APRIL 19-23, 2021

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TopNews

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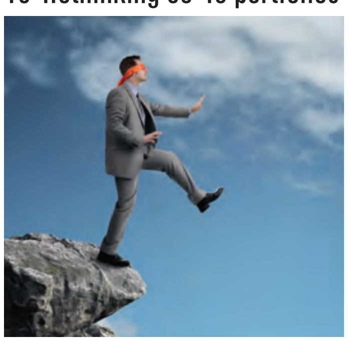

A big increase in the M1 money supply could boost risks for fixed income in a 60-40 portfolio.

20 Finlit building blocks

Why do so few high school grads take a personal finance course before they get their diploma?

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Wells Fargo sees adviser head count slip by 8%

BY BRUCE KELLY

WELLS FARGO & CO. continues to see a significant decline in its overall number of financial advisers as it reshuffles its Wells Fargo Advisors business unit and shuts down its international wealth management business.

Last Wednesday, the bank reported a quarter-over-quarter decline of 236 advisers, or 2% of its total, and a year-over-year decline of 1,087, or 8%, as of the end of March.

KEY POINTS

- Wells Fargo Advisors continues to shrink as the bank reshuffles units.
- The focus is on advisers who produce more revenue.

In its first-quarter earnings report, Wells Fargo Advisors had 13,277 financial and wealth advisors at the end of the first quarter. That compares to 13,513 at the end of December and 14,364 at the end of March 2020.

Wells Fargo recently revised how it tallies its adviser head count and this year began including about 800 to 900 private bankers and portfolio managers that worked at its private wealth unit, which includes its private bank and Ab-

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Merrill client balances rise 31%

BY BRUCE KELLY

MERRILL LYNCH, the vast wealth management arm of Bank of America Corp., reported a 2.9% annual decrease in its head count of registered reps and financial advisers, at the same time indicating a desire to hire experienced financial advisers in key locations on both coasts.

As part of Bank of America's earnings last Thursday, Merrill Lynch reported a decline of 585 advisers for the 12 months ending March 31 compared to the same time last year.

Like its competitor Wells Fargo Advisors, Merrill Lynch recently changed its reporting of financial advisers. It no longer separates its various business lines when tallying financial advisers but now combines three groups — wealth management advisers, private bankers and Merrill Edge call center advisers — for a total of 19,808 at the end of last month. In March 2020, the bank had a total of 20,393 advisers.

2.9%

DECREASE IN HEAD COUNT OF MERRILL REPS AND ADVISERS

In a conference call last Thursday, a senior Merrill Lynch executive, who asked not to be named, focused on record client balances at the end of March of $3.5 trillion, up 31% year over year, the record first-quarter revenue of

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Morgan Stanley's Gorman targets $10 trillion AUM

BY BRUCE KELLY

FRESH OFF A record quarter in wealth management and the completed acquisitions of Eaton Vance and ETrade Financial Corp., Morgan Stanley CEO James Gorman was particularly ebullient about the firm's future last Friday during an earnings call with analysts.

Morgan Stanley will at some point in the future amass $10 trillion in client assets, Gorman predicted, which would be a bit less than double the $5.6 trillion it currently has under its expanding wealth management and investment management business lines.

"My target is $10 trillion of money under management," he said in response to a question about the integration of ETrade and Eaton Vance, both of which Morgan Stanley has acquired in the past 6½ months. "I've told the team internally, they hate that."

LATEST RESULTS

Last Friday, Morgan Stanley reported $4.2 trillion in wealth management assets and $1.4 trillion in assets at its investment management arm.

For the quarter ending March 31, the wirehouse reported record net new assets of $105 billion, up 43% from the end of December and an increase of 183% from the same period a year earlier. It also reported a new high for fee-based asset flows of $37.2 billion for the first quarter, an increase of 54% from the end of December and up 102% from March 2020.

