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REGULATORY**ACTION**

Pressure mounts on fund fees

BY MARK SCHOEFF JR.

REGULATORS ARE PLACING increased pressure on financial advisers who try to augment their income by putting clients in high-fee funds or ones that offer revenue sharing.

Recently, the Securities and Exchange Commission and the Financial Industry Regulatory Authority Inc. have demonstrated that they're on the hunt for opaque fees.

Last week, the SEC filed a complaint against a Connecticut investment adviser who invested his clients in mutual fund share classes with 12b-1 fees when share classes in the same fund without the fees were available. In September, the SEC reached a $3.5 million settlement with UBS in a case involving the sale of high-fee share classes.

And Finra noted Dec. 6, in its summary of 2017 exam findings, its concern about brokers recommending high-fee share classes without determining whether they're suitable for their clients.

The regulators have long been worried about these issues, which also encompass situations where customers do not receive appropriate sales load discounts and waivers.

But there is now a renewed urgency thanks in part to a greater focus on fees brought about by the Labor Department's fiduciary rule and a trend toward passive investing.

"The regulatory bodies believe that the all-in cost of retirement is too high," said Whitfield Athey, chief executive of Delta Data, a mutual fund back-office technology firm. "Anytime there is an opportunity to assess fines on fees, they're doing it."

REVENUE SHARING

Revenue sharing, where a fund firm pays an intermediary, such as a broker or investment adviser, for marketing the fund is becoming especially vulnerable to enforcement.

"They're regulating revenue sharing out of existence by using lack of disclosure as a regulatory charge," said Todd Cipperman, principal at Cipperman Compliance Services. "It doesn't seem that any disclosure is enough."

The regulatory crackdown is wide-ranging, according to Niels Holch, executive director of the Coalition of Mutual Fund Inves-

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EDITOR'S NOTE

A toast to the disruptors

FRED GABRIEL

"Innovation distinguishes between a leader and a follower," the late Apple co-founder Steve Jobs said.

In putting together our 2017 *InvestmentNews* Icons and Innovators special report, we set out to find some of the brightest, most engaging leaders in the industry. The individuals recognized in this year's report have carried the financial advice profession forward and they've done it on the backs of their great ideas.

They're not afraid to challenge the status quo, or ask the obvious questions. They're big thinkers with little patience for naysayers.

We put this issue together every year because we believe nothing is more crucial to the future of this profession than innovation. As our industry continues to adapt to new pricing models, shifting demographics and new regulatory regimes, it is more important than ever that we embrace the power of disruption.

We do that by embracing the disruptors — which describes many of the people being highlighted in this report.

This list was chosen by *InvestmentNews'* editorial team with input from readers. Ultimately, we selected 20 visionaries — two icons and 18 innovators — with these definitions as guideposts:

ICONS: Those who have made profound and consistent contributions to the success and advancement of the financial advice profession.

INNOVATORS: Those who have conceived new ideas and tools that have propelled the industry forward.

I hope you'll take the time to read the profiles detailing the lives and contributions of the individuals chosen. Perhaps they'll even inspire you to bring forward the next big idea that powers the financial advice industry into a new era.

Lastly, if you want to be part of honoring all of our icons and innovators, I invite you to attend our Icons and Innovators Awards luncheon on April 18 in New York City.

All of us at *InvestmentNews* continue to be grateful to serve as the publication of record for financial advisers.

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INVESTING**INTELLIGENCE**

Bitcoin in ETF form?

Two money managers have major stakes

BY JOHN WAGGONER

TWO FUND companies own 43% of Bitcoin Investment Trust (GBTC), currently the only fund that invests exclusively in the cryptocurrency.

Kinetics Asset Management owns 27.27% of the outstanding shares of Bitcoin Investment Trust, while Ark Investment Management owns 15.82% of the outstanding shares, according to Morningstar Inc.

Both companies have spread those holdings among several funds. As of the end of November, for example, Ark Innovation ETF (ARKK) owned 13.69% of Bitcoin Investment Trust. Kinetics Internet No Load (WWWFX) owned 11.22% as of Sept. 30, the latest data available.

Funds try to limit their exposure to any one security, and they have to abide by certain rules set out by the Internal Revenue Service and the Investment Company Act of 1940. But those rules generally apply to the time of purchase: While they could limit the funds from buying additional bitcoins, they wouldn't force them to sell holdings that have dramatically appreciated, as bitcoin has.

Kinetics and Ark shareholders probably aren't objecting to the funds' investment in Bitcoin Investment Trust, which has rocketed to a 1,421% gain this year. Ark Innovation has jumped 85% and Kinetics Internet No Load has soared 49%.

Bitcoin Investment Trust is a grantor trust and owns a set number of bitcoins. It has been so popular with investors that it typically sells for a large premium to the value of its holdings. Average 2017 premium: 58.7%, according to Morningstar.

Any investment selling at a premium to its market value should be treated with caution. The recent introduction of bitcoin futures will now offer a less expensive way for individuals to buy bitcoin. A decline in bitcoin prices combined with a reduction in the fund's premium would simply make the fall all the worse.

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BROKER-DEALERS

Morgan Stanley move puts its reps on notice

BY BRUCE KELLY

MORGAN STANLEY'S pursuit last week of a temporary restraining order against a New Jersey broker who resigned Dec. 8 is a clear sign the firm will aggressively enforce one-year non-solicitation agreements in contracts with brokers, industry observers said.

"This shows that Morgan Stanley will take an aggressive approach," said James Heavey, a partner at the law firm Barton.

"I would definitely agree," said Louis Diamond, vice president at Diamond Consultants, a recruiting firm. "Clearly, Morgan Stanley is going to go after whomever they can."

A federal judge in New Jersey last Wednesday agreed to a temporary restraining order against the broker, John Fitzgerald, who left the firm to join Commonwealth Financial Network.

Two days after Mr. Fitzgerald resigned, Morgan Stanley filed its complaint against him to stop him "from soliciting Morgan Stanley customers he had serviced while employed by Morgan Stanley and to require him to return all custom-

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BROKER PROTOCOL

INDUSTRYISSUES

More brokers think of breaking away

Shaky protocol has wirehouse reps considering independence

BY GREG IACURCI

AS THE BROKER PROTOCOL recruiting agreement increasingly becomes endangered, more wirehouse brokers are making inquiries about becoming independent advisers, according to industry executives with knowledge of such activity.

Firms such as Dynasty Financial Partners and HighTower, which provide services to help brokers at wirehouses become independent registered investment advisers, have seen an upward trend in internal metrics measuring adviser activity after Morgan Stanley and UBS announced in recent weeks that they were pulling out of the broker protocol.

"In the last 60 days, we had 75 leads, direct call-ins and inquiries to our website," said Shirl Penney, president and CEO of Dynasty, which provides a service platform for independent advisers and offers transition financing. "That's an uptick of about 50% from the previous 60 days."

Nearly all of the advisers hail from the wirehouses — the wealth management divisions of Morgan Stanley, UBS, Merrill Lynch and Wells Fargo — according to Mr. Penney, who said the advisers are seeking to make a move or understand what the protocol is and how it affects them.

"It's been a catalyst for engagement," Mr. Penney said. "Before someone breaks away, they call in to get educated."

Kimberly Papedis, head of national sales and platform strategy at HighTower, also said their volume of adviser activity had elevated beyond average metrics, but couldn't immediately quantify that volume.

The protocol, known formally as the Protocol for Broker Recruiting, is a voluntary agreement among brokerage houses that provides guidelines allowing advisers to leave for a competitor without getting into legal trouble for contacting their old clients. More than 1,500 firms currently participate.

At the heart of issue is the question of who legally "owns" the client — is it the adviser or the brokerage?

> **"IN THE LAST 60 DAYS, WE HAD 75 LEADS ... AN UPTICK OF ABOUT 50%."**
> SHIRL PENNEY, PRESIDENT AND CEO, DYNASTY

LAWSUITS MORE LIKELY

Leaving the protocol now makes it more likely Morgan Stanley and UBS will sue departing advisers in an attempt to prevent them from taking clients with them. And that makes some advisers skittish — even at firms such as Merrill Lynch, which said it would not be leaving the protocol, and Wells Fargo Advisors, which experts believe is likely to remain, at least in the near term.

"Merrill has said they're not leaving it," said Joe Duran, CEO of United Capital, which acquires

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INVESTINGINTELLIGENCE

FS forms partnership with KKR

BDC sponsor ditches arrangement with GSO Blackstone

BY BRUCE KELLY

FS INVESTMENTS, the leading sponsor of nontraded business development companies, took the first steps last Monday in a process that will lead to liquidity events for investors and the creation of a giant $18 billion listed company.

FS, which launched its first nontraded BDC in 2009, said it will no longer work with the longtime sub-adviser to its funds, GSO Blackstone. Instead, it will partner with KKR Credit Advisors, which is currently the adviser to one listed BDC, Corporate Capital Trust, with more than $4 billion in assets.

PROVIDING LIQUIDITY

GSO Blackstone sub-advises four BDCs in the FS Investments fund family, one of which is listed and three of which are not. Combined, those four companies have roughly $14 billion in assets. When combined with KKR's Corporate Capital Trust, the merged BDC will have $18 billion in assets and be the largest BDC on the market. The transactions will provide liquidity to investors in the three nontraded BDCs with the FSIC brand, said Michael Forman, CEO and chairman of FS Investments.

"It's a two-step transaction," Mr. Forman said. "First, we need to get shareholder approval for each of the funds, and that will take a few months. Then we have to merge the vehicles together and create the single company managing $18 billion. We need to get a liquidity event for FSIC shareholders and it makes sense to combine them all."

The scale of the new company translates into greater ability to borrow money at more favorable terms and reduce expenses, he added. The entire process could take 12 to 18 months.

In a release, Blackstone said GSO will receive payments totaling $640 million from FS Investments, expected to be paid in 2018. The $640 million in cash proceeds represent approximately three years of revenue from the FS Funds, according to Blackstone, which will cease sub-advising the funds in April and launch a new, direct lending business.

Corporate Capital Trust was a nontraded BDC that listed this year, while FS Investment Corp. listed in 2014.

