4 WELLS FARGO APPLIES NEW ADVISORY FEE

5 ED JONES DIVERSITY PUSH STIRS CONTROVERSY

20 FINRA TARGETS COSTLY 529 SHARE CLASSES

26 KILL THE ESTATE TAX OR BROADEN IT?

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FEBRUARY 4-8, 2019

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ICONS & INNOVATORS

FEARLESS EXPERIMENTORS AND THEIR BIG IDEAS FOR THE ADVICE PROFESSION TAKE CENTER STAGE PAGE 10

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INSIDE

FEB. 4-8, 2019

7 *IN* on the Road
8 Editorial
21 Fiduciary Corner
25 On Technology

Cover: Adam Murphy

FINRA TARGETS COSTLY 529 PLANS
Regulator encourages firms to self-report share-class infractions.
PAGE 20

RECRUITING HELP
New platform aims to give advisers more control in finding jobs.
PAGE 24

ONLINE
CRYPTO BEATING DOESN'T WEAKEN ADVISER INTEREST
InvestmentNews.com/crypto

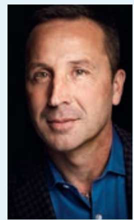
EDITOR'S NOTE

Change agents

Ladies and gentlemen, meet *InvestmentNews*' 2019 Icons & Innovators.

The people on this list represent the brightest, most engaging minds in the industry. Not only have they inspired innovation in their businesses, they're catalysts of change for our profession.

These are the folks who sometimes annoy you. The ones who can't stop talking about that crazy idea that came to them while walking their dog. The ones who send emails at 3 a.m., or prolong office meetings by questioning every little thing — even the "obvious."



FRED GABRIEL

These are the people who change minds, business strategies and the future of a profession. Yeah, those people

We believe nothing is more crucial to the growth of this profession than innovation. The list we present was put together by *InvestmentNews*' editorial team with input from our readers. Ultimately, we selected 11 visionaries: one Icon and 10 Innovators.

And *InvestmentNews* is still accepting Innovation Award nominations for broker-dealers, custodians, fintech firms, asset managers, wirehouses, RIAs and other companies. Learn more about those awards, and submit a nomination by Feb. 15, at InvestmentNews.com/nominateinnovation.

We'll celebrate the individual and firm winners at a dinner following our Innovation Summit in New York City on April 17. To have a seat at the table, register at InvestmentNews.com/innovationsummit.

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Wells Fargo charges new fee

BY BRUCE KELLY

WELLS FARGO Advisors is hitting clients with a new annual fee on advisory accounts that is roughly six basis points — equal to $590 per year on the average client with $1 million in advisory assets — according to a memo sent to the firm's advisers last week.

MORE
Wells Fargo RIA channel partners with TradePMR.
PAGE 28

The new fee applies to all advisory accounts. However, clients could receive a rebate based on revenue sharing from mutual funds that could offset the new fee or even provide a net credit, according to the memo, a copy of which was obtained by *InvestmentNews*.

Wells Fargo Advisors receives revenue from several areas; those include advisory fees, minus the payout to brokers and financial advisers, and some investment management programs that charge administrative or management fees.

"The fee supports services we provide to maintain the platform for all advisory accounts, including technology and record-keeping services provided to mutual funds available on our advisory platform," according to the memo. "Similar approaches have recently been implemented by some competitor firms."

NOT SHARED WITH ADVISERS

The new fee, which will be charged each quarter, will not be shared with financial advisers, according to the memo.

CONTINUED ON PAGE 28

BofA offers free trades on Merrill Edge

BY JEFF BENJAMIN

BANK OF AMERICA is hoping to lure millions of banking customers into its rewards programs by offering commission-free online trading for stocks and exchange-traded funds.

Commission-free trading for the bank's top-tier rewards programs have been available in some form since 2006, but until now those banking customers had to have at least $50,000 in banking or investment accounts. Now, customers in the bank's lowest tier, those with at least $20,000 in their accounts, will qualify for up to 10 free trades a month.

10
NUMBER OF FREE TRADES PER MONTH FOR THOSE WITH $20K IN ACCOUNTS

This represents the latest tweak in the Merrill Edge self-directed online platform, which has grown to $185 billion from $45 billion in 2010, according to Aron Levine, head of consumer banking and Merrill Edge.

CONTINUED ON PAGE 28

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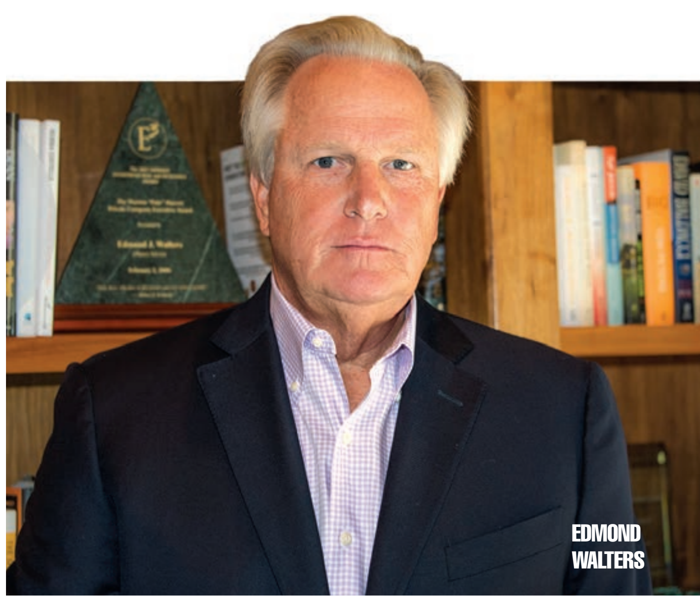
EDMOND WALTERS

eMoney founder teams with MoneyGuide

BY RYAN W. NEAL

EMONEY ADVISOR founder Edmond Walters is teaming up with Envestnet and PIEtech's MoneyGuide to introduce financial planning software for advisers that will compete head on with his initial brainchild, which he sold to Fidelity four years ago.

Mr. Walters, MoneyGuide CEO Bob Curtis and Envestnet CEO Jud Bergman announced their collaboration on the financial planning tool they are calling MoneyLogixPro at the T3 Advisor Conference in Denton, Texas, last Thursday. MoneyGuide is one of the biggest competitors of eMoney, arguably the most popular planning tool among financial advisers.

MORE
T3 news includes new Orion tools.
PAGE 7

The last time Edmond Walters spoke at the T3 Adviser Conference was in February 2015, just weeks after Fidelity Investments acquired eMoney, the financial planning software company he founded. Seven months later, Mr. Walters resigned from eMoney.

Conditions of Mr. Walters' non-compete agreement with eMoney were satisfied recently, sources said. EMoney declined to comment.

MoneyLogixPro is built on Finance Logix, a financial planning software Envestnet acquired in 2015 for $30 million.

The user interface and features were designed by Apprise Labs, a new company formed by Envestnet, PIEtech and Mr. Walters. The product will be more advanced and sophisticated than current iterations of Finance Logix, offering cash-flow-based tax and estate planning.

KEY POINTS

- Walters partners with Envestnet and PIEtech on new software.
- Tool will compete with eMoney, which Fidelity bought from Walters in 2015.

"These new capabilities will use visual, interactive technology to help clients manage important financial decisions pertaining to home sales, retirement investments and assets, inheritance gifts, endowment contributions and more," Mr. Bergman said in a statement.

WEALTH TRANSFERS

Mr. Walters said the technology is designed to manage legacy wealth transfers across multiple family heirs. MoneyLogixPro can chart out "what-if" scenarios and let advisers design family trusts to protect client interests.

He said the tool isn't necessarily for ultrahigh-net-worth

CONTINUED ON PAGE 30

Nominate now! Which young leader inspires you?

InvestmentNews wants your help finding financial advisers and others in the advice industry who are under age 40 but already exemplifying leadership in the financial planning business.

Nominations are now open for our sixth annual 40 Under 40 feature. Submit your favorite young adviser or associated professional through Feb. 28 at **InvestmentNews.com/nominate40**.

The qualities our editors will be looking for include business-related accomplishments, contributions to the advice profession, leadership within a company or the industry, and promise for continued development down the road.

The 40 individuals we recognize must be under the age of 40 on June 17, 2019, when our honorees will be announced in the print issue of *InvestmentNews* and on InvestmentNews.com.

— Liz Skinner, special projects editor

How much is enough to have saved at each age

Here are the level of 401(k) savings of six different age groups, according to plans Fidelity administers, as well as rules of thumb about where each age group ought to be when it comes to retirement savings.

AGES 20-29
Average 401(k) balance: $11,600
Median 401(k) balance: $4,000
By age 30, you should have one year's salary saved for retirement.

AGES 30-39
Average 401(k) balance: $43,600
Median 401(k) balance: $16,500
By age 40, you should have three times your annual salary saved.

AGES 40-49
Average 401(k) balance: $106,200
Median 401(k) balance: $36,900
By age 50, you should have six times your annual salary saved.

AGES 50-59
Average 401(k) balance: $179,100
Median 401(k) balance: $62,700
By age 60, you should have eight times your annual salary saved.

AGES 60-69
Average 401(k) balance: $198,600
Median 401(k) balance: $63,000
By age 67, aim to have 10 times your annual salary saved.

Edward Jones' diversity push stirs controversy

BY MARK SCHOEFF JR.

AN INITIATIVE by Edward Jones to help women and minority advisers jumpstart their careers is being praised by diversity advocates but criticized internally as discriminatory.

In an internal document sent to brokers last month and obtained by *InvestmentNews*, the company said advisers who are retiring or streamlining their books of business can receive an incentive — an additional 10% on their assets — if they turn them over to advisers who are women or minorities.

> **"WHEN YOU GET TRANSITIONED ASSETS, IT'S A LEG UP."**
>
> LAZETTA RAINEY BRAXTON
> FOUNDER AND CEO
> FINANCIAL FOUNTAINS

Edward Jones said it has been offering the incentive since June 1, 2018, to veteran advisers who transfer assets to women and minorities because they're supporting the firm's strategies.

"The incentive is consistent with Edward Jones' commitment to diversity and inclusion," John G. Boul, the firm's manager of global media relations, wrote in an email.

LAUNCHING CAREERS

Lazetta Rainey Braxton, an African-American and founder and CEO of Financial Fountains, said the Edward Jones program will help advisers of color launch their careers.

CONTINUED ON PAGE 30

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How to reignite innovation

We all know we are living in one of the most disruptive times in history. Which also means that this is a dream time for innovation and reinvention. Never has there been a more rewarding period for businesses in any industry to reimagine themselves.

As chairman of the *InvestmentNews* Icons & Innovators Summit April 17 in New York City, I thought I'd share insights on innovation and what differentiates growth firms from firms that plateau.

GUESTBLOG
JOE DURAN

NO FIRM IS PERFECT

There is no such thing as a perfect firm, not in any industry, but most certainly in wealth management. That means every company in the world has ways in which it might improve and evolve to be more competitive and better serve its clients. Yet most wealth managers will be content to do the same things this year that they did last year, and the year before that. What holds people back from evolving, even though they know it's what's best for their future? There are three major roadblocks:

1. The success paradox (aka overvaluing the status quo). This is a mindset that says, "I am successful because of all the things I have done to this point." It often causes people to stop evolving because they do not want to risk change and endanger their accomplishments.

But the world around you changes constantly, and your clients always have new alternatives that might be better than what you can offer. What if you asked yourself a different question: "What would we do differently to be twice as successful as we've been?" That's the beginning of challenging the status quo.

2. We overestimate the cost of change and underestimate the cost of not changing. It is relatively easy to calculate how expensive any major innovation might be in time, effort and money. It is much harder to know the cost to our business when we forego change and stay the course.

AWARDS
Meet the Icon and Innovators of 2019.
PAGE 10

Figuring out the benefits of innovation by evaluating the impact that a major innovation might have on our future growth, our profit margin, or improvements in client satisfaction or employee happiness is tough, but it can help us to justify any major innovation costs.