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IRS: SECURE Act's 10-year RMD rule not what you think

In late March, IRS released a publication containing tax rules on withdrawing funds from individual retirement accounts. Normally this is a wrap-up to use as guidance in preparing tax returns. But not this time. In the 2021 version updated on March 25, the IRS explained how SECURE Act rules would work for post-death distributions to IRA beneficiaries — and the rules are not what anyone thought they would be.

THE 10-YEAR RULE

One of the SECURE Act's big changes was eliminating the stretch IRA for most non-spouse beneficiaries. It was replaced with the "10-year rule," which says inherited IRA or Roth IRA funds must be withdrawn by the end of the 10-year period after the IRA owner's death.

This 10-year rule applies to non-spouse designated beneficiaries (like children and grandchildren) named on the IRA beneficiary form. Eligible designated beneficiaries are exempt and can still use the stretch IRA: This includes the spouse, certain minor children of the deceased IRA owner, the disabled and chronically ill, and beneficiaries who are not more than 10 years younger than the deceased IRA owner.

IRAALERT
ED SLOTT

These SECURE Act rules have been effective since the start of 2020, so some clients may have already died, with their beneficiaries now subject to these rules.

Virtually all commentators, including myself, thought the 10-year rule meant the inherited account would have to be emptied by the end of the 10-year period after the death, but that no distributions would be required in years one to nine, which is the way the five-year rule works. (The five-year rule is used when there is no designated beneficiary and the IRA owner dies before the required beginning date for required RMDs at age 72.) There would only be one required minimum distribution, and that was the balance in the inherited account at the end of the 10 years.

This would provide planning flexibility in years one to nine, allowing distributions to be adjusted to tax brackets in those years. It was also a benefit for inherited Roth IRAs, where nothing would have to be withdrawn until the end of the 10th year after the death, allowing 10 years of tax-free buildup.

A SHOCKER

But in a shocker, IRS Publication 590-B says otherwise. It provides an explanation and an example showing beneficiaries would be subject to RMDs each year (as under pre-SECURE Act rules) in years one through nine, and the balance must be withdrawn in year 10. No one saw that coming! This doesn't align with SECURE Act rules and committee reports, which seemed to indicate that the new 10-year rule would work like the old pre-SECURE Act five-year rule.

This interpretation would be a more of a nuisance than a tax problem, since

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DOL issues guidance on Trump-era fiduciary rule

BY MARK SCHOEFF JR.

The Department of Labor released guidance last Tuesday that reinforces that a regulation governing investment advice in retirement accounts will strengthen oversight of rollover recommendations and require investment advisers to mitigate conflicts of interest.

The guidance relates to a Trump administration fiduciary rule that the Biden DOL allowed to become effective in mid-February. The regulation provides exemptions under federal retirement law — the Employee Retirement Income Security Act — that allow fiduciaries to receive compensation for advice that would otherwise be prohibited, such as third-party payments, as long as they act in retirement savers' best interests.

In a set of frequently asked questions, the DOL said that a recommendation to roll over retirement funds from a company plan to an individual retirement account can be part of an ongoing client-adviser relationship and trigger a fiduciary standard of care.

"Rollover recommendations are a primary concern of the department because of their extraordinary importance to retirement investors," the guidance states.

The rule leaves in a place a five-part test that allows wiggle room for financial advisers to get around a fiduciary obligation. But the guidance indicates the DOL will be monitoring rollovers for potential investor harm.

"It goes as far as it can to make clear that some rollover recommendations are fiduciary advice," said Barbara Roper, director of investor protection at the Consumer Federation of America.

'NEW PARADIGM'

The guidance tells the financial industry "a new paradigm" is in place for conversations between advisers and clients about rollovers, said George Michael Gerstein, counsel at Stradley Ronon Stevens & Young. "In many cases, it appears these rollover communications would be investment advice."

Taking advantage of the five-part test to avoid fiduciary status has become more difficult. "You have to be really careful about walking the fine line between rollover communications and whether you intend for them to be investment advice or not," Gerstein said.

The DOL FAQs also go into some detail on how retirement plan advisers must handle potential conflicts of interest that would put the advisers' interests ahead of those of the client. For instance, it instructs them not to use quotas, bonuses, prizes or performance standards as incentives and tells them to avoid compensation practices that encourage conflicts.