BDCs typically are closed-end investment companies that invest primarily in debt and equity of private companies. Yields can be attractive due to the BDCs' exposure to high credit risks amplified by leverage.

> **$18B**
> SIZE OF THE MERGED BDC TO BE FORMED BY THE PARTNERING OF FS AND KKR CREDIT ADVISORS

SALES CONTINUE TO DECLINE

The change at FS Investments comes at a time when sales of BDCs are on track to decline for a third consecutive year and are on the way to posting their worst year for equity raising since 2010, when the product was just beginning to be widely sold by independent broker-dealers.

Nontraded BDCs managed to raise just $624 million over the first nine months of the year, compared with last year's 12-month sales total of $1.5 billion, according to Robert A. Stanger & Co. Inc., an investment bank that tracks sales of alternative investments. Sales this year are far below the levels seen when the product was at its peak in 2014, when brokers sold $5.5 billion of nontraded BDCs, according to Stanger.

Like nontraded REITs, nontraded BDCs were high-commission products sold to investors seeking yields to build an income stream and typically paid advisers a hefty upfront commission of 7%.

Mr. Forman said the new business relationship with KKR would be a partnership rather than KKR working as a sub-adviser. And he also praised GSO Blackstone. "We started with GSO in 2008 and it has been successful for both our firms," he said. "We built something special and are proud of that and separating in a consensual manner."

"We thank FS Investments for their partnership over the years and wish them the best going forward," Bennett Goodman, co-founder of GSO Capital Partners and senior managing director of Blackstone, said in a release.

FS Investments also said last Monday that it has entered into an agreement to form a joint venture with EIG Global Energy Partners to provide investment advisory services to the $4 billion FS Energy and Power Fund.

And it hired Andrew Beckman to lead the team primarily responsible for providing investment advisory services to FS Global Credit Opportunities Fund, a $2 billion closed-end fund.

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REGULATORYACTION

SEC warns on bitcoin

Clayton urges advisers to heed securities laws

INVESTMENTNEWS

IN A PUBLIC STATEMENT about cryptocurrencies such as bitcoin and initial coin offerings or ICOs, Securities and Exchange Commission Chairman Jay Clayton urged investors to ask lots of questions and use common sense before investing, and suggested that some products might not be legal.

"The technology on which cryptocurrencies and initial coin offerings are based may prove to be disruptive, transformative and efficiency enhancing," Mr. Clayton said.

"I am confident that developments in fintech will help facilitate capital formation and provide promising investment opportunities for institutional and Main Street investors alike. I encourage Main Street investors to be open to these opportunities, but to ask good questions, demand clear answers and apply good common sense when doing so," he continued.

EDITORIAL
Cryptocurrency poses challenge
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Market professionals, such as brokers and advisers, "should thoughtfully consider our laws, regulations and guidance, as well as our principles-based securities law framework, which has served us well in the face of new developments for more than 80 years," he said.

Trading in futures on bitcoin, perhaps the most prominent cryptocurrency, began last Monday on the CBOE Futures Exchange.

Jay Clayton

MANY QUESTIONS

Cryptocurrencies, Mr. Clayton said, present investors and other market participants with many questions: Is the product legal? Is it subject to regulation, including rules designed to protect investors? Does the product comply with those rules? Is the offering legal? Are those offering the product licensed to do so? Are the trading markets fair? Can prices on those markets be manipulated? Can I sell when I want to? Are there substantial risks of theft or loss, including from hacking?

"The answers to these and other important questions often require an in-depth analysis, and the answers will differ depending on many factors," he said.

Mr. Clayton said that simply calling something a currency or a currency-based product does not mean that it is not a security.

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FIDUCIARYFUTURE

ACLI urges court to rule on DOL case

BY MARK SCHOEFF JR.

FINANCIAL INDUSTRY opponents of the Labor Department's fiduciary rule are urging an appeals court to rule on their case, despite the fact that major parts of the regulation won't be implemented until 2019.

In a Dec. 8 letter to the U.S. Court of Appeals for the Fifth Circuit, the plaintiffs in a lawsuit against the rule said the delay of the regulation should not hold up their appeal, because parts of the rule have already been implemented.

"In light of ongoing compliance burdens, appellants submit this response to clarify that the delay rule does not diminish the urgency of this appeal," David W. Ogden of the law firm WilmerHale wrote on behalf of the American Council of Life Insurers and other plaintiffs.

In addition to ACLI, the plaintiffs include the Securities Industry and Financial Markets Association, the Financial Services Institute, the Financial Services Roundtable and the U.S. Chamber of Commerce.

LACKS THE AUTHORITY

In the suit, they argue the DOL lacked the authority to promulgate the fiduciary rule and illegally established a private right of action

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OPINION

FROM THE WEB AND PRINT PAGES OF *IN* THIS WEEK

“The knowledge it takes to build a billion-dollar RIA is a paint-by-numbers system.”

DAVID BACH, co-founder of AE Wealth Management, on marketing strategies that include becoming a local celebrity.

“IT SURPRISED THE HELL OUT OF ME.”

WILLIAM BENGEN, father of the 4% rule, on the industry’s large and positive response to his 1994 paper on safe withdrawal rates in retirement.

“It is a key time to remind people what it was like in 2008 and 2009.”

JANE NOWAK, financial planner at Wealth and Pension Services Group, on clients overlooking the amount of risk in financial markets.

EDITORIAL

Cryptocurrency frenzy poses a challenge to advisers

NOTHING LIKE roaring into the holidays with a mania on our heels. There has been enough news swirling the last few weeks on bitcoin, other cryptocurrencies, their futures, the underlying blockchain technology and, yes, even CryptoKitties — it’s a thing — to make one’s head spin.

We certainly will not “go gentle into that good night” of the year’s end. Though Dylan Thomas wrote that about human life, it’s utterly fitting for 2017, which will “rage, rage against the dying of the light.”

But be not weary, advisers. We’re just getting started, and 2018 is sure to be a doozy.

Last week, we saw the price of bitcoin jump almost 35% before dropping back again. It has doubled since late November. We dare not print a price here because it will be ludicrously out of date by the time you read this.

Similar swings occurred during the debut of bitcoin futures Dec. 10 on the Cboe Options Exchange. The enthusiasm spurred two trading halts in order to calm the market. And get ready: CME Group Inc., the world’s largest exchange owner, will begin trading bitcoin futures contracts Monday.

We know what follows: other derivatives, and even inclusion indirectly in mutual funds and ETFs. We’ve already seen that with two money managers our senior columnist John Waggoner wrote about last week. Their funds get in on the phantom currency through the Bitcoin Investment Trust, which owns a set number of bitcoins and typically sells for a large premium to the value of its holdings. Yikes.

Things are moving fast for advisers, and even faster for news outlets such as *InvestmentNews* trying to keep you ahead of the curve.

We were all set to deploy our Market Intelligence e-newsletter last Tuesday with a lead story titled “Bitcoin futures debut with 26% rally.” But that morning’s news had eclipsed the previous day’s sunshine with headlines about such trades tumbling 93%. (It appears we’re going to need an even faster piece of news-writing equipment and delivery system than the human brain and internet.)

But during such chaos, as during tranquility, it is the job of advisers to stay ahead of the client on financial matters lest the client lose all confidence in them. A response of “I don’t know” will not suffice for the many questions clients will throw at you. Especially the crazed ones.

BE SURE TO HAVE A SOLID, INFORMED CASE FOR YOUR VIEWPOINT ON BITCOIN.

MANIAS NEED MANIACS

Though some of your clients are undoubtedly remaining sane amid the fervor, we know that to feed a mania we need maniacs. Be honest, you know a few. According to Joseph Borg, Alabama securities director and president of the North American Securities Administrators Association, there are plenty out there hounding their advisers about the cryptocurrency. As he told CNBC last week, people are going into debt, opening home equity lines of credit and taking cash advances on credit cards to buy bitcoin. As he warned, “Innovation always outruns regulation.”

Which makes this a particularly crucial moment for advisers to earn their keep, and help put reason between hungry investors and their eagerness to risk too many of their hard-earned dollars.

Securities and Exchange Commission Chairman Jay Clayton released a statement last week on cryptocurrencies and initial coin offerings. Half of the notice was directed at market professionals such as broker-dealers and investment advisers.

Mr. Clayton said that although cryptocurrencies are purported not to be securities, his agency is keeping a close eye on them.

“When advising clients … advisers should thoughtfully consider our laws, regulations and guidance, as well as our principles-based securities law framework, which has served us well in the face of new developments for more than 80 years,” he said. “I also encourage market participants and their advisers to engage with the SEC staff to aid in their analysis under the securities laws.”

So whether you are intrigued by bitcoin and the technology that underlies it, or mortified by the mania, be sure to have a solid, informed case for that viewpoint — and share it freely with those coming to you for guidance. They’ll definitely need it.

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 Frederick P. Gabriel Jr. at fgabriel@investmentnews.com. All letters will be edited.

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InvestmentNews

ICONS & INNOVATORS

WHO HAS SCULPTED the financial advice profession into its current form? Who has broken molds to fashion improvements for clients — or for planners themselves? Who has really shaken up the industry for the better?

These are questions that *InvestmentNews* asked readers — those who work in the industry and have benefited from others' ingenuity — to contemplate, along with our team of editors and reporters.

As a result, for the second year, we have selected 20 visionaries as our two Icons and 18 Innovators.

Icons have made profound and continuous contributions to the success and advancement of the financial advice profession. Innovators have crafted new theories, tools and ideas that have advanced the financial advice business.

HONOREES

ICONS

Thomas A. James **Pg. 10**
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The enthusiasm and dedication of all 20 honorees will motivate generations of advisers to come. After getting inspired here, also head online to register to join our honorees at a luncheon in April recognizing their contributions to the financial advice profession.

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ICONS & INNOVATORS

ICONS

Thomas A. James

CHAIRMAN EMERITUS, RAYMOND JAMES FINANCIAL

BY EVAN COOPER

At the giant corporations that dominate today's securities industry, few founders or key members of the founder's family still play a meaningful role. Thomas A. James, now chairman emeritus of Raymond James Financial, is one of those few.