However, it's really difficult to calculate the impact of not evolving. What will it mean in client losses, employee turnover or fee pressure if a firm does not evolve? Most folks simply don't think about the lost opportunities as a "cost," but these missed chances are almost always the reason firms plateau.

3. The "good enough" problem. The biggest hurdle to innovation occurs when change is a choice rather than a requirement. When what we are doing today works well enough that it might not be worth the hassle of changing, our complacency can stop us from progressing.

Innovative firms understand that the advantage goes to those who move before it is necessary; they establish a mindset that the standards for "good enough" are always going up based on how they can be better than everyone else in the industry. Shaking the "good enough" mindset is the key to embarking down the road of innovation.

BUILDING AN INNOVATIVE MINDSET

• Embark on the "quest for better." Ultimately, change should always be about improvement. At United Capital we have a saying: "Every Friday we are better than we were last Friday, as a company, as a department and as individuals." This frame of constant, unending improvement in every aspect of who we are is the cornerstone of a growth mindset. It establishes that

CONTINUED ON PAGE 26

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IN ON THE ROAD

FSI to focus on 'patchwork' of state fiduciary rules in 2019

BY BRUCE KELLY

FSI ONEVOICE

DALE BROWN, president and CEO of the Financial Services Institute, said last Monday that this year, the trade group for IBDs will focus on individual states' efforts to put in place fiduciary rules for brokers.

In remarks in New Orleans to 700 attendees at FSI's annual meeting, Mr. Brown said that several states, including Nevada, New Jersey and Maryland, are working on their own versions of a fiduciary rule, potentially creating what FSI sees as problems for brokerage firms and their clients.

Those three states "are only the latest examples of well-intentioned efforts by state officials to respond to what they perceive as inaction in Washington," Mr. Brown said. "However, as you well know, the reality for your clients, advisers and businesses is that a patchwork quilt of state rules will only add to the cost and confusion and will inevitably push access to advice out of the reach of small investors."

The Department of Labor's fiduciary rule for brokers, an Obama administration rule that the brokerage industry widely disliked, died in 2018 as the result of a decision by a federal appeals court.

The securities industry did not support the rule because it increased costs and opened the door for more lawsuits from investors.

STORIED HISTORY

The brokerage industry eventually defeated the rule. The FSI was one of several industry plaintiffs in a suit that lost decisively in a Dallas federal court in 2017. But the 5th U.S. Circuit Court of Appeals overturned that ruling with a split vote of a three-person panel and vacated the regulation in March.

In contrast, Mr. Brown said that the FSI supports the Securities and Exchange Commission's Regulation Best Interest, or Reg BI, proposal.

MORE FROM FSI
- 529 target of regulators, Page 20
- Health plans defended, Page 24

The SEC proposal requires brokers to emphasize their clients'returns over their own compensation.

"Now, Reg BI is far from perfect, but it is what is achievable in the current political environment," Mr. Brown said. "It will enhance investor protection and transparency, and it will raise the legal standard for all financial advisers, while also preserving access to advice. And those are two equally important public policy goals."

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Orion debuts new tools

BY RYAN W. NEAL

THE 2019 Technology Tools for Today conference kicked off last Tuesday with a flurry of news announcements from Orion Advisor Services.

Orion team members took the stage at the convention center in Denton, Texas, to announce updates and additions to the popular portfolio management tool aimed at four challenges that independent financial advisers face: prospecting, client communication, cybersecurity and compliance.

The first was a new integration with BizEquity, which tracks business valuation data, so advisers can get information on the value of businesses owned by clients and improve the advice they provide.

Although a lot of attention is given to attracting next-generation investors, Orion officials said business owners today are underserved by advisers. According to BizEquity data, 3 million small and midsize businesses will be sold by 2021, and 40 million business owners expect to sell their businesses by 2029. In addition, 78% of business owners plan to fund their retirement through the sale of their businesses.

However, only 40% of business owners have consulted with a financial adviser. With the BizEquity integration, Orion believes it can help advisers initiate these conversations and better understand the value of their own firm.

Next, Orion introduced a new feature it calls Event-Based Notifications to help advisers automatically create and send personalized email or text communications to clients. For example, if a client's portfolio crosses the $1 million threshold for the first time, Orion can automatically deliver a message saying, "Congratulations, you're a millionaire!"

CYBERSECURITY

Orion also wants to help advisers combat the growing concern over cybersecurity. Through a new integration with Experian, advisers can offer clients credit and identity monitoring via the Orion portal.

If 2019 does indeed end up being a turning point for cybersecurity enforcement, it makes sense that Orion is also thinking about adding compliance functionality. Orion general counsel Kylee Beach unveiled a new tool, Inform, to automate some common compliance pain points.

Built in collaboration with MarketCounsel, advisers can use Inform to monitor employee trades against firm-wide trade activity; track the receipt of gifts and donations; and distribute affirmations, certifications and disclosures related to the firm's code of ethics.

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The future of financial planning

BY RYAN W. NEAL

T3 CONFERENCE

IF THERE WAS a core theme to the 2019 T3 Adviser Conference, it was the future of financial planning.

The big story was the launch of Apprise Labs, a new company formed by Envestnet, PIEtech and eMoney founder and former CEO Edmond Walters. Apprise announced last Thursday that its first product, financial planning software MoneyLogixPro (a portmanteau of Envestnet's Logix and PIEtech's MoneyGuidePro), will be available by the end of the summer.

PIEtech co-CEO Bob Curtis also presented a new MoneyGuide product called myBLOCKS, which is designed to make it easier for advisers to sell clients on a financial plan. Donning a red plaid robe, Mr. Curtis said myBLOCKS' goal is to make financial planning as easy as selecting something to watch on Netflix.

LIKE NETFLIX

The user interface of myBLOCKS is similar to Netflix, laying out several rectangular-shaped icons against a simple black background. Instead of a movie or TV show, each block represents a financial issue, such as Social Security, health care or paying off student loans.

The idea is that clients can choose which parts of the financial plan they want and complete them on their own time. Over time, the pieces add up to a comprehensive financial plan.

MoneyGuide wasn't the only financial planning software to get an update at T3 this year. Last Wednesday, Advicent CEO Angela Pecoraro demonstrated a complete user experience overhaul of NaviPlan and announced a new retirement assessment tool. Ms. Pecoraro said the enhancements are to help advisers "embrace the third wave of financial planning," which will bring together the traditionally segmented cash-flow and goals-based approaches.

"Planning technology won't advance by sacrificing comprehensiveness," Ms. Pecoraro said. "It will evolve by reimagining how firms obtain and engage with the data required to develop comprehensive plans."

Riskalyze CEO Aaron Klein also spoke about financial planning and he introduced Timeline, a new visualization tool for advisers to show a clients' capacity for investment risk. The feature allows advisers to add life events, such as sending kids to college or buying a house, to Riskalyze's Retirement Maps feature.

Timeline also is available as an application programming interface to allow financial planning developers to pull life events from Riskalyze.

"Our original vision when we added Retirement Maps to Riskalyze in 2014 was to make sure that advisers could easily visualize and communicate the concept of risk capacity," Mr. Klein said in a statement. "With the addition of dynamic Timeline events, Retirement Maps becomes an incredible precursor to a comprehensive financial plan."

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EDITORIAL / LETTERS / OP-ED / GUEST BLOGS

OPINION

'Selling away' doesn't mean the B-D is not ultimately responsible

IT LOOKED LIKE A ROUTINE arbitration award and in many ways it was. A small broker-dealer was found liable for the actions of one of its brokers for selling away. It was ordered to pay the client $276,226.

The problem is that the broker, who was allowed to resign over the incident, has six other investor complaints pending against him, all for selling the same securities: promissory notes issued by Woodbridge Group of Companies.

The same day the news of the arbitration award broke, the Securities and Exchange Commission announced that a federal judge had approved judgments against Woodbridge for $1 billion in penalties and disgorgement for selling those promissory notes. The SEC charged that the notes were part of a Ponzi scheme that defrauded 8,400 investors, many of them senior citizens.

Over a five-year period, Woodbridge, which is now in bankruptcy, relied on a network of brokers, former brokers and others on the fringes of the financial services industry to sell its investments. Now that the dust has started to settle on the case, investors are scrambling to be made whole again. Many of them are not even waiting to see how much they are going to get back from the SEC and bankruptcy court; they are going after everyone and anyone who has a connection to Woodbridge, no matter how far removed.

MORE
Woodbridge to pay $1B.
PAGE 20

Although Woodbridge was not mentioned by name in the annual examination priorities letter issued by the Financial Industry Regulatory Authority Inc. two weeks ago, several of the priorities listed are relevant to this case. For example, under a section on sales risks, Finra talks about the need for suitability, protection of senior investors and controls related to outside business activities, i.e, selling away.

Monitoring broker activities when it comes to selling away is especially important. Although it can be difficult to keep tabs on everything every broker is doing all the time, broker-dealers would do well to establish and maintain a supervisory system to monitor their workforce, including all internal communications, correspondence, transactions and customer complaints.

PAYING THE PRICE

Quest Capital Strategies Inc., the broker-dealer that lost the arbitration case mentioned earlier, could very well be on the hook for the other pending investor complaints. According to Finra, the ex-broker sold $10.8 million worth of Woodbridge notes to 58 investors and earned $260,864 in commissions. The ex-broker was barred by Finra last November for not notifying Quest Capital that he was selling the Woodbridge investments.

Some of the notes the broker sold were to Quest Capital customers, but not all of the victims had accounts with Quest Capital. The law firm that represented the client in the case said the arbitration panel rejected part of Quest's defense that it should not be held liable because in this case the claimant was not a Quest customer.

QUEST CAPITAL WAS HELD RESPONSIBLE FOR NON-CLIENT LOSSES.

The bottom line is that broker-dealers need to be vigilant when it comes to selling away. Not knowing that an unreported activity was taking place is not always a valid excuse.

Firms should have a reasonable plan in place to monitor what their brokers are doing and be able to prove that they have followed that plan.

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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ICONS & INNOVATORS

The innovative spirit is alive and flourishing within these financial advisers and other professionals carving new paths in the advice business.

In this third year of our Icons & Innovators feature, we have selected one Icon and 10 Innovators out of more than a hundred suggestions from InvestmentNews readers and staff of men and women who deserve recognition for their inventive thoughts, tools and processes.

Icons each year are distinguished by their profound and continual contributions to the success and development of the financial advice profession. Innovators have introduced new concepts, theories and business models that have influenced the way the industry thinks about providing financial advice.

Get inspired by the stories that follow.

All Innovator profiles written by Deborah Nason. Sheryl Garrett photo by Adam Murphy.

HONOREES

ICON

Sheryl Garrett .... Pg. 11

INNOVATORS

Heather Ettinger ....Pg. 12
Joseph F. Coughlin ....Pg. 12
Kunal Kapoor ....Pg. 14
Valerie Brown................ Pg. 14
Naureen Hassan ....Pg. 16
Eric Clarke .... Pg. 16
Fielding Miller ....Pg. 16
Rick Kahler..................... Pg. 18
Ted Jenkin .... Pg. 18
John Streur .... Pg. 18

LEARN MORE ABOUT OUR WINNERS ONLINE

Go to **InvestmentNews.com/icons** for expanded coverage of our Innovators and a video biography of our Icon. Also register to attend the Innovation Summit luncheon in April, which will honor our winners' contributions to the advice profession.

ICON

PROFITABLY SERVING THE MASSES

BY JEFF BENJAMIN

It was about 10 years ago when Sheryl Garrett first predicted that within 20 years, hourly pricing would become the most popular way of charging for financial advice.

Today, with hourly pricing still representing a tiny fraction of advisory fee models, she admits the forecast was too optimistic.

"I'm like a value investor; I tend to be a little bit early," she joked.