"The financial institution should aim to eliminate such conflicts to the extent possible, not create them," the guidance states.

The DOL fiduciary rule is meant to align with the Securities and Exchange Commission's Regulation Best Interest, the broker advice standard.

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Why Coinbase's debut matters for advisers

BY NICOLE CASPERSON

Coinbase Global Inc., the largest U.S. cryptocurrency exchange, listed on the Nasdaq last Wednesday via a direct public offering with the ticker COIN.

As Coinbase makes its public debut, financial advisers are bracing to surf the crypto wave before it crests. The listing marks a watershed moment for digital assets, which advisers historically have shied away from because of their volatility. Yet demand from both retail and institutional investors is set to propel cryptocurrencies toward further gains.

Assets on the Coinbase platform total about $223 billion, including $122 billion of assets from institutions, and represent a 11.3% share of the crypto asset market, according to the company's first-quarter earnings. Coinbase had 56 million users on the app as it grew revenues to $1.8 billion. Trading volume for the first quarter rose to $335 billion.

Last Wednesday, as Coinbase listed, the price of Bitcoin hit a record of over $64,000. The global crypto market cap clocked in at $2.24 trillion, according to CoinMarketCap.

MASSIVE VALUATION

Coinbase's massive valuation of $85 billion after shares began trading will garner "huge amounts of attention and thus introduce millions of people to the world of digital assets, while spurring millions more investors to seriously question why they — and their financial advisers — are not investing in this fast-growing new asset class," said Ric Edelman, founder of the RIA Digital Assets Council.

Bitcoin is fast becoming mainstream, and Coinbase's direct public offering will be remembered as a seminal moment, Edelman said. "Advisers who

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Weighing in on the election-reform debate

One of the biggest challenges facing U.S. corporations is determining where they stand — or if they should comment — on election-reform laws that are proliferating across the country.

DCINSIDER
MARK SCHOEFF JR.

A recent Georgia measure puts restrictions and identification requirements on mail-in balloting and limits ballot drop boxes, but also expands early voting. The Coca-Cola Co. and Delta Air Lines Inc., both headquartered in Atlanta, and other companies oppose the law.

The companies have seen strong blowback from Republicans, including Senate Minority Leader Mitch McConnell, R-Ky., who has essentially told corporations wading into the politics of ballot access to mind their own business.

But following the Jan. 6 riot at the U.S. Capitol, perpetrated by supporters of former President Donald Trump who were stoked up by his false claims of a stolen election, the debate over reforming voting procedures has blown up.

"Corporate America can't hide," said Howard Schweitzer, chief executive of Cozen O'Connor Public Strategies, a government relations affiliate of the law firm. "They're kind of caught in the middle."

In a recent analysis, Schweitzer argued that the pressure is increasing on companies to make their voices heard on public policy.

"Stakeholders expect corporations to look out for the greater good, and if they don't, they pay a literal and figurative price," Schweitzer wrote.

JPMorgan Chase & Co. CEO Jamie Dimon asserted in his annual shareholder letter that companies must take stand on political issues.

THE 'G' IN ESG

It would seem that the struggle over ballot access would fit neatly as a factor in environmental, social and governance investing. What could be more "G" in an ESG evaluation of a company than parsing whether it weighs in on how the world's most prominent democracy runs its elections?

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Fund manager may have work-around for capital gains distributions

BY JEFF BENJAMIN

AS AN INVESTOR in the mutual funds he manages, Joe Huber will do whatever it takes to avoid those pesky capital gains distributions that can blindside and frustrate long-term investors.

The founder and chief executive of Huber Capital Management applies four basic tax management strategies and then goes to the next level with a fifth technique that has enabled the $400 million fund shop to avoid paying out "material" capital gains distributions over its entire 14-year history.

"I say we never paid out any material capital gains because one year we had less than a penny in capital gains distributions," Huber said.