Mr. James, 75, relinquished his chairman's role in February 2017, passing the top management baton to Paul Reilly. Nevertheless, Mr. James retains a board seat, still approves every new product the firm offers and wryly makes it known that he is the company's largest individual shareholder.

As influential as his continued role as a board member at one of the nation's largest wealth management firms outside New York or part of a global bank may be, it is largely as the architect and champion of the Raymond James' corporate culture that Mr. James continues to shape the future of the company. His influence is evident in the businesses in which Raymond James operates, its approach to investing and risk, and its emphasis on financial planning — all of which have shaped the entire wealth management business.

The improbable starting point for a company now managing almost $700 billion in assets, and whose name is emblazoned on the home of the Tampa Bay Buccaneers, was Robert A. James Investments, the eponymous firm started by Tom James' father in 1962 in St. Petersburg, Fla.

"In addition to being a person of high moral character and a great financial planner, my father had business sense and saw an opportunity in all the people retiring to Florida and leaving their advisers behind up north," Mr. James said.

In 1964, the firm merged with another small broker-dealer, Raymond & Associates, to become Raymond James & Associates. In 1966, after graduating magna cum laude from Harvard College and receiving an M.B.A. from Harvard Business School, Tom James joined his father's firm.

"Even though I was president of the Harvard Young Republican Club, I had the idealism of that era and was against the Vietnam War," said the former guitarist of a rock band he formed in college. "The only way I could earn a deferment was to go to law school, and the only way to do that and also earn a living was to work for my father."

Since his father "loved people and didn't like doing administrative things," Mr. James took on the managerial responsibilities of the firm, starting with its investment research and investment banking activities. In 1970, at the age of 27, he became chief executive.

The bear market of 1973-74, which saw the Dow Jones Industrial Average benchmark lose more than 45% of its value, almost put a quick end to Mr. James' career, and the firm itself, as its capital base dwindled. The young executive proposed a merger to the then much larger, regional firm J.C. Bradford & Co., but that firm's management declined, anxious about its own capital base. J.C. Bradford was later acquired by PaineWebber, which itself was acquired by UBS.

A LESSON FROM CRISIS

So Mr. James stopped taking a salary, sold off a coin collection to raise cash and developed a six-month plan to cut costs and, if worse came to worst, unwind the business. Fortunately, the market turned around, and the firm resumed its growth. But the crisis taught him a valuable lesson.

"I learned that management isn't in control of whether or not you succeed; things can get so bad they are out of your control," Mr. James said. "And I learned I didn't want to go through that again, so I wanted to make sure we retained capital to be prepared for the next downturn."

The firm structured compensation so there would be lower base salaries plus higher bonuses based on personal and corporate performance, and instituted a strict budgeting process

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Edward C. 'Ned' Johnson III

CHAIRMAN EMERITUS, FIDELITY INVESTMENTS

BY EVAN COOPER

Given his self-effacing demeanor, it may be a stretch to think of Ned Johnson as a trailblazer in the world of investments.

The scion of a wealthy Boston family, Mr. Johnson, 87, is easy to picture as the anonymous philanthropist, arts patron and behind-the-scenes civic booster that he is. It's more difficult to imagine him as the passionate, knowledgeable advocate for technology — an entrepreneur willing to take risks unacceptable to public companies, and champion of middle-class investors.

But in the nearly 40 years Mr. Johnson led the company, Fidelity grew to manage $6.5 trillion in assets for more than 26 million individual customers. It is a leader not only in mutual funds but in institutional retirement plans, brokerage and securities servicing.

"Before John Bogle at Vanguard, the Johnson family, and Ned in particular, made investing easier for millions of people," said John Bonnanzio, editor of Fidelity Monitor & Insight, an independent newsletter for investors in Fidelity mutual funds.

Built around an early mutual fund, Fidelity Management & Research Co. was created in 1946 by Edward C. Johnson II. His son Ned joined the firm as a research analyst in 1957 and managed several of its funds, becoming president in 1972 and chairman and chief executive in 1977 after the senior Mr. Johnson's retirement. Ned Johnson stepped down from those roles in December 2016, becoming chairman emeritus, but he still comes to the office regularly and consults with his daughter Abigail P. Johnson, now Fidelity's CEO.

One of the drivers of Fidelity's growth, said Ms. Johnson, has been her father's passion for investing — a passion he shared with his own father.

"He also had a passion for building a business, which I think was something my grandfather probably didn't have because he was completely focused on being a great investor," she said. "My father had a vision to do more than just have a great investment capability. He wanted to create a business that would extend and expand and be sustainable."

HEAVILY INVESTED IN TECHNOLOGY

Perhaps core to building a business that went beyond investing was Mr. Johnson's decision to invest heavily in technology.

"Ned was one of the most creative thinkers and forward-looking leaders in the industry," said Robert C. Pozen, author and former chairman of MFS Investment Management, who served as vice chairman of Fidelity Investments and president of Fidelity Management & Research Company under Mr. Johnson. "He was always fascinated by technology, and I remember when IBM came to sell us on new computers, Ned knew almost as much about it as they did. He invested heavily in technology way before others."

When Boston's massive "Big Dig" tunneling project required ripping up downtown streets near Fidelity offices, Mr. Bonnanzio remembers Mr. Johnson knowing precisely how the company's vital communication lines would be affected and what steps had to be taken to ensure continuous operations.

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ICONS & INNOVATORS

INNOVATORS

Edmond Walters

FOUNDER, EMONEY ADVISOR

BEING NUMBER SEVEN of 10 kids imbued a certain amount of fearlessness in Edmond Walters, 57, founder and CEO of eMoney Advisor. This trait served him well as he left his established financial advisory practice in 2000 to launch a tech start-up based on a wealth management tool he had developed.

Mr. Walters started eMoney because clients wanted the ability to see their accounts in one place, and he couldn't find any tools to help them do that.

"So I decided to go on my own and do it," he said. "We entered the space as the smallest, but we were the only one built by an adviser for advisers."

Good thing he was confident, because the timing wasn't great.

"It was just as the dot-coms were failing," he said. "I couldn't raise money from [venture capitalists], so I raised it from clients and from my own money."

One of the biggest challenges in the beginning was learning how to manage different types of employee personalities, whether tech or sales or numbers of other people, he said. Another challenge was figuring out how to keep the family feeling at a company that was growing by leaps and bounds.

Fifteen years and 300 employees later, eMoney was acquired by Fidelity Investments for more than $250 million.

A native of Villanova, Pa., Mr. Walters and most of his family attended Villanova University. While he waits for his non-compete agreement to end in 2018, he reads, plays golf and stays in touch with other tech companies.

Carolyn McClanahan

FOUNDER, LIFE PLANNING PARTNERS

MANY ADVISERS PURSUE a different profession before entering the financial field. But Carolyn McClanahan, 53, founder and director of financial planning at Life Planning Partners in Jacksonville, Fla., has an especially unusual background: She's also a medical doctor.

She had been a practicing physician for 10 years when, in 2000, dissatisfaction with local financial services motivated her to enroll in certified financial planner classes. Before long, she realized she wanted to change careers, and established her firm in 2004.

Combining her expertise from these two different professions has been gratifying.

"There's so much good I can do with my medical knowledge," she said, "especially with understanding aging issues and how to deal with them."

Over the years, Ms. McClanahan has provided education on aging to other financial advisers, many of whom have told her that the subject can feel overwhelming. As a result, she decided to develop an assessment tool for working with clients on strategies as they get older.

To bring the tool to market, Ms. McClanahan co-founded a software company, Whealthcare Planning. Rolling out this year, the three-part tool generates a financial decision-making transition plan, a risk profile of behavioral traits that threaten a person's ability to make sound financial decisions, and a report that combines health-care cost estimates with a plan for managing life transitions.

Remaining active as a physician, Ms. McClanahan volunteers twice a month at a local homeless center. Proactive regarding her own aging, she makes an effort to stay physically active: In fact, eight years ago, she began throwing the javelin, and now does it competitively.

"It's great being one of the older players," she joked. "There's not much competition in my class."

Shlomo Benartzi

BEHAVIORAL ECONOMIST, UCLA

SHLOMO BENARTZI has done a good job of creating action out of what had previously been mostly theoretical and research-oriented ideas.

"My passion is taking behavioral insights and creating scalable solutions, especially using digital technology," said Mr. Benartzi, 49, a behavioral economist and professor at the UCLA Anderson School of Management.

Mr. Benartzi was introduced to behavioral economics about 20 years ago by Richard Thaler (another 2017 innovator), when they were both at Cornell University, the former as a doctoral student and the latter as a professor.

Together, they used the field's precepts to develop the Save More Tomorrow program, now helping about 16 million employees save for their futures. The program, accessed through workplace retirement plans, helps people overcome issues such as inertia, self-control and loss aversion.

"It was unique in that two academics with an idea convinced the industry to do it," Mr. Benartzi said.

The program uses the concept of nudging, which grew out of academic research into behavioral tendencies and biases.

"Once we understood that people make consistent mental mistakes, it seemed like a natural extension to design choice environments that help us make better decisions," he said. "And while my focus is on the financial industry, I'm also working on nudges that can help improve well-being in other domains, such as health."

Mr. Benartzi was born and raised in Israel. His Hebrew surname means "son of my land."

What drives him to do this work?

"It really does come from a deep desire to help millions of people," he said, "so that we can make it easier for everyone to make choices that reflect their long-term interests and preferences."

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ICONS & INNOVATORS

INNOVATORS

Greg Friedman

PRESIDENT, JUNXURE AND PRIVATE OCEAN

GREG FRIEDMAN, 56, president of advisory firm Private Ocean in San Rafael, Calif., and fintech firm Junxure in Raleigh, N.C., started his career working at a big-box store. He soon had a change of heart. "I was buying truckloads of Tootsie Rolls," he said. "I wanted to have a more positive impact on the world."

He saw that opportunity in financial planning. Within a few years, Mr. Friedman had changed careers and established his own firm. After a decade, his successful practice was experiencing growing pains.

"We were trying to solve a problem. I had a vision for what I wanted to do but couldn't find it," he said. "And we couldn't afford to hire tech help, as this was the first tech bubble."

