Earlier this week, it closed a $12 million acquisition of Chicago-based trading platform Blaze Portfolio in a move to expand its trading and rebalancing technology for the firm's financial advisers. It also recently closed the acquisitions of broker-dealers and registered investment advisers E.K. Riley Investments and Lucia Securities.

LPL, a recruiting powerhouse, reported a year-over-year gain of 819 financial advisers at the end of September, an increase of 5%.

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ESG RULE

CONTINUED FROM PAGE 3

But the final regulation was revised to take the term "ESG" out of the rule text; it is discussed in the preamble. The rule language concentrates on whether an investing factor is pecuniary or nonpecuniary, said Jeanne Klinefelter Wilson, acting assistant secretary of labor for the Employee Benefits Security Administration.

PECUNIARY, NOT ESG

Pecuniary is defined as any factor that a fiduciary determines will have a material effect on risk and return based on an investment's timeline, Wilson said.

"That does not mean that fiduciaries are prohibited from considering such issues as environmental impact and workplace practices if they are relevant to the financial analysis because those issues are pecuniary in that instance and therefore appropriate considerations under the rule," Wilson said.

The final rule contains several other revisions from the proposal, such as deleting the requirement that an ESG fund may only be selected if the fiduciary uses objective risk-return criteria, said a DOL senior official. The final rule removes the blanket prohibition on any fund that uses ESG factors from being a qualified default investment alternative and makes the exclusion less restrictive.

The changes don't go far enough to satisfy opponents of the rule.

"We don't see a substantial change between the proposal and the final rule," said Bryan McGannon, director of policy and programs at US SIF, The Forum for Sustainable and Responsible Investment. "It creates this fog over how DOL will interpret nonpecuniary. That confusion is going to lead plan fiduciaries to reconsider whether or not to include ESG options in their plans."

CRITICAL RESPONSE

Despite the changes in the final rule, the DOL continues to undermine socially responsible investing in retirement plans, said Aron Szapiro, head of policy research at Morningstar.

"They're still pretty hostile to the idea of ESG factors being something plan sponsors should consider," Szapiro said.

The rule will become effective 60 days after it's published in the Federal Register. But opponents will continue to fight it.

"It is a priority for U.S. SIF to reverse this rule," McGannon said. The group will consider a court challenge and legislative responses, McGannon said.

Critics say the Trump administration's support of the fossil fuel industry contributed to its push to get the DOL ESG rule over the finish line. If Democratic presidential candidate Joe Biden defeats Trump and Democrats take over the Senate in Tuesday's election, the rule could be vulnerable to being overturned.

Once the rule is published in the Federal Register, a Biden DOL would have to commence a new rulemaking to replace it, said Susan Dudley, director of the George Washington University Regulatory Studies Center.

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ELECTION

CONTINUED FROM PAGE 3

electoral vote margin. He said Biden is polling better at this point in the race than Clinton was in 2016.

"If poll performance is similar to four years ago, Biden probably wins, but it's going to be close," Gardner told reporters recently.

One potential vulnerability for Biden as the race comes to a close is his tax plan, Valliere said. Biden is proposing to raise income taxes on people making more than $400,000 and boost capital gains taxes to ordinary rates for people who earn more than $1 million. He also backs raising estate and corporate taxes.

Biden's tax proposals would boost federal revenue by about $2.4 trillion over the next decade, according to the Tax Policy Center.

"I've not seen a politician in my career be successful by saying, 'Vote for me, I'm going to raise your taxes,'" Valliere said. "That, to me, is not a real seductive prescription. In this last week, Trump may emphasize that a lot."

"THIS ELECTION IS GOING TO BE A REFERENDUM ON TRUMP."

GREG VALLIERE, CHIEF U.S. POLICY STRATEGIST, AGF INVESTMENTS

DEFCON 5

Even if he tries to raise Biden's negatives, Trump is the incumbent with a record to defend. "This election is going to be a referendum on Trump," Valliere said.

One question that's gaining urgency is when the outcome will be decided. With tens of millions of Americans voting by mail, it's not likely all ballots will be counted by late in the evening Tuesday. Trump has indicated he will contest mail-in votes.

Gardner uses the probability spectrum for nuclear war as an analogy for an uncertain election. DEFCON 5 would mean that the results won't be known for a couple days. DEFCON 1 would mean the outcome is determined by the House of Representatives.

"Each level of DEFCON gets more and more remote," Gardner said.

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EMERGING MARKETS

CONTINUED FROM PAGE 4

benchmark declined by 15%.

Of course, investors that enjoyed 2017 gains in the 70% range from the two concentrated strategies might have been able to better absorb the 2018 pullback. The MSCI index gained 37% in 2017.

Carter believes that, as with most of the world, the pandemic has accelerated digital trends that were already taking shape in the emerging markets, which is why he remains bullish even after such strong run-ups.

When looking at the larger emerging markets landscape, not everyone is as enthusiastic at this point in the cycle.

"We're slightly underweight emerging markets right now," said Abdur Nimeri, head of institutional multi-asset programs at Northern Trust Asset Management.

"Outside of China, you will find the commodities and natural resources that drive those economies [are] pretty much impaired," he said.

Nimeri is concerned with how COVID-19 is disrupting the supply chains in commodity-rich emerging economies.

"COVID adds a new layer of risk and the impact is much bigger in those emerging economies," he said. "The risk case will be a lot more acute."