"At this point I don't see hourly pricing taking over in the next 10 years, but I believe it will happen within my lifetime," she said. "I do see more firms offering hourly fees as an option, which could lead to them offering it exclusively. I still see hourly fees as the next big wave of service to clients in financial planning."

For Ms. Garrett, 56, providing financial planning advice by the hour is not just something she pontificates on and sometimes jokes about. Charging by the hour, or even by the minute, is a drum Ms. Garrett has been banging for more than two decades.

She made her campaign official in 2000 with the launch of the Garrett Planning Network, a subscription-based organization of more than 250 registered investment advisers who are committed to hourly-based planning services for the masses.

She believes it is the best way to provide financial planning to people who don't already have a lot of money.

"My professional mantra is to help make competent, objective financial advice accessible to all people," Ms. Garrett said, stressing the underlying theme of her network.

Ms. Garrett's dedication to serving clients who may not have the financial wherewithal to pay an adviser 1% or more of their assets every year for financial advice earned her a shoutout from President Barack Obama during a speech in 2015 in favor of the Department of Labor's fiduciary rule for retirement advice.

"There are a lot of hardworking men and women in this field, and [they] got into this field to help people," Mr. Obama said. "They're folks like financial adviser Sheryl Garrett."

The Garrett Planning Network, based in Eureka Springs, Ark., is a membership organization that offers education and assistance in setting up hourly-fee planning practices.

The membership fees, ranging from $210 to $800 per month, are based on the level of services registered investment advisers receive from the network.

FIDUCIARY OATH

To join, advisers must be fee-only; offer advice on an hourly, as-needed basis; be willing to provide advice to individuals from all walks of life; be either a CFP certificant or licensed CFA with a personal financial specialist credential; and adhere to a fiduciary oath.

Leading up to her metamorphosis into the national voice of hourly-fee planning, Ms. Garrett spent about a decade cutting her teeth in the financial services industry. That journey started in the mid-1980s at IDS, a precursor to Ameriprise Financial, where she was handed a phone book after her training and told to make 100 cold calls a day.

"I never came close to making 100 calls a day," she said. "I don't think I made 100 calls in two years."

Ms. Garrett only lasted a few years at IDS, and over her first 11 years in financial services, she recalls "trying to leave the business three times. But I just couldn't get away."

Meanwhile, she kept taking jobs at firms that got her closer to the pure fee-only model, where client as-

CONTINUED ON PAGE 18

SHERYL GARRETT
FOUNDER, GARRETT PLANNING NETWORK

INNOVATORS

HEATHER ETTINGER

MANAGING PARTNER, LUMA WEALTH ADVISORS

"We have this tsunami of she-change coming in the next 10 years. More women are owning and starting businesses, and they are outliving men, which means they'll have more inheritance," said Heather Ettinger, managing partner of Luma Wealth Advisors (a division of Fairport Asset Management), which she founded in 2017 to address the needs of female clients.

This is just the latest woman-focused initiative Ms. Ettinger has undertaken since joining Fairport in 1987 — a firm founded by her father, Tom Roulston, in 1963.

Among her greatest accomplishments has been her co-authorship of two landmark studies sponsored by the Family Wealth Advisors Council. The first, conducted in 2011, was considered transformational for its identification of specific segments of female clientele, previously viewed as a homogeneous group. The second, conducted in 2015, was the first to study women breadwinners as its own cohort.

The studies had a ripple effect on the industry, Ms. Ettinger said, in that now more organizations are providing relevant content to women and segmenting their marketing to women.

"Firms are not just saying, 'I serve women,' but starting to say, 'I serve women who are divorced, executives, business owners, breadwinners, in same-sex marriages, etc.,'" she said.

She also is seeing more full-blown women-focused financial conferences, more large firms with women's initiatives, and recognition of the need to bring men into conversations about women's financial lives.

The results of the studies also inform Ms. Ettinger's vision for Luma, which encourages what she calls "financial wellness" via education, connection with other women, helpful resources and celebrations of life events.

"[There's] a changing dynamic in the family which necessitates a different approach to the delivery model of financial advice," she said. "It needs to integrate into [a woman's] whole life."

JOSEPH F. COUGHLIN

FOUNDER AND DIRECTOR, MIT AGELAB

"We are working on getting the financial services industry to be a catalyst for change on how we think about longevity," said Joseph F. Coughlin, founder and director of the MIT AgeLab, which researches trends related to aging and helps organizations develop innovations in what he has dubbed the "longevity economy."

Mr. Coughlin's involvement with the financial services industry came about when he realized that it could serve as the lynchpin in changing societal attitudes to aging.

"There's been a fundamental flaw in how we approach planning," he said. "Retirement planning should be more about navigating longevity, beyond money."

The difficulty people have in planning or saving enough for retirement is not because they lack financial literacy or need to buy the latest TV, but because it is very difficult for them to visualize their future selves, he said; they are saving for the most ambiguous thing they will ever buy.

Accordingly, advisers need to change the focus of conversations from purely financial to helping clients manage the ambiguity, big decisions, complexity and end-of-life issues of life planning.

"You never associate creativity, design or stories with financial services," Mr. Coughlin said. "The industry does a good job talking about complexity and quantitative matters, but when we talk to people about retirement, we need to change the narrative to appeal to their heads and hearts, and help them design their own later lives."

Society also needs to write a new story about retirement, he said — one that does not view aging with negativity and dread, nor see older people as having less value.

In fact, people over 50 are a tremendous economic force, controlling 83% of U.S. household wealth, Mr. Coughlin said.

"It's tragic for us to throw away the knowledge, creativity and experience older people offer," he said. "They're the largest emerging market hiding in plain sight."

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KUNAL KAPOOR

CEO, MORNINGSTAR INC.

"We have 'true north' and we follow it," said Kunal Kapoor, chief executive of Morningstar Inc., discussing the importance of company culture in the firm's success.

He cites a research-based culture that encourages openness. Employees are taught to think independently, in an investor-first way, and are supported in that independence. It is this environment that affords employees the freedom to express their professional opinions, he said.

In the CEO's chair since February 2017, Mr. Kapoor has been with Morningstar for more than 20 years, having entered straight from college. He has held a number of leadership roles within the firm, in areas such as mutual fund research, international operations and investment services.

"My career has mimicked Morningstar's growth," he said.

The two main focus areas of Morningstar are data-and-research dissemination supporting do-it-yourselfers, and outsourced services for advisers, such as managed portfolios.

Looking forward, he sees more innovation within the company relating to data and research. For example, a greater personalization of data, and further transparency and efficiency. He also envisions Morningstar focusing more heavily in environmental, social and governance investing. In fact, the firm recently introduced carbon ratings that evaluate portfolio exposure to carbon risk.

With a long-standing interest in financial behavior, Mr. Kapoor looks closely at "how to bridge the gap between what investors expect and the experience they end up having." He foresees the firm's continuation to build on goals-based investing with a "behavioral nudge."

In addition to his diverse experiences within Morningstar, he draws on his personal experience as a native of India.

"One of the best things about being an immigrant is [having] the multiple experiences I can weave together," he said.

VALERIE BROWN

EXECUTIVE CHAIRWOMAN, ADVISOR GROUP

Embracing change and diversity has been a hallmark of Valerie Brown's career. With a background in engineering, consumer products and financial services, she knows what it's like to reinvent oneself — and one's organization.

Most recently, Ms. Brown, executive chairwoman at Advisor Group, led her firm to a new way of thinking in response to the highly publicized Department of Labor fiduciary rule.

"We didn't react, we changed the way we practiced," she said. "The focus [of the potential rule] was on compliance, but we focused on how could we take advantage of this new opportunity and move forward with confidence, not fear."

This proactive approach resulted in a new pricing structure and new offerings, such as simplified fees and fee-based products with lower minimums. Comprehensive work was required throughout the entire ecosystem, including clearing, product managers and fee-based technology, Ms. Brown said.

She also has focused throughout her career on bringing more women into senior roles. The Advisor Group executive leadership team is 50% female.

"Diversity, whether in background, gender or style, helps management think differently — more innovatively versus incrementally," Ms. Brown said.

The diverse perspective she herself brought to the table at a previous job many years ago also proved valuable. She applied her insights about consumer products to introduce a branding campaign for ING Group — a novel move at the time.

A big influence on Ms. Brown's life has been family and mountains, as she lives in Jackson Hole, Wyo., close to her native Idaho. Her career migration to financial services stemmed from her father, who had his own book of business.

"He gave me a passion for the industry," she said.

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1. Source: Morningstar®, 12/31/18. Morningstar Ratings measure risk-adjusted returns. The Overall Morningstar Rating™ for a fund is derived from a weighted average of the performance figures associated with its 3-, 5- and 10-year (if applicable) rating metrics. For each mutual fund and ETF with at least a 3-year history, Morningstar calculates a Morningstar Rating™ based on how a fund ranks on a Morningstar Risk-Adjusted Return measure against other funds in the same category. This measure takes into account variations in a fund's monthly performance, and does not take into account the effects of sales charges, placing more emphasis on downward variations and rewarding consistent performance. The top 10% of funds in each category receive 5 stars, the next 22.5% receive 4 stars, the next 35% receive 3 stars, the next 22.5% receive 2 stars and the bottom 10% receive 1 star. The Fund's Advisor Class was rated against 463, 367 and 261 Allocation—30% to 50% Equity funds and received a Morningstar Rating of 5, 3 and 5 star(s) for the 3-, 5- and 10-year periods, respectively. Morningstar Rating™ is for the named share class only; other classes may have different performance characteristics. **Past performance is not an indicator or a guarantee of future performance.** © 2018 Morningstar, Inc. All rights reserved. The information contained herein is proprietary to Morningstar and/or its content providers; may not be copied or distributed; and is not warranted to be accurate, complete or timely. Neither Morningstar nor its content providers are responsible for any damages or losses arising from any use of this information.

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NAUREEN HASSAN

CHIEF DIGITAL OFFICER FOR WEALTH MANAGEMENT, MORGAN STANLEY

As Morgan Stanley's first chief digital officer for wealth management, Naureen Hassan oversees the technology and strategy underlying adviser desktop and client online access to the firm's services.

The new position, created in 2016, reflects a recognition that technology is changing financial services, she said.

Ms. Hassan's background in lean operations, which focuses on eliminating nonessential processes and adding value to the consumer, has informed her 15 years in the industry.

"The angle I've taken throughout my career is to use technology to make processes easier and more efficient for both advisers and clients," she said. "There's a view that a person has to choose between technology and [a human] adviser, but it's about enabling both."

Over the years, Ms. Hassan has introduced major innovations, including an artificial intelligence platform at Morgan Stanley that helps advisers by analyzing information and serving it to them with automated analysis and pre-written, customizable communications to clients.

Earlier in her career, Ms. Hassan helped Charles Schwab & Co. Inc. launch its retail robo-adviser. It had the ripple effect of offering well-diversified allocations to people without sizable portfolios, she said. And she introduced e-authorization, an alternative to fraud-vulnerable authentication options, which enables use of one's fingerprint on a smartphone.

Looking to the future, Ms. Hassan said, "We're continuing to see the advent of data. Advisers and firms that don't use data to better serve their clients will be left behind."

Leveraging technology plays a role in Ms. Hassan's personal life, too. She telecommutes to the Morgan Stanley office in New York from San Francisco and stays connected online to her large extended family in India.

ERIC CLARKE

CEO, ORION ADVISOR SERVICES

"When you run a business, you can only focus on the things you can be best at. You have to say no to other things," said Eric Clarke, founder and CEO of Orion Advisor Services, which provides accounting, trading and reporting technology to registered investment advisers.

Orion was born during Mr. Clarke's tenure as chief operating officer of CLS Investments, an RIA founded by his late father, Patrick Clarke.

As the growing firm approached $1 billion in assets under management, its IT system was reaching capacity. The younger Mr. Clarke, unable to find an off-the-shelf solution, worked with his team to develop their own.

He soon came to a realization.

"If we're going to be a technology company, we need to invest in that technology on an ongoing basis," he said. "We'll have to sell it to other advisory firms."