Fortunately, his hairdresser came to the rescue, prodding him repeatedly to contact the developer friend of another customer. Desperate, Mr. Friedman finally gave in. The two hit it off and their collaboration turned into client relationship management firm Junxure, which now has 12,000 users and $650 billion in assets under management.

How does he find a work-life balance as he runs two companies?

"When I hit 50, I started to understand wisdom and started introducing more fun into my life," Mr. Friedman said.

To do this, he works out every day, spends more time with family, and fosters humor and collegiality as core values of his companies.

He also spends as much time as possible in the fresh air.

"I grew up as a surfer in San Diego," Mr. Friedman said. "My interest and passion is the outdoors — it's that Southern California influence."

Racquel Oden

MANAGING DIRECTOR, MERRILL LYNCH

RACQUEL ODEN, 44, has a gift for strategic vision which has propelled her up the corporate ladder. Currently managing director, overseeing 200 advisers at Merrill Lynch's flagship New York City branch, her previous role was directing adviser strategy for the firm's wealth management division.

"Now I'm executing that strategy," she said.

Ms. Oden's innovative accomplishments include recognizing the potential of the internet in the late 1990s when she returned to school to learn HTML coding. Her foresight and passion led to a wirehouse position building its first internet platform for advisers.

Ms. Oden later worked with another wirehouse, promoting an acquisition (versus hiring) strategy, an approach common now, but not in the mid 2000s.

The result, she said, was the fastest growth the firm had ever seen.

At Merrill Lynch, she created training and development pathways for new advisers and enhanced the recruitment efforts for bringing in young and diverse hires. Retention rates rocketed, she said.

Ms. Oden, a native of Long Island, N.Y., credits her education at all-girl primary schools for much of her self-confidence and self-esteem.

"I saw other girls in leadership positions and I always felt empowered," she said. "It allows you to be you. So, when you're coming into Wall Street, you don't fear it."

In her private time, Ms. Oden greatly enjoys community advocacy, sitting on such venerable boards as the Apollo Theater and the Thurgood Marshall College Fund, which supports students of historically black colleges.

"We all have a price to pay for the space we occupy on Earth," she said.

Mohamed El-Erian CHIEF ECONOMIC ADVISER, ALLIANZ

BY JOHN WAGGONER

Mohamed El-Erian, chief economic adviser at Allianz, has been at the forefront of money management throughout his career. His early days were with Pacific Investment Management Co. and Salomon Smith Barney, then on to Harvard Management Co. Back at Pimco in 2007, he served as chief executive and co-CIO with the company's founder, William Gross. During his tenure, Pimco's assets doubled to $2 trillion. Mr. El-Erian resigned from Pimco in 2014 after his daughter wrote him a letter listing 22 events in her life that the executive had missed because of work.

His thinking is innovative — original and prescient. Mr. El-Erian coined the phrase "new normal" at the nadir of the financial crisis in early 2009, foreseeing an economy defined by low growth over the long term.

John Waggoner: Looking across the economic landscape, what's your outlook for 2018?

Mohamed El-Erian: I have less of a consensus view, but also less of a definitive one. We've been in the "new normal" for a while, as growth has not just been low but not inclusive enough. While the new normal has allowed for financial healing and job creation, it has also aggravated the inequality trifecta of income, wealth and opportunity. The easiest prediction is that it will continue, and that has now become consensus.

But the new normal has sowed the seeds of its own destruction. It fuels political anger, it threatens growth potential, and it contributes to global trade and currency tensions. It's not clear that we can continue on this road for many more years.

What's more likely is that we tip, and we can tip in one of two directions. In one direction, low growth becomes higher and more inclusive, elevated asset prices are validated by better economics, and the politics improve. Otherwise, we could see low growth giving way to recession and artificial stability leading to unsettling volatility, and we would see international relations become trickier.

JW: What mistakes are investors making?

ME: Nothing works better in the markets than a strategy that rewards you repeatedly, and today it is the notion that central banks are always there to support asset prices. Investors are being conditioned to not just buy the big dip, but any dip. Corrections are less frequent, shorter in duration and less extreme. Investors have totally embraced the BFF syndrome: They think central banks are their best friends forever.

JW: Central banks are now leaning toward tightening. Are investors like the frog in a pot of water on the stove?

ME: I think they realize the water is getting warmer, but they have tremendous confidence in being able to hop out of the pot. And so far, it has been a really comfortable pot — the water is really nice as valuations rise and volatility remains low. There's no inclination to hop out early.

The central banks stepped in in 2008 to normalize malfunctioning markets. We would have been in a multiyear global depression without them. When the central banks looked to hand off some of their economic burdens to other policymakers with better tools, however, it was a time of polarized politics, and there was no one willing and able to accept the hand-off. Banks wanted to build a bridge, but the destination was not theirs to deliver.

JW: What are your biggest worries about the markets now?

ME: The one that worries me the most is that certain investors have been overpromised liquidity. Take the example of the high-yield and emerging-markets ETFs. The implicit contract is instant liquidity at reasonable bid-offer spreads. That contract makes sense when it's an ETF based on highly liquid markets such the S&P 500 or the Treasury and investment-grade corporate bonds. Yet these products are proliferating in areas with a lot less liquidity, thereby increasing the risk of asset contagion. What we have seen, over and over again in the past, is that when investors can't sell what they want to sell, they sell whatever they can, and that's where you get cascading disruption.

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INNOVATORS

Rob Arnott

FOUNDER, RESEARCH AFFILIATES

"OFTEN, WHEN YOU TEST things you think are true, they're not. The gap between theory and the real world is where profits can be found," said Rob Arnott, 63, chairman of Research Affiliates, an investment management firm he founded 15 years ago.

The hallmark of Research Affiliates is Mr. Arnott's ground-breaking concept of "fundamental indexing," a subcategory of smart-beta alternative-index strategies that weights stocks not by their market capitalization but on a blend of metrics such as sales, cash, book value and dividends applied to all public companies.

"In this way, you're indexing the economy, not the market," Mr. Arnott said. "As a result, you are contra-trading — when price soars and fundamentals don't."

The idea took off quickly.

By 2007, Research Affiliates had $16 billion in fundamentally indexed assets under license and sub-advised; today, the total is $175 billion.

Describing himself as an "endlessly curious" kid, Mr. Arnott's interest in finance began when his parents, both Ph.D.s, gave him his first share of stock when he turned 9. By the time he was 15, he had read dozens of investing books.

One of Mr. Arnott's hobbies is traveling to unusual places to watch solar eclipses, which stems from his childhood interest in astronomy. He has visited places such as Bhutan, Micronesia, Antarctica and the Gobi Desert in this pursuit.

As he has aged, he has adopted a new philosophy: "I spend less time on things I don't enjoy and more time on things I do."

Jeffrey Gundlach

CEO, DOUBLELINE

A SUPERSTAR BOND manager for the past 26 years, Jeffrey Gundlach, 58, looks at the world through a mathematician's eyes, using spatial examples to explain economic and financial concepts. What makes bonds so appealing as a specialty?

"They are more purely quantitative, along with interactions with inflation, the economy and some complex cash flows," Mr. Gundlach said.

DoubleLine, the firm he co-founded seven years ago, has more than $100 billion in assets under management today.

In recent years, Mr. Gundlach began to analyze the behavior of the world beyond bonds.

"The same thought processes applied to the 3-D puzzle of the message of the markets," he said. "For example, if you look at interest rates, gold, currency markets, the Fed, there are times when they all fit together. If you think of the world as a cube, there is an essential driving force that explains everything."

He looks for ideas that are broadly held and he tests them, asserting that what matters is having a good sense of how people will react to developments in two years.

An art collector and a huge booster of his hometown of Buffalo, N.Y., Mr. Gundlach recently donated $42.5 million to the city's world-class Albright-Knox Art Gallery, which will soon be renamed the Buffalo Albright-Knox-Gundlach Art Museum.

He also bought a home just down the block from the museum to be closer to the action as it undergoes a major renovation.

"It's the same place my grandmother and mother used to drag me to when I was a kid," he said. "I found buying another painting less fulfilling than helping the museum."

Sallie Krawcheck

CEO AND CO-FOUNDER, ELLEVEST

BY JEFF BENJAMIN

Sallie Krawcheck didn't invent the idea of a robo-advice platform for women, but if anyone could make it work, she could. The 52-year-old chief executive and co-founder of the digital platform Ellevest and chair of the global professional women's network Ellevate Network built a career by taking risks and following through on her beliefs.

At Sanford C. Bernstein & Co., where she started as an equity analyst and worked her way up to chairwoman and CEO, she was known for going against the grain of Wall Street.

While at Citigroup, where she became CEO of the wealth management business, Ms. Krawcheck was named Fortune's Most Influential Person Under the Age of 40.

From there, she spent two years as head of wealth management at Bank of America Merrill Lynch. But since 2013, her focus has been squarely on the advancement of women, especially when it comes to helping them take control of their finances.

Jeff Benjamin: You describe yourself as a financial feminist. What does that mean?

Sallie Krawcheck: A financial feminist is an individual who is in financial control and therefore puts herself in a position where she can have a positive impact on the world around her, including her family, society and the economy. If you're a white woman, you make 78 cents on the dollar, compared to a man. If you're a woman of color it's much less. It's about closing those money gaps, thoughtfully, and then putting yourself in a position where you can have a positive impact on the world.

JB: What does it mean to invest like a woman?

SK: It means all good things. At Ellevest, it is based on [what is] now thousands of hours of research we have done with women to build this platform. It demonstrates itself in specific ways. We take into account in our algorithms the fact that women live longer than men. We take into account the fact that women's salaries unfortunately peak sooner than men, that women earn less than men, that women take more career breaks than men.

But we also take into account things they've been looking for that the industry hasn't been providing them, such as true goals-based investing. We talk to them about risk, not in standard deviation and statistical terms, but as in, "Hey, you only have a 40% chance now of reaching your goals, rather than a 70% chance."

JB: Given the focus on women, does Ellevest exclude men?