Most of Huber's tax management strategy resembles the approach taken by other tax-conscious portfolio managers.

He pays close attention to opportunities for tax-loss harvesting and he tries to avoid short-term taxes by holding securities for at least a year, which folds into his long-term investing approach. And when Huber wants to reduce the weighting of a security, he will use inflows to dilute that weighting instead of triggering a taxable event by selling securities.

Huber separates his fund company from virtually every other asset manager in the business by employing a tax management strategy that borrows a page from the ETF industry.

While mutual funds almost always honor fund redemptions with cash, they can also provide investors with actual securities from the fund.

> **"WE HAD LESS THAN A PENNY IN CAPITAL GAINS DISTRIBUTIONS."**
>
> JOE HUBER, CEO, HUBER CAPITAL

"We have from time to time negotiated with nontaxable clients to move money into separate accounts, and we deliver them securities," Huber explained. "Because they're nontaxable [qualified accounts] we get to decide which tax lots we deliver them."

PESKY CAPITAL GAINS

By moving securities out of the portfolio without selling them, Huber can better manage the fund's annual capital gains distributions, which can hit mutual fund investors even in years when a fund posts a negative return.

The strategy resembles the way that exchange-traded funds redeem by giving shares back to a middle person, known as an authorized participant, who stands between the ETF and the investor. That's one of the reasons ETFs are much more tax-efficient than actively managed mutual funds.

"He's essentially treating investors

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Gensler's slim Senate nod highlights partisanship

BY MARK SCHOEFF JR.

GARY GENSLER had little room to spare in last Wednesday's Senate vote that confirmed him as the new chairman of the Securities and Exchange Commission. But the nearly unanimous Republican opposition probably won't slow his agenda.

The Senate approved Gensler, 53-45, with three Republicans joining the chamber's 50 Democrats in one of the closest votes for a Biden administration nominee. The slim margin reflects GOP concerns about the aggressive approach Gensler has signaled on issues like expanding corporate disclosures related to environmental, social and governance issues.

Gensler knows his way around Washington, having previously served as chairman of the Commodity Futures Trading Commission, where he pushed through major derivatives reform following the financial crisis. He's not likely to be daunted by a lack of Republican love.

"He was very goal-oriented at the CFTC," said Susan Schroeder, a partner at the law firm WilmerHale. "He perceived he was given a mandate and he was intent on fulfilling that mandate. I anticipate he'll take the same approach at the SEC."

POLITICAL OVERSIGHT

John Taft, vice chairman of financial firm Baird, anticipates the SEC under Gensler will be tougher on oversight and enforcement than previous commissions.

"He is going to focus on doing what he thinks is right," Taft said. "He won't have his eye on vote numbers."

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GARY GENSLER


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Here’s Why.
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MaryJane LeCroy–Wealth & Pension Services Group
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Opinion

EDITOR'S NOTE

Virtual internship > traditional internship

When you have two college-age children, developments in internships gain new importance in your eyes. Add in the oddities brought to experiential learning by the pandemic and watching my kids and their peers prepare for their future careers led to my scouring the ground for internship programs that provide meaningful experience to the intern. Happily, this week I saw some good news, at least for those looking at the financial services industry.

GEORGE B. MORIARTY

As Jeff Benjamin wrote last Thursday, "Once seen as potential casualties of a pandemic-altered work environment, summer internship programs have emerged as one of the shining success stories across financial services."

In his article, Jeff cites programs run by Wealthspire Advisors, City National Bank in Los Angeles and the Financial Planning Association as having seen particular success. But across the board, the feedback showed that interns got more attention, guidance and oversight under a virtual format than they might typically get through a traditional in-person work environment.

That internships continue to provide value to students speaks to the creativity of the best leaders in our market, and it extends hope that the work of BLX Internship, which was featured last week, can do great things. If you're aware of other internship programs that deserve attention, please send them my way.