Another smart decision was to focus on homegrown expertise, thereby embracing integration with third-party technology providers that can share data and develop applications accessed from the Orion platform.

Over 20 years, Orion has grown to serve about 1,800 firms with $700 billion in assets under administration.

Mr. Clarke credits his company's success in part to its culture, which is built on the concepts of innovation, disruption and winning. Management intensively analyzes the business's strengths, weaknesses, opportunities and threats.

"You constantly have to disrupt your own business to future-proof it," he said.

A native of Omaha, Mr. Clarke's entrepreneurial skills go all the way back to ninth grade, when he and his brother became local tycoons selling swimming lessons — in the family pool. By the time they were in college, they were serving 500 children each summer at $60 per child.

He learned a lot about running a successful business, Mr. Clarke said, including advertising, collections, dealing with difficult customers and appeasing unhappy neighbors.

FIELDING MILLER

CO-FOUNDER AND CEO, CAPTRUST

A combination of inspiration, good timing and compassion has been the recipe for Captrust's stunning growth as an aggregator of retirement plan advisers and, more recently, retail advice practices.

Co-founder and CEO Fielding Miller, noticing the high administrative turnover among companies setting up retirement plans for their employees, began offering fee-based consulting work in this area in 1988. It was a risky move: leaving successful work as a stockbroker to start from zero as a specialized practice within the brokerage house Interstate/Johnson Lane Inc. (later acquired by Wachovia Corp.). But he believed in the idea of "being on the same side of the table as the client."

In 1997, the practice became a full-blown division, which spun out on its own in 2002. By 2007, assets under administration had reached $19 billion, helped greatly by the Sarbanes-Oxley Act of 2002, which required corporations to improve financial disclosures and suddenly put third-party advisers like Captrust in huge demand.

The firm's current assets under administration in retirement plans total $285 billion and its wealth management business has AUM of $15 billion, largely as a result of an aggressive acquisition strategy.

"The vast majority of our success is due to our culture," Mr. Miller said.

The culture combines his belief in a 1990s business philosophy espousing a focus on "significance" versus success, and on a deep sense of compassion that Mr. Miller said he developed during his teen years working on a furniture-loading dock alongside blue-collar workers.

"The success started pouring in because we were not just taking care of clients but also their employees and communities," he said. "We put a great deal of effort into making sure we are all aligned and focused on the same goal. I want to be big, but not at the expense of our mission."

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[1]Catalyst (2007) The Bottom Line: Corporate Performance and Women's Representation on Boards.

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INNOVATORS

RICK KAHLER

PRESIDENT, KAHLER FINANCIAL GROUP

Throughout his career, Rick Kahler, president of Kahler Financial Group in Rapid City, S.D., has strongly empathized with the needs of clients. This approach has taken him through an interesting evolution from real estate sales to financial therapy.

During the 1970s, while selling real estate, he realized nobody in his field was working in the client's interest. Responding to the opportunity, he began working with his clients in a fiduciary capacity as a buyer's agent, a common scenario now but unheard of then.

This closer relationship with clients resulted in becoming exposed to their finances, which led Mr. Kahler to work with them on financial planning. Continuing his fiduciary approach, he became the first fee-only planner in South Dakota in 1981 and its first certified financial planner in 1983.

His next "first" resulted from his personal experience of group therapy while recovering from divorce. Noticing that no one ever mentioned money, he became inspired to incorporate therapy with advising. After working with the Kinder Institute for Life Planning for several years, Mr. Kahler held the first-ever financial therapy workshop in 2003. He co-founded the Financial Therapy Association in 2010 and is widely known for his writing and teaching on the discipline.

"Consumers are drawn to financial therapy like a magnet," he said. "It is amazing to see how deeply money affects people. Financial planners don't have a clue of what they're dealing with."

In his practice, Mr. Kahler's therapeutic approach includes "exquisite listening" and "internal data gathering" on clients' money attitudes and history to inform both their financial and life plans.

JOHN STREUR

CEO AND PRESIDENT, CALVERT RESEARCH AND MANAGEMENT

"In the investment industry, we have the ability to know almost more than we can fathom," said John Streur, president and CEO of Calvert Research and Management, formerly known as Calvert Investments. "The ability to harness new sources and forms of information is a tremendous opportunity for us to strengthen what we can do for clients."

Making the most of data has been a particular strength for Mr. Streur for the past 30 years, as he developed special expertise in investing that integrates environmental, social and governance factors.

In his four years at Calvert, he has instituted several innovations, including:

- A robust research system that pulls in thousands of ESG indicators from corporations.
- A process of building models to evaluate the data from multiple perspectives.
- The provision of profound insights to companies to drive positive change at more in-depth levels.

With what Mr. Streur calls the largest and most diverse set of data of any organization in the ESG space, he wants Calvert to set the standard for how asset managers think about ESG information. He believes a detailed, research-based format also will enable mainstream investors to say, "This makes sense to me."

Mr. Streur also developed the Calvert Principles for Responsible Investing, based on his theory that global norms are working in a predictable manner.

"We want to bring values that the majority of the world is marching toward, such as reducing inequality in all forms," he said.

TED JENKIN

CEO AND CO-FOUNDER, OXYGEN FINANCIAL INC.

When you grow organically to $1.2 billion in assets under management in nine years, you must be doing something right.

Ted Jenkin, CEO of oXYGen Financial Inc., co-founded his firm in 2009 after a long stint with a large corporation. He decided to appeal to the financially emerging and then-untapped Gen X and Y markets.

He attributes much of the firm's success to his early embrace of social media. Most people search for an adviser online, so Mr. Jenkin aggressively experimented with new strategies via blogging, YouTube and podcasting.

"You cannot succeed on social media by being Switzerland. Those who succeed socially in life tend to have a viewpoint and a voice," Mr. Jenkin said.

He cited several early-to-market innovations that attracted younger people to his firm (the average client age is 47):

- Inventing and trademarking the term "private CFO"
- Charging clients on a monthly basis
- Providing account aggregation
- Changing the look of the office to feel homey and welcoming

The leap into entrepreneurship wasn't hard for Mr. Jenkin. He learned what it was like to rely on his own wits at 18 when his father passed away and left the family with no money.

"It spurred me to get into this business," he said. "And I made the choice not to fail. I never forget what it's like to have nothing."

ICON GARRETT

CONTINUED FROM PAGE 11

sets and income and station in life don't matter.

"There's a different way to go about delivering financial advice," she said. "Our relationship with a dentist or doctor or attorney might look similar to the way I worked with clients."

She opened her own firm, Garrett Financial Planning, on April Fool's Day 1998.

"I found an enormous opportunity with this untapped market of do-it-yourselfers and validators who didn't need or want a full-time financial adviser," she said. "I don't believe most people need a full-time financial planner or need somebody to watch their portfolio on an ongoing basis, and I loved the concept of billing for my time. It's one of the easiest ways to explain fees."

> **"THE SERVICE OFFERING IS ATTRACTIVE TO CLIENTS; IT'S THE INDUSTRY THAT FINDS IT PECULIAR."**
> SHERYL GARRETT

In terms of taking it to the next level, Ms. Garrett credits the direction of Bob Veres, owner of Inside Information, a consulting firm for the planning industry.

"I remember the conversation very well," said Mr. Veres, of the brief meeting at an industry conference 20 years ago. "Sheryl said she wanted to run something by me, and then she talked for a few minutes about her vision of financial planning offices that operated like dentists' offices or health clinics, where people could come in for a checkup and wellness exam and pay for the visit, and come in whenever they were feeling financially unhealthy."

'TERRIFIC IDEA'

Mr. Veres recalls telling Ms. Garrett it was a "terrific idea," which was all the validation Ms. Garrett needed.

"She basically introduced the idea [of hourly fees], when the profession was transitioning from commissions to [asset-based] fees, that financial planners could have alternative fee models and still make a living," Mr. Veres said. "Somehow, it seems that nobody thought of that before."

Ms. Garrett stopped working with individual clients in 2005 to spread the hourly-fee gospel full-time through the Garrett Planning Network.

When she was working with clients, the fee was $240 per hour, which was designed to be divisible by 60 minutes.

"If I don't want to take on the aspect of a project, like filling out a form online for a client, I explain that it will cost them $4 per minute for something they could do themselves," she said.

The idea of letting clients manage their fees is just a byproduct

of the larger benefit, according to Ms. Garrett.

"Ninety percent of the population doesn't need investment management, but they do need access to financial planning," she said. "The service offering is attractive to clients; it's the industry that finds it peculiar."

Mark Tibergien, CEO of Pershing Advisor Solutions, has long challenged the logic of charging clients based on their assets under management, which he compares to a medical doctor charging clients based on their weight.

"Currently, asset-based pricing is based on the value that the client brings, but Sheryl has changed that dynamic," he said. "When she started out, she was a voice in the wilderness, and I think people spiritually bought into her argument but were struggling with it economically."

The economic struggle for advisers boils down to pitting the relatively predictable income stream of 1% of whatever client assets are managed against the more random reality of collecting hourly fees from clients who might have more debt than assets and might only need a few hours of your time.

In 2011, Ms. Garrett co-founded, along with Justin Nichols, an RIA known as Garrett Investment Advisors to enable advisers to operate their own brands while the RIA handles most of the business operations. The RIA has grown to 30 advisers providing mostly hourly-fee services to approximately 800 clients.

In January, Ms. Garrett sold her 50% ownership in the RIA and stepped down as CEO and chief compliance officer "due to personal circumstances and wanting to focus on the network more and spend more time with my family," she said.

That family includes an 8-year-old daughter and a spouse, Shawnda, who in August 2016 was diagnosed with stage 4 colon cancer.

Ms. Garrett described Shawnda's battle with cancer, which has included surgery and chemotherapy, as "a major wake-up call to focus more of my energies on things that really matter in my life. It's called managing cancer, and it's something that likely will be a regular part of our lives."

But even as she closes ranks to a certain degree in Eureka Springs, where the couple also owns and operates the Wild Plum Cabins vacation rental properties, Ms. Garrett is far from stepping away from her career-long passion.

NEXT UP: INDIA

Next on the agenda is a version of Garrett Planning Network in India, where regulators are starting to draw hard lines between commissions and fees in financial services.

The India launch, slated for the early spring, will be orchestrated through Partha Iyengar, co-founder and CEO of Bombay-based Life & Money, one of only about 20 fee-only advisers in a country of 1.2 billion people.

According to Mr. Iyengar, who has been a disciple of Ms. Garrett since 2010, India has approximately 2.5 million financial service professionals and more than 80% of the business is commission-based.

The collaboration between Ms. Garrett and Mr. Iyengar will focus heavily on recruiting women to lead the fee-only movement in the new network.

Mr. Iyengar said the two main categories of focus for recruiting will be women who have been in the industry for less than five years and women who have been out of the workforce for a few years.

"We want to build a network just like Sheryl Garrett did," he said. "India just started charging for planning 10 years ago, but there are 440 million millennials here and I believe hourly fees will happen here in five years."

Beyond that, Ms. Garrett said the financial planning industry should get used to her banging the hourly-fee drum.

Sheryl Garrett in downtown Eureka Springs, Ark., in December.

"I see myself evolving, but I don't ever see myself retiring," she said. "I plan on being a loud mouth in this industry for a long, long time. I think the traditional industry looks at me like a splinter that will work its way out. They aren't worried about losing customers to us.

"But the customers we're bringing in are the people who haven't gotten attention in financial planning," she said. "We're still extremely rare, but that means this is an untapped opportunity. And I do believe hourly fees will be the most common way financial advice is provided in the future."

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529 share classes in spotlight

BY BRUCE KELLY

BROKERS WHO gin up costs by favoring more expensive mutual fund share classes when selling 529 plans are at the heart of the ongoing concerns the Financial Industry Regulatory Authority Inc. has had about the plans, according to brokerage executives.