SK: Not at all. I love to joke — though it's true — if you are a gentleman, you can invest with Ellevest. But when you select your gender as you go through the algorithm, the program has you earning more money and kills you sooner.

JB: Has the financial services industry historically ignored the female investor, and is that still the case?
SK: It was not so long ago that in certain industry publications, they would refer to women as a niche market. We in the industry didn't do as good a job of serving them as we could have; therefore, women were not investing as much as men have been. Women were keeping more of their money in the bank, which hurt them. While there were any number of investing-for-women initiatives, they never quite hit the mark because they were really viewed as marketing initiatives without addressing the underlying product characteristics.

JB: To what do you attribute your success in corporate America?
SK: Hard work is always part of it. I always worked very hard. I always loved my job, and I think that matters a lot. And I always took on some degree of risk.

When I was a research analyst, I used to have negative calls on companies when it just wasn't done. When I was director of research at Sanford Bernstein, I took us out of the investment banking business when no one else was doing it, which felt like a losing bet up until the point that we won big on it by having a different strategy than the industry.

JB: What drives your passion for innovation in the industry?
SK: I remember very early in my career being told by a more senior individual that in financial services you could make a lot of money by just staying in the pack. I remember my reaction being, well, what's the fun of that? First of all, I got into the business to try and have an impact on the American family. If you're doing the same thing everyone else is doing, can you have as much of an impact as if you try to push the boundaries a bit?

JB: You were an early advocate of fiduciary standards for the brokerage industry. What are your thoughts on the state of the Department of Labor's fiduciary rule?
SK: My thinking hasn't changed much. I believe the industry should be at one standard. It should be a high standard. And it should be the same regardless of whether you're an RIA, broker-dealer, 401(k) adviser, etc. The current state of affairs is confusing to our clients, and frankly it's confusing to many in the industry. It is absolutely as clear as mud.

I really don't worry about the industry figuring out how to be profitable. If we change the standards, the individuals in the industry are quite smart and if we are delivering value to our clients, we will figure out a way to run profitable businesses.

JB: Do you have some advice for women who are at the beginning of their careers?
SK: It comes back to hard work. There's a lot of attention these days to gender discrimination in the workforce. You cannot open the newspaper without reading about it. I think it's a healthy discussion that's long overdue. I'm not happy that it's happening, but I'm pleased to see that we are shining some light on it. And I'm hopeful that it will make all industries better places for not just women but for everybody to work.

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Rudy Adolf

FOUNDER, FOCUS FINANCIAL

THE CHALLENGES OF small businesses have always inspired Rudy Adolf, 54, founder and CEO of Focus Financial Partners, which invests in independently operated adviser practices. Early in his career, the Austrian native worked with his CPA father and witnessed the sadness of small-business owners who had to sell the companies they had worked so hard to build.

"They were losing a big part of their lives, destroying their visions," Mr. Adolf said.

Years later, living in the U.S. and running a global brokerage, he recognized the accelerating trend of advisers jumping ship to become independent and join registered investment advisory firms.

Taking a closer look at why, he became "intrigued and captivated by the power of the fiduciary model," Mr. Adolf said.

He appreciated the outcomes it produced not only for clients but also practitioners — entrepreneurs who wanted to practice in their own unique styles and preserve their legacies.

Consequently, Mr. Adolf, an entrepreneur at heart, resolved to create a business to support these departing advisers and others who wished to remain independent. His firm provides them access to best practices, capital, a structured succession program and co-ownership in Focus Financial.

"What we understand is the power of the entrepreneur combined with the fiduciary model. We celebrate the uniqueness and individuality within this industry," he said.

Raised in an Alpine chalet on the outskirts of Innsbruck, Mr. Adolf came to the U.S. 25 years ago for an eight-month consulting assignment in fast-paced New York. He laughingly described the shock of being "the mountain boy suddenly in the boardroom of a major bank."

Another notable occurrence on that trip? He met his future wife and didn't return to Europe.

Bill Harris

FOUNDER, PERSONAL CAPITAL

BILL HARRIS, 61, is founder and director of Personal Capital, but he has had an exciting and historic professional journey throughout the decades. This latest company, an online registered investment adviser with an equal focus on technological and human assistance, is the culmination of his career. The venture brings together various solutions to help customers conquer the chaos of their financial lives, he said.

"I like experiencing new stuff. I like to be surprised every day," Mr. Harris said, summing up his personal philosophy and his extensive experience in launching cutting-edge businesses.

Spending the '80s working for large magazine companies, he became intrigued by the up-and-coming technology around personalization.

"It dawned on me that the media content world was going to collide with the software world," he said.

Software became his next world as the makers of TurboTax appreciated his expertise with subscription-based services and tapped him to run their company in 1990. The company was acquired by Intuit, for which Mr. Harris eventually became CEO.

In 1999, he spent a "thrilling but chaotic" year as the founding CEO of PayPal, as the platform acquired one million customers in the first six months.

Since 2000, Mr. Harris has started a number of companies in fintech and cybersecurity and served on more than 15 boards of similar companies.

A native of Belmont, Mass., he credits his education at a boys prep school for providing him with a foundation for business success.

"It allowed us to focus on ourselves without the distractions [of a co-ed school]. Our classes featured conversations and analytical thinking," he said. "It defined me as a person."

ICONS&INNOVATORS

INNOVATORS

Jennifer Kenning

CO-FOUNDER AND CEO, ALIGN IMPACT

JENNIFER KENNING, 38, is chief executive and co-founder of Align Impact, a Santa Monica, Calif.-based RIA that advises individuals and foundations on how to achieve social impact with their investments.

"We have enough capital in this world, but it's not flowing to where we would want it to go if we knew we had the choices," Ms. Kenning said.

She is a former director of wealth management and principal at the $10 billion-plus AUM registered investment adviser Aspiriant, one of two wealth management firms that formed Align.

Ms. Kenning decided to develop a specialized firm after hearing her clients' interests for years without finding an investing solution that wasn't in competition with the traditional adviser model.

In addition, a trip to Africa showed her the results of local microfinance projects firsthand, and provided a powerful "aha" moment.

"I realized I love this and I was meant to do this — bridge the worlds of abundance and scarcity," she said.

Ms. Kenning also serves as an outside consultant to financial advisers to help them meet the needs of clients with an interest in impact investing.

She set out to build a firm that could partner with advisers, whether customizing a client portfolio or providing an outsourced option to use for all their clients, she said.

Born a focused and high-energy person, Ms. Kenning was a competitive swimmer from ages five to 18, swimming seven hours a day while in high school.

"The discipline created a sense of schedule, drive and competitive spirit," she said. "A lot of who I am is due to that commitment and dedication."

David Grau Sr.

FOUNDER, FP TRANSITIONS

SELF-DESCRIBED "REFORMED lawyer" David Grau Sr., 59, is president and founder of FP Transitions. Mr. Grau always wanted to be an entrepreneur and that opportunity came quickly — just two years out of law school — as he established his own law practice serving RIAs in 1994. Bigger things were to come, as he happened on the first wave of independent adviser retirees. "In the first year, one client said, 'I'm getting ready to retire — know anyone interested?'" Mr. Grau said.

The question led to the creation of FP Transitions in 2000, amid the realization that independent practices have an inherent financial value, he said. Armed with this concept, he invented systems and processes.

It was a challenge to change mainstream attitudes.

"We literally fought with the advisers, broker-dealers and industry pundits on the notion that a small relationship-based sole proprietor could have significant value," Mr. Grau said. Why? "Because advisers thought they were irreplaceable."

Today, his firm assists 2,000 clients per year with valuations, succession planning, exit planning, continuity planning and mergers.

Mr. Grau, a second-generation entrepreneur, grew up in a small town in northern Indiana. He laughingly describes himself as one of the rare English majors to come out of an engineering school (Purdue University).

A perfectionist and a workaholic, his idea of fun is writing white papers.

Does he have a work-life balance?

"No, I'm completely unbalanced. But I enjoy traveling, especially the time up above the clouds," Mr. Grau said. "It's quiet, and as a high-energy person, it's the only time in my life I get that luxury — to be strapped in with a headset."

Ted Benna

FATHER OF THE 401(K) FOUNDER, 401K BENNA

BY GREG IACURCI

Ted Benna may not be a household name, but his brainchild, the 401(k) plan, is a concept familiar to American families and practitioners in the financial advice community. Prior to Mr. Benna's establishing the first 401(k) plan in January 1981, no one had seen the likes of pretax retirement savings for employees. Up to that point, there were vehicles accommodating pretax employer matching contributions, but employees contributed after-tax money.

Mr. Benna, then a 40-year-old retirement benefits consultant, decided to pair pretax savings with employer matches at his then-employer, the Johnson Companies, sowing the seeds for the 401(k) revolution that's since taken the U.S., and other countries' retirement systems, by storm.

In the process, the Pennsylvania native changed retirement savings as we know it.

"There wasn't anything [in the law] saying you could do [this], but there also wasn't anything saying, 'No, you cannot,'" Mr. Benna, 75, said. "So, I saw the possibilities."

The pension plan was the retirement vehicle du jour through the early 1980s, putting the responsibility for retirement investing squarely on the shoulders of employers.

ECLIPSING PENSIONS

Over the course of 3½ decades, 401(k) plans have eclipsed pensions to become the de facto retirement savings vehicle for the private sector, spawning a mass savings method that provides everyday Americans with an ability to personally save for their retirement.

"I think he made a major difference in helping to develop the modern 401(k)," Mark Iwry, a former deputy assistant secretary for retirement and health policy at the Treasury Department, said about Mr. Benna.

In fact, Mr. Benna is widely known as the "Father of the 401(k)."

"The precursors of the 401(k) were generally focused more on the executive level of the workforce than on the rank and file. Mr. Benna was instrumental in putting together the right combination of elements to make the 401(k) a much more broad-based, powerful savings vehicle that could be, and was, taken to scale," Mr. Iwry said.

There are now more than 60 million active 401(k) savers in 500,000 plans, holding roughly $5 trillion, according to statistics from the Department of Labor. Defined-benefit plans have fallen in lockstep with the ascent of the 401(k) — the number of DB plans peaked in 1983, at 175,000, and has declined steadily to below 45,000 today.