TARGETED APPROACH

The expansive and eclectic nature of a category represented by more than 1,100 individual securities from 26 countries across five regions of the world is why some advisers prefer a targeted approach to the emerging markets.

"Emerging markets is a unique asset class and simply tracking a passive index can have drawbacks," said Tony Matheson, wealth adviser at Matheson Financial Partners.

His client allocations to emerging markets can be as high as 10% for the most aggressive portfolios.

"I like the space, but it depends on what area of the space, which is why I prefer an active manager that can look under the hood," he said. "I want to be more sector-focused to avoid areas like energy and banks because I'd rather have more of a forward focus on technology and pharmaceuticals."

Paul Schatz, president of Heritage Capital, is also a believer in the benefits of the emerging markets.

"It's a good diversifier and while returns are volatile with large drawdowns, the long-term returns are strong," he said. "Also, with so much emerging market debt denominated in U.S. dollars, if you get the dollar right, you can create a strong tailwind."

2.5%
YEAR-TO-DATE GAIN IN MSCI EMERGING MARKETS ETF

WEAK DOLLAR ADVANTAGE

The advantage provided by a weakening dollar is no small factor, said David Semple, manager of the $2.4 billion VanEck Emerging Markets Fund (GBFAX).

"If we get an even bigger fiscal stimulus if the Democrats are in power, that would steepen the yield curve and further weaken the dollar, and if the Democrats go after big tech companies and stock buybacks, that takes a lot of luster out of an expensive U.S. stock market," he said. "For U.S.-based investors, the key is the dollar weakness we anticipate, and if you layer a weaker dollar on a cheap asset class the returns to U.S. investors will stack up."

Semple's fund, which is up 5% this year after gaining nearly 30% last year, has not seen the same kind of recent performance as some of the targeted ETFs, but he is focused on the Northeast Asian cluster.

"China, Taiwan and Korea have done well containing the virus without shooting all their fiscal and monetary bullets," he said. "The monetary stimulus by China has been much, much less than in the U.S. and Europe, which means they have room to ease further."

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WADDELL & REED

CONTINUED FROM PAGE 4

fensive and jump into the market to buy other wealth management businesses, CEO Philip Sanders said.

When asked about the firm's take on current deal opportunities, Sanders pointed to the difficulties of the recent past and responded that the time might be right.

"The last few years have been really about kind of putting us in this position, and we've made a lot of improvements internally … especially on the wealth management side," Sanders said. "So, a few years ago, if we had opportunities presented to us, I think it would have been difficult for us to execute, but we're now positioned to execute on those types of opportunities."

In an email, Mihal added: "We're pleased that our strategic steps toward stronger growth across our wealth management business are showing results, including our focus on retaining and recruiting experienced and productive affiliated advisers."

AWARE OF THE RUMORS

A spokesperson wrote that the company was "aware of recent rumors and the speculation that has precipitated as a result," but said that as policy, Waddell & Reed Financial does not comment on market rumors or speculation.

Waddell & Reed shares closed at $15.50 last Wednesday, down 14% from the 52-week high on Oct. 16. Is this an indication that takeover speculation has cooled, or is the firm's declining share price in line with big market swings over concerns about an economic recovery and the coronavirus?

By adding and recruiting advisers, Waddell & Reed is showing it's serious about the growth of its wealth management franchise. That's a far cry from literally pulling the rug from under advisers and telling them the firm would no longer pay rent for their offices.

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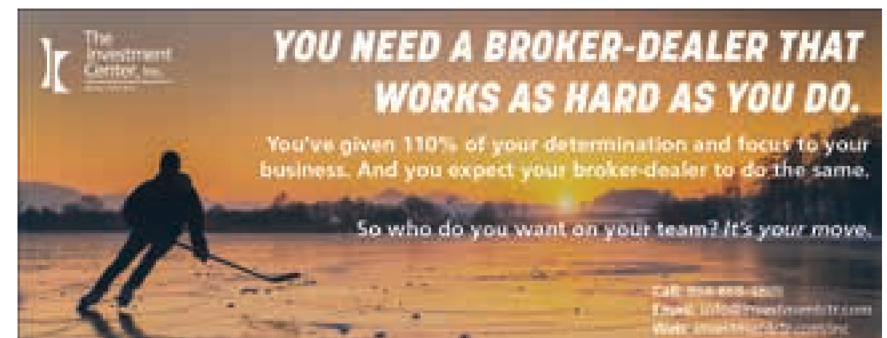

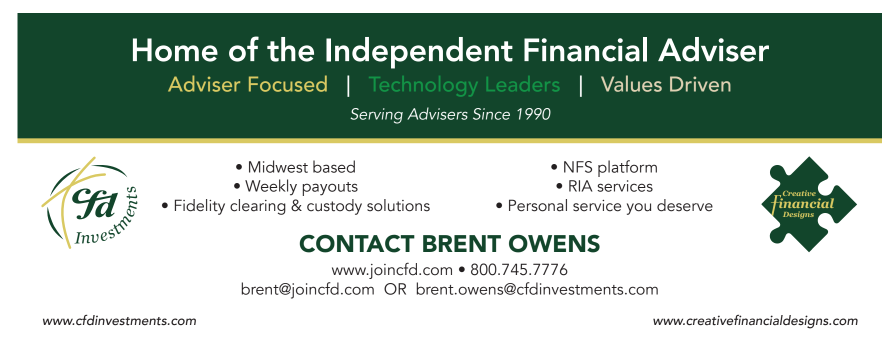

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