KEY POINTS

- Finra announced a new initiative for brokerage firms to self-report infractions involving 529 sales.
- Brokerage executives say regulatory concerns with using Class C shares in 529 plans are not new.

Last Monday Finra said it was targeting suitability violations centered on the types of 529 plans recommended to customers and asserted that brokers may be pushing high-fee share classes that don't fit clients' investment objectives.

Finra officials have been concerned about expensive 529 plans for some time, said executives speaking in New Orleans on an industry panel for the Financial Services Institute's annual OneVoice meeting.

"This has been on Finra's radar now for years; four years ago is when it first came up," said Katharine Michaels, vice president at Raymond James Financial Services Inc.

"We started beefing up our supervisory process around this," she said. "We don't allow for C shares to be purchased if the beneficiary is 12 years or younger. Under the new tax change, you can now use 529 plans for primary education."

A 529 plan is a municipal security that allows tax-free savings for the future educational expenses of a beneficiary. Families have been using them for years to save for college tuition for their children. Last January, the IRS expanded their use to K-12 expenses.

CLASS A OR C

The plans can be sold as Class A shares, which have a front-end sales charge but lower annual fees. They also come in Class C shares that do not have front-end sales charges but incur higher annual fees.

Thrivent Financial "strongly discourages" brokers from selling C shares in 529 plans, said Christopher Osborne, vice president and head of supervision at Thrivent. "We have very little of that, thankfully."

When a broker does make such a transaction, "we will stop [it] or follow up with the adviser to see what's going on and generally bust the trade in those situations," Mr. Osborne said.

It would take a "special circumstance" for a broker to sell a 529 plan using C shares, he said.

Under the 529 Plan Share Class Initiative, Finra is giving firms until April 1 to review their sales of the plans and self-report infractions. If a firm steps forward, it will have to return money to harmed investors but will not be fined.

In the regulatory notice, Finra said firms should review their supervisory systems and procedures for 529 share-class recommendations. Among the failures that should trigger self-reporting: inadequate training regarding 529 plans' costs and benefits, lack of assessment of the cost of different share classes, inadequate review of data about 529 plan sales, and not offering breakpoint discounts or sales-charge waivers.

The regulator sent a warning to firms that do not turn themselves in.

"If a firm does not self-report under the 529 initiative but Finra later identifies supervisory failures by that firm, any resulting disciplinary action likely will result in the recommendation of sanctions beyond those described under the initiative," the regulatory notice states.

Mark Schoeff Jr. contributed reporting to this story.

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Court approves Woodbridge settlement of $1 billion

INVESTMENTNEWS

A FEDERAL judge has approved judgments against Woodbridge Group of Companies and its former owner to pay $1 billion in penalties and disgorgement for operating a Ponzi scheme that targeted retail investors, the Securities and Exchange Commission announced last Monday.

JUDGE MARCIA G. COOKE

Judge Marcia G. Cooke of the U.S. District Court for the Southern District of Florida approved previously announced settlements with Woodbridge and its 281 related companies, ordering them to pay $892 million in disgorgement, and ordering its former owner, Robert Shapiro, to pay a $100 million civil penalty and to disgorge $18.5 million in ill-gotten gains, plus $2.1 million in prejudgment interest.

In December 2017, the SEC filed an emergency action that charged Woodbridge and other defendants with operating a scheme that defrauded 8,400 retail investors nationwide, many of them seniors.

FLIPPING REAL ESTATE

Mr. Shapiro promised investors returns of as high as 10% from investments in developers who flipped luxury real estate, but instead their cash flowed into a web of related companies that Mr. Shapiro controlled, the SEC said. He then used money from new investors to repay earlier ones and spent at least $21 million to charter planes, pay country club fees and buy luxury items, according to the agency's filing.

"Our complaint charged that when Woodbridge's fictitious business model collapsed, the company stopped paying investors, and filed for Chapter 11 bankruptcy protection," said Eric I. Bustillo, director of the SEC's Miami Regional Office. "The settlement provides for the return of significant funds to investors."

QUEST CASE

In a related case, A Financial Industry Regulatory Authority Inc. arbitration panel has awarded $276,226 to an investor who lost money buying Woodbridge securities.

Independent broker-dealer Quest Capital Strategies Inc. must pay the award for not supervising more closely one of its brokers, Frank R. Dietrich, who sold the investor $400,000 worth of mortgage notes sponsored by Woodbridge Group of Companies.

8,400

NUMBER OF RETAIL INVESTORS DEFRAUDED BY WOODBRIDGE SCHEME

The law firm of Goodman & Nekvasil, which represented the investor, John C. Medeiros, a retired Coast Guard veteran, said it was the first Woodbridge case to go to a final arbitration hearing.

Quest allowed Mr. Dietrich, who sold $10.8 million worth of Woodbridge mortgage funds to 58 investors and earned $260,864 in commissions, to retire last March. The broker was barred by Finra in November for not getting approval from Quest to sell the Woodbridge notes.

Mr. Dietrich had 10 disclosure events detailed on his BrokerCheck record, including seven customer complaints related to the sale of Woodbridge securities.

Atlanta RIA charged with fraud

INVESTMENTNEWS

THE SECURITIES and Exchange Commission has charged Atlanta investment adviser Joseph A. Meyer Jr. and Statim Holdings, the firm he controls, with defrauding a private fund they managed and its investors.

The SEC's complaint alleges that, beginning in August 2009 and continuing until at least June 2018, Mr. Meyer and his firm sold four classes of limited partnership interests in Arjun, a private fund. The complaint alleges that Mr. Meyer promised investors in one class they would be protected from losses and promised investors in two other classes they would receive guaranteed fixed returns, all as a result of profits being moved among the fund's classes.

According to the complaint, Mr. Meyer withdrew most of the fund's profits, which he used to pay his living expenses. The SEC said it is seeking permanent injunctive relief, disgorgement of ill-gotten gains with prejudgment interest, and civil penalties.

In a suit the SEC filed against Mr. Meyer and Statim in December 2018, the agency also charged the adviser with doctoring financial statements to deceive clients into believing he wasn't losing money, according to a report by Bloomberg, which quoted the SEC as saying that the adviser "simply concocted numbers … and then reported these exaggerated returns to investors."

Regulators refocus on best execution

FIDUCIARYCORNER
BLAINE AIKIN

When an investment adviser serves as an asset manager and has the responsibility to select broker-dealers and execute client trades, the adviser assumes a fiduciary obligation to seek best execution. The discretionary control exercised by advisers in directing transactions to broker-dealers means they must pay close attention to how the broker-dealers they use manage the costs, quality and conflicts associated with trading.

Best execution may not be a top-of-mind issue for investment advisers, but the SEC is working hard to change that, with help from Finra. Both regulators have a history of including best execution in their examination priorities, and their attention to the topic is intensifying.

The Financial Industry Regulatory Authority Inc., in its list of examination priorities for 2019, said that it is "concerned about [broker-dealer] firms failing to use reasonable diligence to assure that their customer order flow is directed to the best market given the size and types of transactions, the terms and conditions of orders and other factors."

ADVISERS WHO DIRECT TRADES TO A B-D HAVE A FIDUCIARY DUTY TO SEEK BEST EXECUTION.

In July, the Securities and Exchange Commission's Office of Compliance Inspections and Examinations issued a national exam program risk alert summarizing the most common best-execution deficiencies found in recent examinations of investment advisers.

6 MOST FREQUENT ISSUES

The risk alert highlighted these six most frequent best-execution issues identified in deficiency letters associated with over 1,500 examinations:

- Not performing periodic and systematic best-execution reviews.
- Not considering materially relevant factors during best-execution reviews.
- Not seeking comparisons from other broker-dealers.
- Not fully disclosing best-execution practices.
- Not disclosing the use of soft dollar arrangements, how they operate and cost considerations.
- Weak best-execution policies and procedures or failure to follow policies and procedures.

The inverse of each deficiency necessarily points to a practice that advisers should follow.

The following are suggested best-execution policies and practices for investment advisers drawn from the list of deficiencies and other regulatory guidance:

- Assign responsibility for B-D selection and monitoring, and establish procedures for periodic and systematic best-execution reviews.
- Evaluate materially relevant factors during best-execution reviews covering the full range and quality of the B-D's services, including securities pricing, execution capabilities and quality, commission rate, financial responsibility, responsiveness to the adviser, value of research and other services, conflicts and conflict management practices, and adequacy of policies and procedures governing best execution.
- Evaluate differences in best-execution capabilities of B-Ds across different markets in which trading will be conducted.
- Compare materially relevant quantitative and qualitative factors of current broker-dealers providing trade execution services to the adviser versus those of competing B-Ds.
- Evaluate soft dollar arrangements to determine if they comply with (Section 28(e)) safe harbor requirements that the value of the services received justifies the cost involved, that costs are properly allocated to clients to reflect the relative value received and that conflicts of interest are satisfactorily managed.
- Fully disclose advisers' best-execution policies and procedures.

Advisers who direct trades to a B-D have a fiduciary duty to seek best execution. Their obligation is to periodically and systematically evaluate which B-Ds can reasonably be expected to execute their clients' transactions best.

Blaine F. Aikin is executive chairman of fi360 Inc.

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Small-cap value funds see stunning rally

BY JEFF BENJAMIN

WHATEVER INVESTORS were spooked by at the end of 2018, they seem to have shrugged it off so far this year.

Last year, the small-cap value funds category, as tracked by Morningstar, lost 15.5%, making it the worst-performing domestic equity fund category.

KEY POINTS

- Small-cap value funds lost 15.5% in 2018.
- Small-cap growth funds usually lead rallies, but not this time.
- 'Risk-on' environment helps category revert to the mean.

But so far this year, with the S&P 500 Index up 6.4%, small-cap value funds are leading the way with an average gain of 10.4%.

The four-week turnaround is reflective of a renewed risk-on mood among investors, said Todd Rosenbluth, director of mutual fund and ETF research at CFRA.

"The fact that it was the worst category last year has helped make it the best this year, because there is often a reversion back to the mean when environments shift back to risk-on," Mr. Rosenbluth said.

LOOK AT THE LEADERS

Category averages tell part of the story, but the swing is starker when you look at leaders like the $1.6 billion Invesco Small CapValue Fund (VSMIX), which is already up more than 16% this year, as of last Monday, after losing more than 25% last year.

Another example is the $33 million Schneider Small Cap Value Fund (SCMVX), which is up more than 17% in January, but lost nearly 33% last year.

Paul Schatz, president of Heritage Capital, called the leadership so far this year by small-cap value strategies "very unusual, because growth usually leads during significant rallies."

The small-cap growth fund category is in second place behind small-cap value in January, with an average gain of 9.93%.

10.4% AMOUNT SMALL-CAP VALUE FUND CATEGORY IS UP IN 2019

What's also illustrative of the turnaround in the markets since December is that even the worst-performing domestic-equity fund category, large-cap value, is up 6.4% so far in January.

For those who believe the fledgling market rally has some room to run and want to jump in, Morningstar analyst Russel Kinnel highlighted some favorites in the small-cap value space.

The $2.6 billion Janus Henderson Small Cap Value Fund (JSCVX) has a "long history of finding bargains in small value by emphasizing free cash flow and balance sheets rather than simply buying the cheapest of the cheap," Mr. Kinnel said. The fund is up 7.7% this month after losing 13.2% last year.

Mr. Kinnel also cited the $360 million LSV Small Cap Value Investor Fund (LVAQX), which is up 11.9% this year after losing 17.5% last year.

"To be sure, the fund takes it on the chin in bad years for small value, but that also means it has tremendous rebound potential," he said.

SMOOTHER RIDE

Finally, Mr. Kinnel gave a nod to the $1.3 billion Royce Special Equity Investment Fund (RYSEX), which offers a smoother ride, with a gain of 6.4% this month and a loss of 9.9% last year.

"Generally, this fund has held up nicely in bear markets," he said.

Mr. Schatz said investors should enjoy the ride, but shouldn't get too aggressive in allocating to small-cap value.