GOOD TIMING

David John, a senior adviser in AARP's Public Policy Institute, said Mr. Benna's innovation hit at the right time. There were substantially higher tax rates in the early '80s — the top marginal rate was 70% — and a variety of "economic and management decisions" that were causing the pension system to "spiral out of control."

"There was a need for something else, and he just happened to step forward with a solution," Mr. John said.

That solution also has had a profound impact on other countries, such as the U.K., Australia and New Zealand, which share elements of the 401(k) and the U.S. retirement system, and has sparked interest in similar types of long-term savings plans such as 529 college education plans, said Mr. John, who also is deputy director for the Retirement Security Project at The Brookings Institution.

The 401(k) plan has provided for widespread access to mutual funds and the investment diversification they offer. In 1980, 5.7% of U.S. households, about 4.6 million families, owned mutual funds totaling $135 billion. Today,

44% of households, about 55 million families, have mutual funds holding more than $16 trillion.

"Clearly, the 401(k) has made the mutual fund industry what it is today," said Mr. Benna, now a consultant at an eponymous firm. "Prior to that, it was a mom-and-pop-type industry."

Section 401(k) was originally added to the Internal Revenue Code in 1978, but was little noticed. By 1980, Mr. Benna was busy designing a program fitting its parameters. He first pitched the idea to a pension-plan client, a bank in Philadelphia, but the bank said no because it didn't want to pioneer a brand new concept.

GOING FOR IT

So Mr. Benna decided to give it a go at the firm he co-founded, Johnson Benna Co., and its sister company, Johnson Kendall Johnson. Some of the original participants are still in this first 401(k).

Nowadays, the Father of the 401(k), ironically, has moved on from 401(k) plans, consulting with small employers on setting up non-401(k) retirement plans, such as variations of payroll-deduction IRAs, which are simpler and less expensive than the traditional 401(k), Mr. Benna said.

If there's one thing he laments about his creation, it's that 401(k) plans have become convoluted for employees.

The first plans had two investments and limited options for how to allocate contributions, and the employer paid the fees, with the exception of the investment management fee, Mr. Benna said.

Today, plans that have 15 to 20 investments are common, the potential number of portfolio options extends to the thousands, and several costs are passed on to the participants.

"He has facilitated the creation of the system, and that's a good thing," Mr. John said. "But it's not a finished product."

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Richard Thaler

BEHAVIORAL ECONOMIST, U OF CHICAGO

RICHARD H. THALER, winner of the Nobel Prize in Economic Sciences in 2017, wears two hats: professor of behavioral science and economics at the University of Chicago Booth School of Business, and principal at Fuller & Thaler Asset Management Inc. The latter is a registered investment adviser that serves institutional investors by applying behavioral economics to investment management. The firm also hosts a mutual fund of Mr. Thaler's design.

He is best known for pioneering and popularizing the field of behavioral economics, and, as such, was awarded the Nobel Prize for "integrating economics with psychology."

The award was a wake-up call, literally.

"On the day [of the announcement] my phone rang at 4 a.m. ... reading simply, SWEDEN," Mr. Thaler said, referring to his phone's caller ID. "After giving you the good news, they ask you to make coffee, because there will be a live press conference in Stockholm ... in 45 minutes! There has barely been a letup since."

Why have behavioral considerations not been a bigger part of economic theory since the beginning?

It started out that way, he said. "But people [and their behavior] started to disappear from economics in the mathematical revolution that began after World War II. By the time I was in graduate school in the 1970s, the people in economic models were really smart and had no self-control problems. That seemed unrealistic to me," Mr. Thaler said.

Did he always question the way things were?

"Yes, I think I was probably a pain in the ass in school. I was always questioning why we did things," he said. "I would invent new rules for kids' games, but schools did not let me change their rules. As a result I was never a great student."

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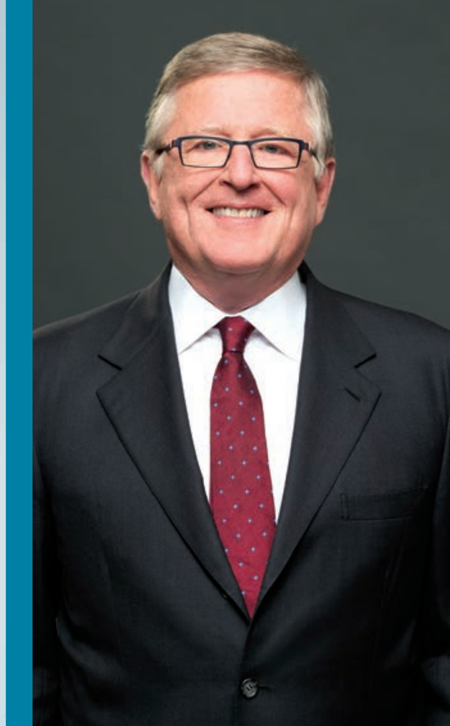
David Booth

CO-FOUNDER AND EXECUTIVE CHAIRMAN, DIMENSIONAL FUND ADVISORS



AFTER DAVID BOOTH, 70, co-founder and executive chairman of Dimensional Fund Advisors, earned a bachelor's and master's degree from the University of Kansas, he planned to earn a Ph.D. from the University of Chicago graduate school of business and become a professor.

Instead, his professors "created a monster and filled me with a lot of great ideas," he said.

Those ideas changed Mr. Booth's life radically, inspiring him to pursue exciting, new investing concepts — and he never forgot it. With profound gratitude, some 37 years later he donated $300 million to the school that now bears his name.

Foregoing the Ph.D., Mr. Booth graduated with an MBA in 1971. A decade later, he and partner Rex Sinquefield founded Dimensional, introducing products similar to index funds but employing such avant-garde notions as relying on academic research, allowing discretion in execution, treating small-cap stocks as a separate asset class and comingling funds instead of allowing for separate portfolios.

"I never started out to be an entrepreneur," he said. "But they were such powerful ideas that I couldn't not do it."

Now Mr. Booth is enjoying life as a gentleman farmer and boating enthusiast on Lake Austin in Texas.

He projects a relaxed demeanor, and with good reason.

"At my age, either you're relaxed or you're dead," Mr. Booth said with a laugh. "I preach to my employees: 'You're in this for the long haul, so make sure you seek that balance.'"

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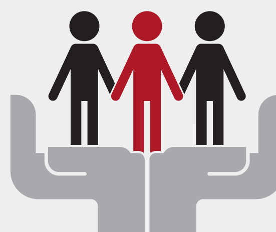

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William Bengen

FATHER OF 4% RULE

WILLIAM BENGEN, 70, former president of Bengen Financial Services and developer of the "4% rule," shows what can happen when you combine multivarious skills.

After more than 20 years with his family's New York-based 7 UP bottling plant, he read a magazine article about the new field of financial planning and decided that would be his next career.

Clients kept asking how much they could safely withdraw from retirement savings without running out of money. Not finding the answer, Mr. Bengen combined his engineering training with his own spreadsheets and studied the data.

His findings were published in the Journal of Financial Planning in 1994 and caused a sensation.

The rule states that, generally speaking, withdrawing 4% (now he estimates closer to 4.5%) the first year of retirement and increasing the annual amount based on inflation enables a portfolio to last 30 years or more.

"It surprised the hell out of me. I started getting feedback from readers, getting invited to conferences. It grew like topsy," he said.

Now retired, Mr. Bengen focuses on family, community and more writing. He's working on three projects at once: a work of fiction, continued retirement investment research and a serial on American culture in the 1950s.

IN MEMORIAM

Richard Wagner

CO-FATHER OF HOLISTIC PLANNING

BY MARK SCHOEFF JR.

From the hotel in the Black Hills of South Dakota where this year's Nazrudin Project meeting was held, the attendees could see Mount Rushmore. If there were a similar monument for the field of financial planning, it would probably have the face of the late co-founder of Nazrudin carved in the mountainside.

Richard B. "Dick" Wagner was a pioneer in elevating financial planning from a job to a profession and shifting the focus from product sales to helping clients optimize their financial lives. He laid the foundation with his seminal 1990 article in the Journal of Financial Planning, "To Think … Like a CFP."

"No other profession has carved a niche where none existed, as we have done," Mr. Wagner wrote. "What we have to offer is unique and vital. No one else, no other industry or profession has ever devoted itself to the concept of objective financial advice for individuals that takes into account their deepest dreams, goals and objectives. No profession but ours has related money, in all of its implications, to the highest and best interests of the consumer in the context of fiduciary duty."

Those words have stirred certified financial planners for a generation.

"This should be required reading for every CFP professional," said Charlie Fitzgerald III, principal at Moisand Fitzgerald Tamayo. "This is what I want the financial profession to be. He painted a picture 27 years ago, and it's still relevant today."

PAYING TRIBUTE

This year's Nazrudin gathering was in part a memorial to Mr. Wagner, who died in March at age 68 from injuries received in a fall at his home in Denver. Mr. Wagner founded Nazrudin in 1994 with George Kinder, another leader in holistic planning.

The host of the event, Rick Kahler, president of Kahler Financial Group in Rapid City, S.D., made baseball caps in honor of Mr. Wagner that displayed his rules for getting rich. On the front, it read, "Don't do anything stupid." On the back: "Spend less. Save More."

"He was succinct and to the point," Mr. Kahler said. "In that statement, he summed up a lot of complexity."

Mr. Kahler is among many disciples of Mr. Wagner.

"I called him the oracle of Denver," Mr. Kahler said. "He saw things that others did not see. He imagined things that were difficult for people like me in the weeds to comprehend."