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Time to learn about crypto

It might have sounded like an April Fool's Day prank when *InvestmentNews* ran a story on April 1 that Goldman Sachs was interested in offering Bitcoin to its wealthiest clients, but it was no joke. Just a couple of weeks earlier, Morgan Stanley had become the first major U.S. bank to announce plans to give its wealthier clients access to funds that would enable them to own Bitcoin.

And last week, Bitcoin hit a record of more than $64,000 as Coinbase Global Inc., the largest U.S. cryptocurrency exchange, went public and the global crypto market cap reached $2.24 trillion. Digital assets on Coinbase in the first quarter were worth about $223 billion, including $122 billion worth of assets from institutions, representing 11.3% of the crypto-asset market share, according to the firm's earnings report.

Clearly, advisers and Wall Street have reached an inflection point when it comes to cryptocurrencies.

Bitcoin is fast becoming mainstream, and Coinbase's direct public offering will be remembered as a seminal moment, Ric Edelman, founder of the RIA Digital Assets Council, told Nicole Casperson recently (page 3). "Advisers who continue to dismiss digital assets will soon start losing clients and assets to those who are embracing them," Edelman said.

That's no surprise. In Wall Street's remarkable bull run that's now in its second decade, fear of missing out, or FOMO, has been a factor driving many stocks and sectors higher, not just Bitcoin. There's been discernible pressure on financial advisers to embrace cryptocurrencies and digital assets as clients express increased interest in how they can participate in the sector's run-up.

So just how mainstream has Bitcoin — and by extension digital assets — become? The Securities and Exchange Commission has a new leader in Gary Gensler, who has taught courses on digital currencies at the Massachusetts Institute of Technology, and there's strong speculation that the SEC will green-light a Bitcoin-based exchange-traded fund under his watch.

ADVISERS AND WALL STREET HAVE REACHED AN INFLECTION POINT WHEN IT COMES TO CRYPTOCURRENCIES.

But for now, it's incumbent upon advisers to tap the brakes on that unbridled enthusiasm and inject some common sense and sound financial strategies to illuminate the many risks unregulated and unproven assets such as cryptocurrencies pose.

"Cryptocurrencies should be considered for every investor's portfolio," said Mike Casey, president and founder of American Executive Advisors. "Advisers who take the time to learn and understand the implications of blockchain technology and digital assets will be well positioned to advise their clients."

Bitcoin's current status is equivalent to that of "an awkward teenager," in that the cryptocurrency is evolving from a retail asset to a true institutional asset, Matt Hougan, chief investment officer at Bitwise Asset Management, said at the *InvestmentNews* Fintech Virtual Summit in March.

Like most teenagers, cryptocurrencies such as Bitcoin need supervision and oversight. Is a Bitcoin ETF sanctioned by the SEC a good idea? Yes. It would lend credibility and a sense of security to an investment vehicle more akin to a runaway roller coaster than the calm, easily quantifiable revolutions of a carousel that more traditional investments resemble.

Advisers must be proactive about crypto. They need to educate themselves to understand how digital assets could benefit a client's portfolios and, in turn, explain that to their clients.

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CAMBRIDGE

WHAT SPARKED TODAY'S LOVE OF ESG?

EVEN FOR THE EARLIEST PROPONENTS OF SUSTAINABLE INVESTING, ITS SUDDEN SPIKE IN POPULARITY IS SURPRISING, BUT SATISFYING. BY JEFF BENJAMIN

T

en years ago, when Casey Clark was planning to focus his career on the sustainable investing space, he was discouraged by friends and colleagues who described the move as a career killer and dead end.

Today, the global head of environmental, social and governance investments at Rockefeller Asset Management can't keep up with the LinkedIn requests and people wanting to talk about ESG investing.

"I almost feel like I'm in a different world from only a few years ago, when it felt very risky to get into this space," Clark said.

He acknowledges that he can't point to a single thing that pushed ESG investing over the top, but said the momentum is palpable."It was a confluence of events, including the demand from a new generation of investors, Covid-19 and the realization that this ESG information can be used to generate alpha."