"Keep in mind that value trailed growth for all of 2017 and 2018, except for a few short periods," he said. "I think it's too early to say whether this is just another blip of outperformance for small-cap value or the start of the real deal."

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Best robo for the job at hand

Research group Backend Benchmarking attempted to quantify not just the best robo-adviser, but which ones top the list for different types of investors, in its latest "The Robo Ranking" report.

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BEST PERFORMANCE AT A LOW COST: FIDELITY GO

Fidelity Go's 35 basis point management fee is more expensive than other digital advisers, but its portfolios hold Fidelity funds with no expense ratio.

BEST FOR DIGITAL FINANCIAL PLANNING: WEALTHFRONT

Wealthfront lets users build a single plan that accounts for multiple goals and link external accounts for a comprehensive financial picture. As of October 2018, Wealthfront offers its financial planning for free.

BEST FROM AN ESTABLISHED FINANCIAL INSTITUTION: FIDELITY GO

Fidelity Go offers a compelling combination of digital tools and performance. Investors can get support either via live chat or over the phone.

BEST FOR FIRST-TIME INVESTORS: BETTERMENT

Betterment's digital-only product is low cost and doesn't have an account minimum. Its financial planning tool only supports a single goal, but illustrates to new investors how decisions will impact financial success.

BEST FOR COMPLEX FINANCIAL PLANNING: PERSONAL CAPITAL

Personal Capital captures saving, spending and life events, supports multiple income streams, and can model for multiple financial goals. Users can create multiple plans and compare them, and have access to a live adviser.

BEST OVERALL ROBO: FIDELITY GO

Fidelity's digital adviser received top honors for strong performance, low-cost and high-quality features. But the product does suffer a bit with transparency and conflicts of interest by holding all proprietary funds.

Advisers not sold on ESG fund strategies

BLOOMBERG NEWS

EVEN A BOOM in exchange-traded funds touting their environmental, social and governance credentials isn't enough to convince investors to buy these strategies.

A new report from Cerulli Associates, a Boston-based research and consulting company, shows it's fund providers that want these products, not financial advisers. While 46% of issuers see unmet demand for products focused on ESG and socially responsible investing, only 17% of advisers share that view, the survey showed.

COMMUNICATION BREAKDOWN

Comparison of where ETF issuers and advisers see unmet product demand

ETF issuers | Advisers

ESG/SRI

46%

17%

International fixed income

46%

18%

Alternatives

38%

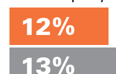
33%

International equity

27%

15%

U.S. equity



12%

13%

Commodities

15%

27%

Currency

0%

33%

Note: Seven of 12 categories displayed
Source: Cerulli Associates

With more than 2,000 ETFs in the U.S., it's becoming increasingly difficult to start a fund that stands out from the crowd. That has issuers herding into trendy areas that seem to promise growth and sectors where they can tout their years of expertise. Unfortunately, that can come at the expense of what their clients, like financial advisers, want.

"Issuers are largely looking to provide products based on their own capabilities, which makes sense but also makes it challenging," said Daniil Shapiro, head of ETF research at the company. "Everyone is obviously very interested in rolling out the next equity strategy or the next fixed-income strategy, [even though] advisers are looking for that diversification away from equity and fixed-income markets."

That split is evident when it comes to international debt funds, where 46% of issuers see interest, yet only 18% of financial advisers agree. And, while a third of advisers see unmet demand for currency-related ETFs, zero issuers share their concern, the survey showed.

> **"ADVISERS ARE BASICALLY SAYING THEY'RE NOT INTERESTED."**
> DANIIL SHAPIRO, CERULLI

But this divide doesn't necessarily mean issuers have their heads in the sand; instead it could be a function of the way they typically communicate with financial advisers, according to Mr. Shapiro. Many advisers operate under the aegis of a so-called home office, which provides centralized support and often acts as an intermediary between them and fund providers.

"Issuers are seeing the demand for these products from home offices, while advisers are basically saying they're not interested," he said of ESG products.

Mr. Shapiro did note, though, that the divergence between issuers and advisers on ESG is starting to narrow.

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Platform helps advisers identify job opportunities

BY RYAN W. NEAL

A NEW DIGITAL platform is seeking to give financial advisers more control over finding jobs and making career transitions than offered through traditional adviser recruitment, a business that is plagued by bad actors and secret alliances, according to the platform's founder.

KEY POINTS

- FA Match provides advisers with unique profiles.
- Advisers can search for banks, wirehouses, IBDs or RIAs looking to hire someone like them.

Ryan Shanks, founder of recruiting firm Finetooth Consulting, said his new venture, FA Match, provides each adviser a unique profile that includes information such as location, employee benefits and service offerings. Using the company's "Mutual Match" technology, advisers can search for banks, wirehouses, independent broker-dealers or registered investment advisers that are looking to hire someone like them.

Firms also can search for compatible advisers using filters for revenue, assets under management, years of service, professional licensing and breakaway status.

FA Match also has controls to protect the privacy of job-seeking advisers. Many firms, especially wirehouses, authorize the use of popular resources like LinkedIn and would know if an adviser is in contact with a recruiter, Mr. Shanks said. FA Match only discloses identifying information about the advisers once there is mutual interest by both adviser and firm.

"[FA Match is] discrete, it's smart and, most of all, it allows advisers to navigate quality career opportunities on their own terms with no strings attached," Mr. Shanks said in a statement.

COMPATIBILITY KEY

Compensation is a major factor in an adviser moving, but FA Match goes deeper, Mr. Shanks said. For example, an adviser may be looking to leave a firm because he or she disagrees with decisions by the firm's executives. FA Match hopes to capture that sentiment and connect an adviser to a more compatible firm, he said.

FA Match is free for advisers and firms to use. The company will collect a fee from firms following successful adviser recruitment.

FA Match launched a beta version in October and has since secured $500,000 in seed capital funding led by Mass Mutual.

There already are 14 firms on the platform that have between $50 million and $25 billion in AUM. One is Atria Wealth Solutions, an acquirer of midsize broker-dealers. Mr. Shanks declined to name other firms.

"We wanted it to be diverse intentionally," Mr. Shanks said.

Robert Sandrew, head of adviser recruiting at Integrated Financial Partners, said he saw a demonstration of FA Match and plans to "take it for a test drive."

NOT THE FIRST

Mr. Shanks isn't the first person to attempt a digital recruiting platform for advisers, according to Mr. Sandrew. But where other firms lacked substance or depth, FA Match feels different.

"They offer firms critical detail around the adviser's practice, compliance record and reasons for a potential move prior to making a connection, which enables us to maintain our stringent vetting standards," Mr. Sandrew said. "Conversely, the adviser can maintain anonymity to determine if the firm is the proper fit from his/her perspective."

Mr. Shanks doesn't see FA Match as a disruptor to the traditional recruiting industry, but rather as a platform to help recruiters grow their businesses. His hope is recruiters will use the platform to improve the number and quality of connections they make to grow their own firms. FA Match will share 65% of the fee it collects with a recruiter who brings an adviser to the platform.

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FSI defends DOL rule for association health plans

BY MARK SCHOEFF JR.

THIS TIME, the Financial Services Institute is siding with the Labor Department in a lawsuit.

In December 2018, the trade association, which represents independent broker-dealers and advisers, joined an amicus brief in a suit brought in a federal court in Washington, D.C., against a DOL rule that would allow trade associations to offer health plans to their members.

UNDERCUT ACA?

The suit, brought by several states and the District of Columbia, asserts that the plans would undermine the Affordable Care Act and hurt people with pre-existing conditions. The FSI and other groups argue that they would offer comprehensive group plans that would not undercut the federal health law.

"Even with the ACA in place, there is a huge need," Chris Paulitz, FSI senior vice president for membership and marketing, said last Tuesday at the FSI OneVoice conference in New Orleans. "It's certainly something that our members have been desperate for, for years."

FSI members working as independent contractors can be hit with stiff premiums and high deductibles for health-care coverage, Mr. Paulitz said.

The FSI membership comprises 100 firms and about 33,000 financial advisers. The organization concentrates on lobbying on legislative and regulatory policy, but health-care costs are becoming a big worry.

'NO. 1 ISSUE'

"Other than the DOL fiduciary rule, that's been the No. 1 issue we hear financial advisers have concerns about," David Bellaire, FSI executive vice president and general counsel, told reporters at the conference.

The FSI prides itself on playing a role in defeating the DOL fiduciary rule, which was vacated by a federal appeals court ruling last year in a lawsuit that included the group as a plaintiff. But when it comes to the association health plan rule, the FSI is standing with the DOL. Mr. Paulitz anticipates a decision in the D.C. federal court in March or April.

The rule has not been stayed while it undergoes the court challenge. But insurance carriers are reluctant to write policies with legal uncertainty surrounding the measure.

"EVEN WITH THE ACA IN PLACE, THERE IS A HUGE NEED."
CHRIS PAULITZ, SENIOR VICE PRESIDENT, FSI

The FSI offers disability insurance and group term life insurance to its members and their staffs. A health insurance component would be another membership benefit.

"It enhances the value of membership and gives them a deeper connection to our advocacy mission," said Dale Brown, FSI president and chief executive.

Last year, FSI attained record revenue of $10 million.

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What the profession gets just plain wrong about robos

For every article about automated investment technology, there's an adviser who gets the urge to let everyone know exactly what he thinks about these newfangled robo-advisers (a term created by the brokerage industry to draw a derogatory connection between startups and the hated telemarketers known as robo-callers) and how his clients would never trust their money to a computer.

RYAN W. NEAL

ONTECHNOLOGY

Digital advisers have been managing money for nearly a decade, but these negative takes on the technology still abound throughout the financial services industry.

Some of this is on the robos themselves. The companies were founded in the wake of the recession and sold themselves as smarter, more accessible and less morally bankrupt alternatives to traditional advisers. It's natural to get defensive, as is enjoying some schadenfreude when the new kids on the block slip up.

But a lot comes down to misconceptions about the technology. Here are a few.

1. Robos from established financial institutions are crushing the startups.
This is repeated so often that many in the industry accept it as gospel.

People like to point out that platforms like Vanguard Personal Advisor Services and Schwab Intelligent Portfolios gathered significantly more assets than companies like Betterment and Wealthfront in a fraction of the time, concluding that startups have no chance at disrupting the industry.

The problem is this narrative isn't accurate. Vanguard already had $17 billion on the PAS platform the day the platform became available to the public, primarily because the firm moved $10 billion over from existing Vanguard Asset Management Services accounts.

Likewise, some of the assets on Schwab's Intelligent Portfolios came from existing clients electing to move assets over to the robo, though the company has not disclosed how much.

The robo-adviser startups had to start from scratch, so conclusions based on AUM don't really say much.

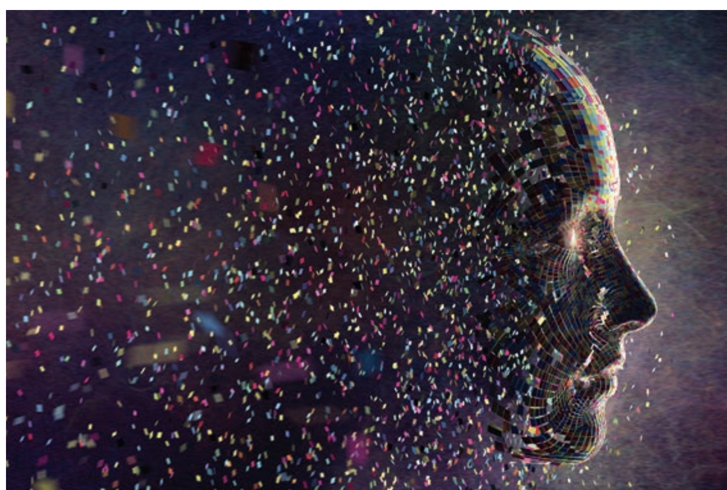
2. Digital advice is just a fad.
The fact this argument still exists in 2019 is embarrassing, but here we are. Skepticism of new technology is healthy, but discounting innovation is so often deadly to industry incumbents. In the last 20 years, we've seen titans of music, photography, home video, transportation, news media and retail all fall victim to digital disruptors.