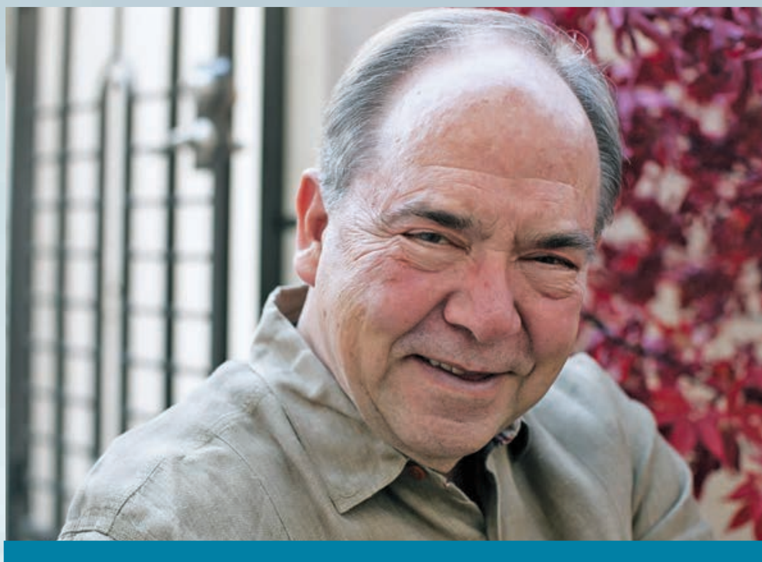
Mr. Wagner promoted a national message that also resonated within the walls of his own home. Both of his children — Jake, 38, and Natalie, 36 — are making their careers in areas related to the financial advice sector.

"Both Natalie and I internalized a lot of what he shared," said Jake Wagner, president and chief executive of Digital Marketing 4FP, which specializes in working with financial planners. "It was a big reason we both decided to join the financial planning community."

Jake Wagner also runs WorthLiving, a website his father founded with the tagline "Cultivating the Art of Money." It highlights his father's work, including his most recent book, "Financial Planning 3.0," and features a podcast.

"Part of my job is making sure people understand his work the way that he was trying to convey it," he said.

The financial-advice bug bit Natalie Wagner as a youngster when she served as her dad's "assistant" at conferences. It was at those events where her dad spoke that she also met his financial planning friends.



"They had an earnest desire to make the world a better place through their work," said Ms. Wagner, who is a money-wellness coach and owner of VitalFinancials, a firm that helps people manage their cash flow. "I'm most proud of his unwavering, steadfast commitment to his vision — to wade through the BS, get to what's important and stay there."

Ms. Wagner is a now a finologist, which derives from a term her dad coined, "finology."

"I am a practitioner of his contention that we need to explore and create processes to develop the interior relationship with money," Ms. Wagner said. "In this way, I carry his legacy."

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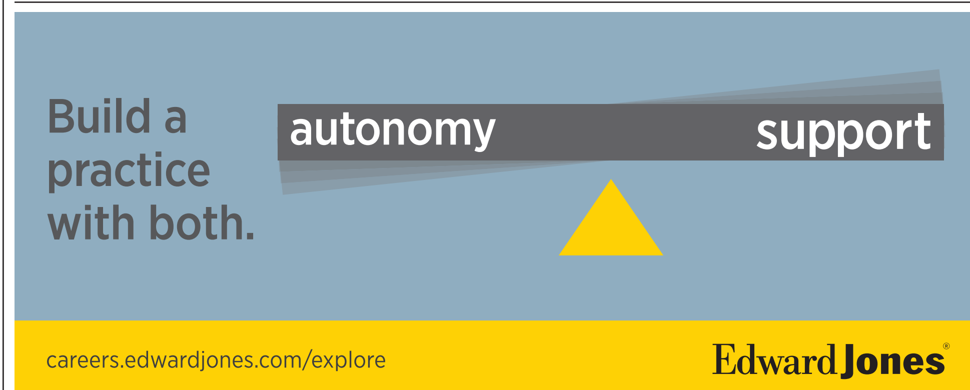
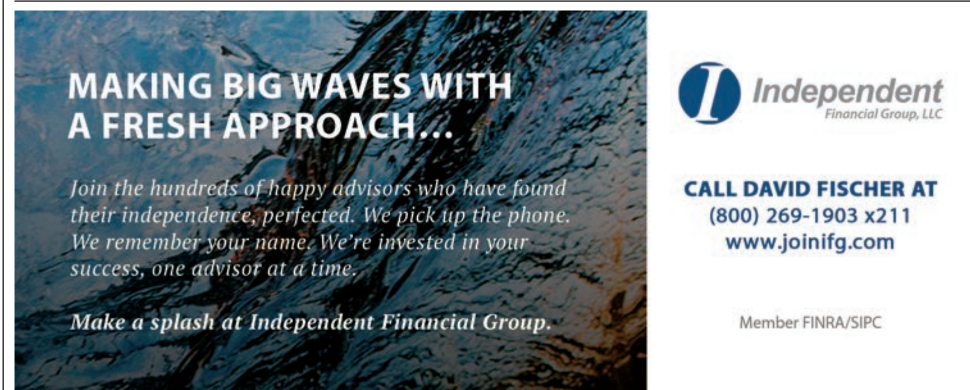




ICONS & INNOVATORS

ICONS

Thomas James

CONTINUED FROM PAGE 10

in all business units, which required planning for different outcomes.

"The financial controls and budgeting were important elements in the firm's success, but most important are our values," Mr. James said. "Clients come first. Our reputation is built on the value we provide to clients. Second, is hiring the best people we can find and training them."

WOMEN ADVISERS

Building talent, whether in investment banking, research or retail, always has been a priority for Mr. James.

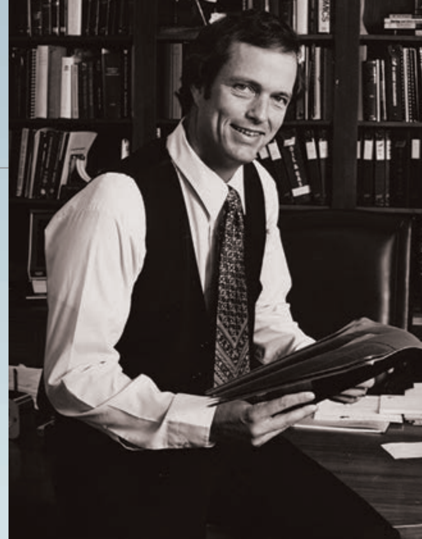
"In 1994, Tom came to me and a couple of other women advisers," recalled Margaret Starner, a veteran Raymond James adviser in Coral Gables, Fla. "He was aware that women advisers had fewer compliance issues and more loyal clients, and recognized these traits should be valued and nurtured. He wanted us to start a group that would be supportive of women advisers."

Ms. Starner and the others formed what is now the Network for Women Advisors — but only after Mr. James agreed to their demands.

"We didn't want the group to be seen as a way to sell stuff; we wanted to solve problems, and we wanted a budget for the organization that didn't come from vendors," she said. "We also wanted total control over the program, which Tom gave us. Very few executives would have had the courage to give us that much autonomy."

The program has made a big difference in the quality and development of women at Raymond James, Ms. Starner said.

"Tom has been its champion from the start," she said. "He may skip other meetings, but he always comes to the annual women's symposium."



Raymond James' best efforts and intentions notwithstanding, the firm has not escaped its share of regulatory run-ins. One of the most costly came in May 2016, when the Financial Industry Regulatory Authority Inc. fined the firm a record $17 million for compliance failures in its anti-money-laundering programs.

"In the securities business, sometimes it's a regulatory problem, sometimes it's a business problem, but something always can come up that tests a firm," said Raymond A. "Chip" Mason, founder and former CEO of Legg Mason.

Mr. Mason — who in 1962, at the age of 25, founded a regional brokerage firm that he built into today's asset management giant — holds his peer in high regard.

"He always worked hard and went through some rough times at the beginning, but he stuck to his knitting," Mr. Mason said. "Tom never bet the farm, constantly pushed for new systems and never gave up. He was always focused on consistency and trying to improve things."

A variation of that latter point, in fact, is what Mr. James says he would like his legacy to be.

"I would want my grandchildren to say, 'That's a great firm doing a great job helping a lot of families reach their financial objectives. It has a lot of fine people, who I recommend you see if you want something done.'"

Evan Cooper is a contributing editor at InvestmentNews.

Ned Johnson

CONTINUED FROM PAGE 11

The emphasis on technology and investments in the non-glamorous operational plumbing, that is the heart of securities firms' backoffices, enabled Fidelity to expand in areas including correspondent clearing for brokerage firms and custodial services for registered investment advisers.

It also permitted Fidelity to become a leader in what originally was called "discount" brokerage, or the business of offering low-commission, over-the-phone and now online trade executions directly to investors. Perhaps the biggest tech-powered innovation was introducing check-writing to money market funds, which changed cash management for millions of Americans.

"The invention of the money market fund with a check was staggering," recalled Peter Lynch, manager of the Fidelity Magellan Fund during the period of its explosive growth in the 1980s and 1990s. "I remember people saying, 'You're going to lose $10 million, $30 million, $50 million doing this' and Ned would say, 'Tell them it's a bigger number, because it will keep people out. They're right, we might lose money, but we think it's amazing for our customers and if we have it, no one else will own it.'"

Mr. Johnson's vision — and patience to wait for an eventual payoff — also led the firm to be a leader in administering and managing defined contribution retirement plans.

"He was in the forefront of the 401(k) business and invested in it when people didn't know what those obscure numbers were, and fewer thought it would grow into what it has become," Mr. Pozen said.

As an investor and manager of professional investors, Mr. Johnson also shone. In addition to successfully managing several Fidelity funds early in his career, he developed talent who became legendary fund managers.

"Ned had run Magellan Fund, so he knew about it," Mr. Lynch said. "He'd come down maybe once a week or once every 10 days and we'd talk about what was in the fund. He was very flexible and wanted to hear my ideas and ask the reason I liked this stock or that stock, and the story behind it."

The explosive growth of Vanguard, of course, has raised questions about whether Mr. Johnson minimized the competitive threat of passive investing.

"The obvious reason Fidelity didn't go into passive in a big way is that passive wasn't a great fit with Fidelity's culture," Mr. Bonnanzio said.

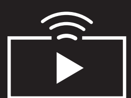
Mr. Lynch underscored that point.

"If you want to get average results, which some people want, that's fine; we've had index funds for a long time. But we believe you can beat the market, and we've proven it," he said.

As an investor, Mr. Johnson is probably most proud of having created the Fidelity Charitable Gift Fund, now known as Fidelity Charitable. Started in 1991, it was the first national donor-advised fund program, and fulfilled Mr. Johnson's wish to create an investment vehicle for the middle class — the charitable foundation — that previously had been available only to the wealthy.