Clark's impressive decade of experience in the ESG space actually pales in comparison to a handful of companies and individuals who blazed the trail even before the asset management industry had enough structure

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or nomenclature to make ESG an official category. At Calvert Research & Management, Domini Impact Investments and other firms that were pioneers, the sudden popular appeal is both real and alarming.

"Right now, ESG is the hottest thing out there, but we're definitely not clapping our hands and saying, 'We told you so,'" said John Streur, CEO of Calvert Research & Management, which has been focused on sustainable investing since its founding 45 years ago.

"I think we just reached a point at which the actual problems associated with companies not doing a good job for the environment, people and society reached a critical mass where people can see that we have real problems that can destabilize the system," Streur said. "Even though we have lots of asset managers now saying they do ESG, the clients are still very much in charge, because they continue to ask for higher standards, more shareholder engagement, and more activism. At the end of the day, this is about changes clients want to see in society and in asset management."

At the same time, a new Cerulli report suggests financial advisers may not appreciate the appetite their retail clients have for ESG investing.

Advisers tend to describe demand for ESG as coming from "a handful" of clients, mostly high net worth. However, Cerulli's research finds 56% of households with $100,000 to $250,000 to invest would prefer to support companies with positive ESG impact.

The stunning asset flows into funds also indicate that investing based on ESG criteria is not a fleeting trend.

According to Morningstar, money flowing into U.S. funds categorized as sustainable hit a record $51.1 billion in 2020, more than double the 2019 record of $21.4 billion, a third of which came in during the fourth quarter of that year.

For context, the annual flows into sustainable funds had been hovering around $5 billion from six years ago through 2018. In 2011 and 2012, sustainable fund flows were negative.

"My view is that this is starting on the demand side, with more people having sustainable concerns today than ever before," said Jon Hale, Morningstar's head of

"RIGHT NOW, ESG IS THE HOTTEST THING OUT THERE, BUT WE'RE DEFINITELY NOT CLAPPING OUR HANDS AND SAYING, 'WE TOLD YOU SO.'"

JOHN STREUR, CEO CALVERT RESEARCH & MANAGEMENT

sustainable investing research.

"During the past two years, we've had so many in-your-face climate events," he added. "People forget that at the beginning of last year Australia was on fire, and then the pandemic has also increased the focus on this."

PUSHED BY THE PANDEMIC

The correlation between the global pandemic and the popularity of ESG investing is undeniable.

Following the $7 billion spike in the fourth quarter of 2019 in flows into sustainable funds, flows hovered around $10 billion in the first three quarters of 2020 before jumping above $20 billion during the final three months of the year.

"If there's a silver lining to a pandemic like this, it is that it has reinforced the importance of ESG investing and brought attention to the social aspects of it," said Ana Carolina Oliveira, head of sustainable finance at ING Americas.

"ESG is not on the back burner anymore; it's all the way front and center," Oliveira said. "And social is a definite winner because you can't just take out high-polluting industries without taking care of employees. These three letters, ESG, need to be walking together otherwise we would not be achieving success for our society."

In an April report exploring the state of sustainable investing on a global scale, ING describes 2020 as a "wake-up call." It found that "even as the pandemic has created financial upheaval for companies," 57% of companies say they are "accelerating green transformation plans."

In addition, 73% of companies globally that have issued sustainable finance instruments said it has improved their ability to put in place "robust internal accountability metrics."

If Covid-19 was the tipping point for ESG catching fire, the pressure had been slowly but steadily building for years, said Allyson McDonald, CEO of Boston Common Asset Management, a company she described as "doing ESG before it was cool."

In terms of factors driving the appeal of ESG investing, McDonald cited the shift of wealth from baby boomers to millennials, "because millennials expect more from companies and the products and services they offer in the marketplace."

"Another influential factor is the growing number of women investors," she said. "Women are largely focused on investing in high-quality portfolios of companies whose products and services provide solutions to environmental and social challenges."

Finally, as many of the sustainable funds that avoided the energy sector recently illustrated, ESG investing can no longer be saddled with the criticism that it creates a drag on performance.