Finance is not immune to the forces of change, and advisers who laugh off digital advice do so at their own peril.

According to the most recent Form ADVs, Betterment now manages $14 billion while Wealthfront manages $11.5 billion, putting both companies on the list of 20 largest RIAs by assets under management. Like it or not, these companies are now a powerful force in the industry.

3. Digital advice is a threat to financial advisers.
Just because the startups reached a large scale doesn't mean advisers have to fear them. Some high-net-worth investors do have portfolios with robo-advisers, but the vast majority of assets on digital platforms come from folks who would never be let past the front door at a traditional firm. Even with white-labeled robo technology, most advisers still aren't going to spend time going after clients looking to open an account with a few hundred dollars.

And that's OK. Everyone deserves help with investing, regardless of how wealthy they are. There is plenty of room for traditional advisers serving the wealthy to coexist with a mobile app investing a person's spare change.



4. Robos provide asset allocation, not financial advice.
Some advisers on social media love to deride robo-advisers' portfolio construction as simplistic.

"Why would anyone pay for a collection of ETFs when they can just buy them directly from Vanguard? It's not advice, it's just asset allocation with automated rebalancing," one tweeted.

The truth is that most people don't have any clue what an ETF is, let alone how to build and rebalance a portfolio of large-cap, small-cap, emerging market and bond investments. Not because they aren't smart; there are lawyers, surgeons and, literally, rocket scientists who don't know much about investing beyond buying and selling name-brand stocks.

For most people, especially those who can't afford a traditional adviser, a robo-recommended investment allocation is going to be a massive improvement over do-it-yourself investing.

I could write a thousand more words on this subject, but it boils down to the same thing: Digital advice is potentially revolutionary for people who have long been ignored by financial institutions.

Robos are here to stay, and it's far past time for the industry to stop fearing or ignoring them, and start accepting them as respected peers in the industry.

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RIAs must plan for succession

BY INVESTMENTNEWS

RIA PRINCIPALS selling their business may get less than top dollar if they don't develop a succession plan, according to a survey of 162 registered investment advisory firms of all sizes conducted by Franklin Templeton Investments.

"Little more than a third of RIA leaders surveyed have begun in earnest the process to ensure they will smoothly execute their transition to retirement," the report said. "By underestimating the amount of time and the expertise required to prepare for a transition, whether internal or external, many RIA leaders are at risk of suboptimal outcomes for their firm as well as for the future of their clients and employees."

The report said "it's never been more of a seller's market." Informed estimates, it said, puts the ratio of buyers to sellers at around 50 to 1. The report said the seller's market is likely to continue for some time, but that potential buyers place an emphasis on AUM, revenue and profitability. In addition, organizational culture is a primary decision criterion when transactions are under consideration.

"Finding a [cultural] disconnect at the 11th hour has proved a deal breaker in more than one major transaction," the report said.

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PLANNING

SEN. BERNIE SANDERS IS PROPOSING TO EXPAND THE ESTATE TAX, INCLUDING A RATE OF UP TO 77% ON ESTATES OVER $1 BILLION.

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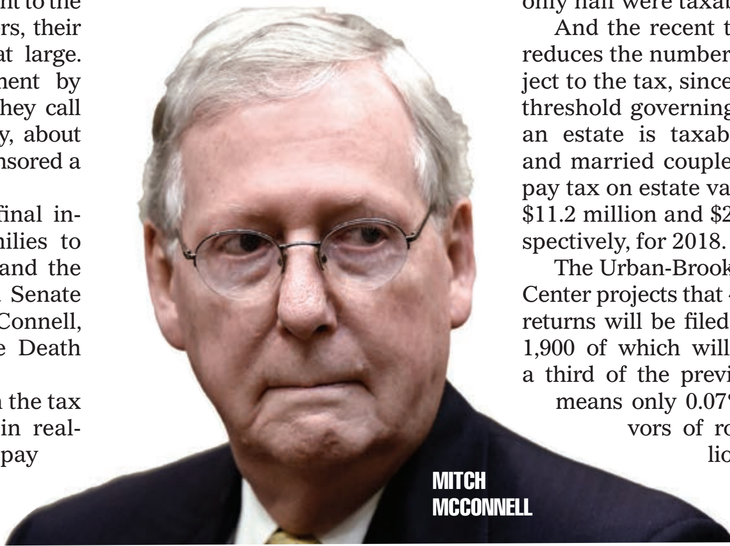
GOP still trying to kill 'death tax'

The estate tax isn't relevant to the vast majority of advisers, their clients or Americans at large. But there's still a movement by some groups to end what they call the death tax. Last Monday, about 30 Republican senators sponsored a bill to end it permanently.

"It's the government's final insult to force grieving families to visit both the undertaker and the IRS on the same day," said Senate majority leader Mitch McConnell, R-Ky., a co-sponsor of the Death Tax Repeal Act of 2019.

But the push to overturn the tax isn't necessarily founded in reality. Hardly any families pay the tax, a 40% federal levy. Of the 11,300 estate-tax returns filed for 2017, only half were taxable.



MITCH MCCONNELL

And the recent tax law greatly reduces the number of people subject to the tax, since it doubled the threshold governing how much of an estate is taxable. Individuals and married couples only have to pay tax on estate values exceeding $11.2 million and $22.4 million, respectively, for 2018.

The Urban-Brookings Tax Policy Center projects that 4,000 estate-tax returns will be filed this year, only 1,900 of which will be taxable — a third of the previous total. That means only 0.07% of the survivors of roughly 2.7 million deceased in 2018 will pay estate tax.

"It's all but repealed already," said Richard Behrendt, estate planning attorney.

Further, the super wealthy and their advisers have plenty of planning strategies and avoidance techniques to water down the tax.

One common instrument: a grantor-retained annuity trust, which removes wealth from an estate and transfers it to children, who inherit that wealth estate-tax-free.

INBLOG
GREG IACURCI

Wealthy individuals also can transfer stakes in family-controlled businesses, as well as securities held in a business like a limited partnership, at a discounted valuation. The Trump administration quashed an Obama-era rule that would have scrapped the ability to do this, which some see as a tax loophole.

Opponents of the tax have nonetheless been trying to kill it for years, saying it punishes hard-working families. Proponents feel that without the tax, wealth concentration would spiral even more out of control.

Spiking the tax seems infeasible currently, given Democrats' control of the House. Democrats have been more interested in imposing more taxes on the wealthy. Sen. Elizabeth Warren, D-Mass., recently proposed that households pay a 2% annual tax on each dollar of their net worth above $50 million.

Independent Sen. Bernie Sanders proposed last week a 45% tax on the value of estates between $3.5 million and $10 million, increasing gradually to 77% for amounts more than $1 billion.

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MAKE THE SMARTER MOVE

Some companies boosting 401(k) plan match

BY GREG IACURCI

TAX SAVINGS that businesses have realized as a result of tax reform and the competitive labor market are leading some employers to increase the amount of their company match to their employees' 401(k), say retirement plan advisers and consultants.

The 2017 tax law cut the federal tax rate on the profits of C corporations from 35% to 21%. The law also granted businesses structured as pass-through entities, such as partnerships, S corporations and sole proprietorships, a 20% deduction on profits. The tax windfall helped drive after-tax corporate profits to their highest-ever level in the third quarter, according to Federal Reserve data.

Companies have used their newfound savings to buy back stock at record levels, give one-time bonuses and offer pay increases to employees. Some companies also appear to be using their padded coffers in part to boost contributions to their 401(k) plans.

22%

PORTION OF PLAN SPONSORS WHO MADE A CHANGE IN 2018

Roughly 22% of plan sponsors made a change to their company match policies in 2018, a "dramatic increase" from the previous year, according to the annual defined-contribution report published by Callan, a consulting firm. A third of these employers increased their company matches, the most popular course of action by far relative to other changes.

MORE TO COME IN 2019

According to Callan, another 35% of plan sponsors said they'd change their match policies this year, and nearly a quarter of those companies said they'd increase their matches.

"A lot of that [activity] has to do with tax reform," said Jaime McAllister, a defined-contribution consultant at Callan, citing anecdotal evidence based on client discussions.

Susan Shoemaker, head of the DC practice at Plante Moran Financial Advisors, said she also has seen some 401(k) clients increase their matches recently. She's seen employers funnel money into other benefits as well, such as making greater contributions to health savings accounts and helping employees pay down student loan debt.

Ms. Shoemaker views the amped-up employer benevolence as an interplay between the newfound tax savings and a competitive labor market. In September, the unemployment rate hit its lowest level in nearly four decades: 3.7%. It was only marginally higher as of December, at 3.9%.

'MORE COMPETITION'

"I think definitely there's more competition than there used to be," said Jason Kolinsky, a retirement plan adviser and partner at Kolinsky Wealth Management. "Nowadays, people are getting a decision as to whether they want to take a job."

KEY POINTS

- A combo of tax cuts and low unemployment is seen as contributing to a higher match.
- Firms increasing matches in 2018 skewed to larger plans.

Companies that increased their matches in 2018 skewed to the larger end of the scale — from $100 million in assets to $5 billion.

However, advisers like Ms. Shoemaker have had smaller clients that amended their matches, too.

Large companies tend to be structured as C corporations. Their new tax break on corporate profits is permanent, whereas the break for pass-through entities is temporary.

The majority of private businesses in the U.S. — more than 90% — are structured as pass-throughs, according to the Tax Foundation. Pass-throughs that increased their 401(k) matches could scale back the benefit if after-tax profits shrink, advisers said, because most 401(k) plan documents state that a match is subject to the employer's discretion.

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Wells taps TradePMR for RIAs

BY JEFF BENJAMIN

WELLS FARGO ADVISORS is souping up its new channel for registered investment advisers by leveraging the technology expertise of second-tier custodian TradePMR.

KEY POINTS

- Wells Fargo's new RIA channel has teamed up with second-tier custodian TradePMR.
- To succeed, Wells must overcome its tainted reputation.

Wells Fargo's fledgling RIA business model became official last month when veteran Philadelphia-based broker Carl Schultz left Wells' private client group to become the first to sign up as an RIA affiliate as Forefront Wealth Management.

Wells Fargo's RIA channel is marketed as completing the full spectrum of advice models, from wirehouse-based employees to independent representatives working through FiNet to independent advisers.

"Virtually any way an adviser can provide advice to a client," said John Peluso, head of First Clearing, the Wells Fargo subsidiary offering the RIA custody services.

"Adding specific fee-only adviser services is a natural evolution for us," he added.

Under the new program, TradePMR which has more than 700 RIA custodial relationships, will launch a dedicated service team to aid advisers making the transition.

Advisers in the program will have access both to TradePMR's adviser technology and to the Wells Fargo Advisors desktop technology, contact management systems and the Envision planning process.

'MAKES SENSE'

"Considering that they already had an IBD arm, it makes sense to have an RIA channel, and in the short term it seems like a way to keep those already in-house to stay in-house," said industry recruiter Danny Sarch.

1,118

NUMBER OF ADVISERS WELLS HAS LOST SINCE 2016

But the ultimate appeal and success of the RIA channel could depend on whether advisers will look beyond Wells Fargo's current tainted reputation in the financial services industry.

Since 2016, Wells Fargo has been struggling to manage the black eye it suffered when 5,300 employees were fired for creating more than 2 million phony bank accounts for consumers.

Even as the company seeks to repair its reputation through advertising and public relations campaigns, the pace of broker departures continues.

In the fourth quarter of last year, Wells Fargo reported it had 13,968 advisers across its various channels. That total reflects a decline of 106 for the fourth quarter and 576, or 4%, for the year. Since 2016, Wells Fargo has lost 1,118 advisers, a drop in head count of 7.4% in 27 months.