The fund has inspired numerous other national donor-advised funds, but it remains the largest such program in the U.S., and is one of the nation's largest public charities.

Evan Cooper is a contributing editor at InvestmentNews.



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Morgan

CONTINUED FROM PAGE 3

er information he took with him," according to the lawsuit.

Morgan Stanley's complaint is being closely watched by the industry, particularly by brokers at large firms who may be considering changing employers.

A spokeswoman for Morgan Stanley, Margaret Draper, said the firm had no comment about the case involving Mr. Fitzgerald. Anthony Paduano, Mr. Fitzgerald's attorney, did not return a call to comment.

FIRST TO WITHDRAW

At the end of October, Morgan Stanley said it was leaving the broker protocol for recruiting, informing advisers that the firm would enforce client confidentiality and non-solicitation agreements. It was the first wirehouse to withdraw from the protocol, which was created by a handful of large firms in 2004 to limit costly lawsuits against brokers when they moved from one firm to another.

UBS Wealth Management Americas said in late November that it was also leaving the broker recruiting agreement; on Dec. 4, Merrill Lynch said it would remain in it.

> **"MORGAN STANLEY IS GOING TO GO AFTER WHOMEVER THEY CAN."**
> LOUIS DIAMOND, VICE PRESIDENT DIAMOND CONSULTANTS

The judge, Renee Marie Bumb of U.S. District Court for the District of New Jersey, said Mr. Fitzgerald had 24 hours to turn over any documents he removed from Morgan Stanley, including emails, and couldn't use confidential client information to solicit Morgan Stanley clients, according to a court order.

But Mr. Fitzgerald can return phone calls and emails from his clients, process account transfer requests from clients and keep documents given to him by customers, according to the order. His attorneys can argue next month why a preliminary injunction should not be ordered.

While the restraining order clearly benefits Morgan Stanley, the order was positive for the broker because it "recognized the client's choice of adviser and the freedom of the client," noted David Gehn, an attorney with Ellenoff Grossman & Schole.

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Break away

CONTINUED FROM PAGE 3

investment advisory firms. "But certainly I suspect any adviser joining Merrill is asking themselves the question, 'Will it remain this way?' "

Tash Elwyn, president of the private client group at Raymond James & Associates, said anxiety among wirehouse brokers has been beneficial to his firm from a recruiting standpoint. Raymond James, unlike the wirehouses, provides in contractual agreements that the adviser, not the firm, owns the client relationship.

"There's no doubt this is creating concern, and concern is creating interest, and the interest is creating movement to Raymond James," Mr. Elwyn said, though he declined to quantify that movement.

Industry observers also noted that the Morgan Stanley and UBS announcements, made on Oct. 30 and Nov. 27, respectively, sped up deals currently being negotiated, so advisers could leave before Morgan and UBS officially exited the protocol.

"People moving would be those who've done 90% of the work and were ready to hand in their resignation," Mr. Duran said.

ACCELERATING MOVES

J.P. Morgan Securities, for example, has picked up eight adviser teams from Morgan Stanley with about $7.5 billion in combined assets since October. Three UBS teams with at least $1.3 billion in combined assets have also joined in that period.

A spokeswoman declined to quantify on how this activity compared with the months before the protocol announcement.

"In-transition advisers certainly accelerated their move to do so under protocol," Ms. Papedis said. "For those advisers who never thought of it before, it raises many questions."

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DOL case

CONTINUED FROM PAGE 4

for clients to sue their brokers.

They lost decisively at the district court level in Dallas earlier this year and appealed the decision to the Fifth Circuit in New Orleans.

On Nov. 27, the DOL released a final rule to delay the enforcement mechanisms of the fiduciary rule from Jan. 1, 2018, to July 1, 2019, to give the agency more time to reassess the impact of the regulation on the financial industry and retirement savers. The review, which may lead to substantial revisions, was ordered by President Donald J. Trump.

TWO PROVISIONS CITED

The plaintiffs cited the fact that two provisions of the DOL rule, which requires brokers to act in the best interests of their clients in retirement accounts, became applicable in June. One significantly expands the number of advisers who are deemed fiduciaries and the other sets impartial conduct standards they must follow when working with retirement clients.

> **"THE DELAY RULE DOES NOT DIMINISH THE URGENCY OF THIS APPEAL."**
> DAVID W. OGDEN, PARTNER WILMERHALE

"Those obligations are imposing direct, substantial and continuing burdens on appellants' members," Mr. Ogden wrote. "The delay rule does not remove those requirements or stem their mounting costs."

The DOL wrote to the Fifth Circuit on Nov. 30 to tell the justices the fiduciary rule had been delayed until July 2019. The agency pointed out that it would not enforce the rule during the delay. It wants to keep the court at bay while it reviews the regulation.

NEED FOR CLARITY

But both the DOL and industry are expending resources on the regulation, and a court decision could bring some clarity about its fate, said George Michael Gerstein, counsel at law firm Stradley Ronon Stevens & Young.

"Resolution by the court would be preferred," Mr. Gerstein wrote in an email.

The decision pending in the Fifth Circuit is the most highly anticipated ruling of several lawsuits that have been filed against the DOL regulation.

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Fund fees

CONTINUED FROM PAGE 2

tors. It is helping to make a recent warning by SEC Chairman Jay Clayton about fee disclosure a reality.

"What we're seeing is broader than a crackdown on share classes," Mr. Holch said. "They're looking at all hidden and inappropriate fees paid by individual investors."

NO LOAD, 12B-1 FEES

The Investment Company Institute, a trade association representing the mutual fund industry, said that as of October, 85% of new fund sales involve those with no load and no 12b-1 fees.

But for decades, advisers have been recommending high-fee funds to their clients, and that legacy could now get them into trouble.

"There is still a lot of money in expensive and often underperforming mutual funds, in part because advisers have a long relationship with these strategies," said Todd Rosenbluth, director of exchange-traded fund and mutual fund research at CFRA, an independent fund-rating company. "There's going to be a greater occurrence of clients complaining about this. Investors are more fee-conscious than they have been in the past."

That means that high-fee funds will remain in the regulatory firing line.

Regulators "think they have them in a corner," Mr. Athey said. "They're going to keep pounding on them until they go away."

In order to stay out of the fray, advisers have to assess the sources of their revenue.

"If it comes from anywhere other than the disclosed advisory fee you're charging clients, you really should reconsider that business model," Mr. Cipperman said.

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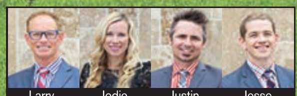

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Do year-end RMD checkup to avoid errors

Advisers need to understand how rules on IRA rollovers and aggregation affect clients

Advisers should be taking these last weeks of 2017 to make sure that there are no oversights when it comes to required minimum distributions (RMDs) from IRAs and company retirement plans.

Remind clients that there is a 50% penalty for missing an RMD. That penalty can be waived, though, by taking the missed RMD for any back year and filing Form 5329 with the IRS along with an explanation for the missed RMD.

Advisers should begin a year-end RMD checkup with an inventory of retirement accounts so you know how many accounts are subject to RMDs and which may be exempt.

An exception would be an account in a company plan if the employee is over 70½ but still working (and does not own more than 5% of the company, including family ownership). If the plan contains this provision (they don't have to), then the RMD can be delayed until retirement.

FIRST DISTRIBUTION YEAR

That leads to another potential error in the year of retirement. That year becomes the first distribution year so there would be an RMD for that year due by April 1 of the following year. The mistake occurs when a worker retires and an adviser has him or her do an IRA rollover of the entire plan balance.

A rollover cannot be done until after the RMD is taken. The first money out is deemed to be the RMD and that amount cannot be rolled over or converted to a Roth IRA. Once the RMD is satisfied though, the remaining IRA or plan funds are eligible for conversion.

If the full rollover is done, then you have an excess IRA contribution which must be corrected by removing that excess (the RMD amount rolled over), plus the income or loss attributable to that amount by Oct. 15 of the following year. Otherwise, there will be a 6% excess contribution penalty for every year the excess is not withdrawn.

Once RMDs are calculated for each retirement account, be careful to follow the aggregation rules. IRAs can be aggregated, with the total RMD due for all IRAs taken from any one or combination of IRAs (including SEP and SIMPLE IRAs).

The same aggregation rule applies to 403(b)s, but other types of accounts each require their own RMD distribution. You can never satisfy an RMD from one type of plan by withdrawing from another type of plan. For example, taking more from an IRA will not satisfy the RMD for a 401(k).

INHERITED IRA

Inherited IRA RMDs can only be aggregated when there are several IRAs inherited from the same person. For example, a child who inherits IRAs from each of his or her parents must take separate RMDs from each inherited IRA.

50%

PENALTY FOR MISSING AN RMD, WHICH CAN BE WAIVED BY TAKING THE MISSED AMOUNT FOR ANY BACK YEAR AND FILING FORM 5329 WITH AN EXPLANATION

For those who are taking IRA RMDs for the first time because they turned 70½ in 2017, their required beginning date is April 1, 2018. But they might want to take part or all of that 2017 RMD this year, depending on their tax situation, rather than bunching the first two RMDs into next year.

Beneficiaries also must take RMDs by year-end, even those who inherit Roth IRAs. Over the years I've had beneficiaries who were told they didn't have to begin taking RMDs on inherited IRAs until they turned 70½. That's wrong. A non-spouse IRA beneficiary must begin RMDs the year after the death, and they also must take any year-of-death RMD not taken by the deceased IRA owner.

Watch the RMD calculation. Use the IRA balance at the end of 2016 to calculate the 2017 RMD. Also make sure to use the proper table. I've often seen advisers and banks mixing up the Single Life Table for inherited IRAs, including inherited Roth IRAs, with the Uniform Lifetime Table for IRA owners. The Joint Life Table only applies when a sole beneficiary spouse is more than 10 years younger than the IRA owner.

Ed Slott, a CPA, created the IRA Leadership Program and Ed Slott's Elite IRA Advisor Group. He can be reached at irahelp.com.

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