"The RIA channel is a bold move considering the challenges they've had, reputationally," said Mr. Sarch. "There's no way of knowing if the RIA offering will be enough to attract other RIAs. So far, they've had one guy go there. So, it's a trial of one."

"Because of their issues, everything has stalled for them," said Mr. Sarch. "They are also aggressively recruiting, but considering their publicity it is difficult to imagine saying to a client that Wells is better for you."

Mr. Sarch added that the RIA channel "strikes me as a bit of desperation, even as I admire their chutzpah for trying."

Mr. Peluso sees it differently.

'NO TARGETS OR GOALS'

He said there are currently "no targets or goals" related to building out the RIA channel, but confirmed, "There will be more [RIAs] to follow, that's for sure.

"We'll be open for business, recruiting advisers every day to one of our channel options," he added. "Some of those practices will come from Wells Fargo Advisors, but our intent is to recruit and grow our business by capturing advisers that are in motion.

"We have an opportunity for everyone at Wells Fargo," Mr. Peluso said. "The needs of clients shift, and we're also keenly aware the needs of advisers are shifting."

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INNOVATION NOW

CONTINUED FROM PAGE 6

we are never done, we are never satisfied with "good enough." Every innovative growth firm has a variation of this perspective ingrained into its culture.

- **Create urgency.** Impart to your team that every minute you do nothing to evolve, someone else is building a better mousetrap, a better firm than yours. However, if you evolve yourself faster than everyone else, you give your firm a massive competitive advantage. The sooner you improve, the sooner you win.
- **Allow for failure.** All change comes with pain. The challenge is to find the right mix between maintaining your existing business and evolving. Consistency and change by definition are almost always at odds, so you must allow for setbacks and mistakes that do not harm your core business. When you grant permission to fail, you will encourage your firm's evolution by letting people do new things, even if many of these ideas don't work out quite as you'd hoped. Do not punish failure. Recognize it as a cost of innovation.

RIPEN OR ROT

Decades ago, my mentor and partner of many years shared an expression that has always stuck with me: "You either ripen or you rot." It's a really interesting perspective to think about when you consider change in any context.

Growing is the natural human condition. It's what makes us vibrant and connected. The same is true for any business. Innovation is either helping you to win or killing you. The good news is that it's your choice.

Joe Duran is founder and CEO of United Capital. Follow him @DuranMoney.

WELLS FARGO FEE

CONTINUED FROM PAGE 4

The fee will be displayed as a line item on clients' account statements. Explaining the fee, as well as the new credit that potentially could offset the fee, is in line with Wells Fargo Advisors being open about costs and the payments the firm receives from mutual fund companies, according to the company memo.

The fee increase comes as the firm continues to lose brokers and report a decline in revenue.

DECLINE IN REVENUE

Last month, Wells Fargo & Co. reported total revenue of slightly less than $4 billion at its Wealth and Investment Management group for the fourth quarter. That represented a decline of $376 million, or 9%, compared with a year ago.

Wells Fargo also reported it had 13,968 financial advisers across its various channels at the end of December. That's a decline in head count of 106 for the quarter and 576, or 4%, for the year.

The fee increase will hit clients this spring. It was not clear how many Wells Fargo Advisors clients would feel the impact of the new advisory account fee, which will not be charged to certain retirement accounts, such as Sep IRAs, whether or not they hold mutual funds.

"In step with other firms in our industry, beginning on or around April 12, 2019, Wells Fargo Advisors will apply a quarterly advisory platform fee and advisory account credit to eligible advisory accounts," company spokesperson Kim Yurkovich wrote in an email to *InvestmentNews*.

"On the same day the fee is applied, we will credit clients' accounts based on the platform support we collect from mutual fund companies," Ms. Yurkovich noted. "While we expect the credit will vary over time, at this point, we anticipate this change will be cost-neutral or slightly positive for clients when we implement the fee/credit in April."

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MERRILL TRADES

CONTINUED FROM PAGE 4

Mr. Levine said the hope is that 10 free trades per month will be enough to entice the estimated "4 to 5 million" current Bank of America customers who already qualify for the lowest level of the Preferred Rewards program but don't participate.

Launched in 2014, Preferred Rewards is a loyalty program based on a client's full relationship across Bank of America banking and/or Merrill Edge and Merrill Lynch investment accounts.

TOP TIERS

More than 5.25 million clients are currently enrolled in Preferred Rewards, with combined client banking and investment assets over $425 billion.

Until now, free trades have been limited to the top two tiers of the rewards programs.

The top Platinum Honors level, which requires $100,000 worth of savings or investments with the bank, qualifies for 100 free trades per month.

The Platinum level, which requires at least $50,000 on bank platforms, qualifies for 30 free trades per month.

Neil Bathon, managing partner at Fuse Research Network, called the free-trade offer an inevitable move.

"They're doing the natural and logical thing that links different products and services together," he said. "They're giving up commissions they will be forced to give up anyway, and doing it in a way that they can be on the leading edge."

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LPL reports record recruiting year

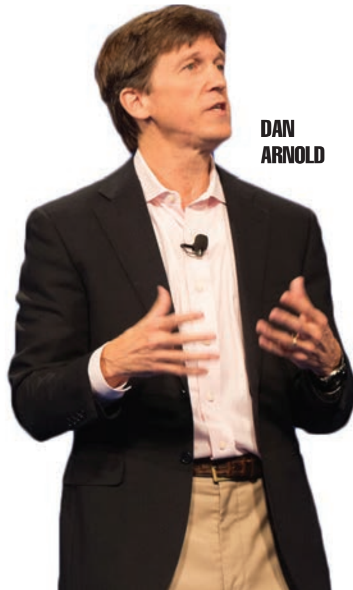
BY GREG IACURCI

LPL FINANCIAL set an annual record for the amount of assets that recruited advisers brought over to its platform last year, following rollback of a contentious recruiting policy and a shake-up within the recruiting unit.

LPL recruited $27.3 billion in brokerage and advisory assets in 2018, executives said last Thursday — the largest annual total for the independent broker-dealer and an increase of 9% from the prior year. The firm's recruited assets were up $8.6 billion in the fourth quarter, despite losing a net 65 advisers during that period.

Dan Arnold, LPL's chief executive, said during an earnings call with analysts that the third and fourth quarters were "our best recruiting quarters on record" and that the firm had "a lot of momentum" heading into 2019. The net loss of 65 advisers in Q4, he said, is "a bit illogical when you look at the solid quarter from a recruiting standpoint and the consistency around our retention from quarter-to-quarter."

LPL, the nation's largest indie B-D, gained a net 899 advisers in 2018 — a 6% increase — bringing its total headcount to 16,109, the company reported. It's unclear if the net growth in annual adviser headcount was also a record.


DAN ARNOLD

NPH ACQUISITION

It's also unclear whether LPL's acquisition of four National Planning Holdings broker-dealers factored into the recruiting totals from a recruited-asset perspective. Spokespeople didn't return calls seeking comment.

A number of recruiters left LPL in 2018, some to work at rivals. Bill Morrissey, former head of business development, retired in June. He was replaced by Richard Steinmeier, a veteran of UBS Financial Services Inc. — one sign LPL is putting itself in the position to attract more brokers from the four wirehouses.

"We continue to benefit from the movement from an employee-based model to an independent model," Mr. Arnold said on the earnings call.

Last October, the brokerage rolled back a controversial recruiting policy aimed at pushing more assets to its corporate RIA. LPL also began offering lucrative recruiting deals last year to private-equity-backed broker-dealers, targeting advisers from firms such as Kestra Financial, Cetera Financial Group and Cadaret Grant & Co.

Independent Financial Partners, a mega-hybrid advisory firm, is leaving LPL in a few months to start its own broker-dealer, which Mr. Arnold said contributed to the net decline in adviser headcount in Q4.

Fifty of the 65 advisers were retirement-plan focused and decided to leave for another firm, Mr. Arnold said. He's likely referencing the departure of Retirement Benefits Group, which had $10 billion and 55 retirement plan advisers as of year-end 2017, according to *InvestmentNews* data.

Mr. Arnold said IFP had $12 billion in brokerage and advisory assets when it began the process of moving from LPL — which is planned for April 1 — and said LPL had retained roughly $6 billion to date.

Bill Hamm, chief executive of IFP, said that number is inflated.

"I really wish that Arnold would stick with the facts and not speculation," Mr. Hamm said.

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EDWARD JONES

CONTINUED FROM PAGE 5

"This is a normal protocol for wirehouses to transition assets, it just hasn't been done equitably," said Ms. Braxton, chairwoman of the Association of African American Financial Advisors. "When you get transitioned assets, it's a leg up. I'm delighted Edward Jones is doing this. This new incentive will ensure the pool [of those receiving assets] has a more inclusive feel in consideration of advisers who are overlooked or disregarded."

Lee Baker, also an African-American and president of Apex Financial Services, also praised the initiative.

"I applaud Edward Jones for coming up with what appears to be a unique idea for supporting diverse advisers," he said.

But at least one Edward Jones adviser was critical of the policy.

"Every one of my colleagues that I've talked to believes 100% in equality, but the new rules are not equal," said the adviser, who requested anonymity. "They are, by definition, discriminatory."

He said he supports diversity in hiring and other business functions. But advisers should not effectively be penalized for giving assets to a white, male adviser.

"When you jump into the pay side of it, you're seriously crossing a line," the adviser said.

The move comes at a time when the chairwoman of the House Financial Services Committee, Rep. Maxine Waters, D-Calif., has identified diversity as a priority for her committee.

Ms. Braxton said creating financial incentives will result in better diversity results.

"We want to see other firms do it because it has not been happening without incentives," she said. "Sometimes it takes money to encourage people. Money is a universal language."

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EMONEY FOUNDER

CONTINUED FROM PAGE 5

families, but any wealth transfer where assets are being divided by multiple heirs.

"How many people have a perfect family?" Mr. Walters said. "This is for anyone who loves their children."

MoneyGuide, which will partner with the companies to distribute the tool, recently announced advanced financial planning software of its own called MoneyGuide Elite, but sources said that product is not connected with this venture.

With both MoneyGuide and Envestnet backing the tool, the software could present a serious challenge to Fidelity's eMoney.

But whether the tool will have enough to convince advisers to switch software products remains to be seen. According to Dennis Gallant, senior analyst at Aite Group's wealth management practice, advisers are very entrenched in the technology tools they use.

"To get existing eMoney users to switch, especially heavy users, it really has to be a superior software," Mr. Gallant said.

But many advisers aren't married to their current tools, and Envestnet could offer compelling integration opportunities in its tech stack that aren't available elsewhere. Envestnet has struggled to get advisers to adopt Finance Logix, and president Oleg Tishkevich recently left Envestnet to launch a new company, Invent.us, to help financial institutions develop technology.

The combination of Mr. Walters' unique touch and Mr. Curtis' expertise could make financial planning another arrow in Envestnet's technology quiver.

A PART OF THE WORKFLOW

"Advisers may like their planning software but wish it was more integrated with reporting, for example," Mr. Gallant said. "Envestnet has the opportunity to create a more integrated planning tool that moves into the adviser's workflow. One of the criticisms of financial planning is that it's a step outside of the investment process."

T3 producer Joel Bruckenstein said he is thrilled to have Mr. Walters returning to his conference joined by two other industry leaders.

"Jud Bergman runs one of the largest and most respected companies in our industry and he's been a visionary for years," Mr. Bruckenstein said. "Bob Curtis is one of the most visionary and creative guys I know, and I think it's fair to say that Edmond is an outside-the-box thinker who is a very well-respected thinker in this industry."

Since leaving eMoney, Mr. Walters joined the board at Aretec, the former parent company of Cetera Financial Group, to bring technology expertise. He was removed in 2018 as part of a corporate overhaul following Cetera's sale to Genstar Capital.

Mr. Walters was named a 2017 *InvestmentNews* Icons & Innovators winner for his eMoney success.

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