"Increasingly, investors recognize the opportunity for ESG investments to generate outperformance," McDonald said. "Evaluating companies with consideration for ESG risks and opportunities results in high-quality portfolios built to withstand volatile markets and economic conditions."

Even for many of the earliest proponents of sustainable investing, the sudden spike in popular-

U.S. financial regulators take aim

In just the first three months of President Joe Biden's administration, regulators have made climate and ESG-related issues a top priority. These are some of the actions they've instituted:

- SEC staff issued a risk alert asserting some investment advisers are overpromising and underdelivering on ESG.
- The SEC Division of Examinations elevated ESG as an exam priority for advisers and fund families.
- The SEC is collecting comment through mid-June on its effort to expand the climate and ESG disclosure requirements of public companies.
- The Fed created a new committee to identify and respond to dangers a warming planet poses to the financial system.
- The SEC issued a bulletin warning investors to ask questions about the ill-defined universe of socially responsible investing.

ity and notoriety is surprising, but satisfyingly so.

"The increased competition helps us in a big way because it gives us something to compete with and it validates the thesis," Calvert's Streur said. "It also saves us time from having to explain ESG as often."

IT'S A MUST-HAVE

Alexandra Mihailescu Cichon, executive vice president in sales and marketing at the ESG data science firm RepRisk, said that in the more than 10 years she has worked in the area, she has "never seen the interest accelerate to the level it has over the past 12 to 18 months."

"If you're an investment manager without ESG, you will soon have trouble attracting assets from clients because it has moved from a nice-to-have to a must-have," she said. "Three to five years ago, the discussions were all about why and prove it, but now companies are asking how they can do it."

Cichon is also in the camp that doesn't think the growth spurt occurring at the same time as Covid-19 is just a coincidence.

"We may look back at 2020 as the turning point for ESG, and Covid was that turning point because somehow when the pandemic started people thought it would slow down the appeal of ESG, but instead people saw the interconnectivity between what's happening in our society and the global implications," she said. "Covid helped to elevate the S in ESG."

For patience and perspective, there are probably few who could stand alongside Amy Domini, who started paying attention to sustainable investing in the late 1970s when, as a stockbroker, she noticed some of her clients expressing social and ethical aversions to owning certain companies.

At a time of increasing awareness of apartheid in South Africa, which supported institutionalized racial discrimination, Domini started to cater to the specific passions of some clients.

"I didn't want to make a client mad and lose them, so I started asking questions and realized that everybody had lines they didn't want to cross," she said.

ESTABLISHING GUIDELINES

What followed, while Domini authored or co-authored six books on ethical investing, was the establishment of KLD Research & Analytics, along with the Domini Social Index, now called the MSCI KLD 400 Social Index, which helped spur investing that meets ESG guidelines.

Domini, who is retired but still chairman of the board of Domini Impact Investments, describes her feelings about the current popularity of ESG investing as "beyond thrilling."

"I kind of figured I'd be an important pinprick in the history of ESG investing, but now I'm living long enough to see this become the way investing is done," she said. "Finance is global, sophisticated, it can turn on a dime, and it has good data. You can't imagine making the world better without finance. Maybe not every individual on Wall Street thinks it's true, but the large institutions do believe you have to have power at the [ESG] table."

"I KIND OF FIGURED I'D BE AN IMPORTANT PINPRICK IN THE HISTORY OF ESG INVESTING, BUT NOW I'M LIVING LONG ENOUGH TO SEE THIS BECOME THE WAY INVESTING IS DONE."

AMY DOMINI, CHAIRMAN DOMINI IMPACT INVESTMENTS

If the most seasoned corners of the sustainable investing space are not yet spiking the ball or otherwise enjoying end zone celebrations, it is because they realize both how far the category has come and how much is still ahead.

For instance, Domini remains frustrated with the inconsistent and sometimes confusing nomenclature surrounding sustainable investing.

"It's all pretty darned exciting and we enthusiastically welcome the competition, but I hate this change in vocabulary every six weeks," she said.

To the casual observer, the vocabulary continuum of impact, sustainable, ESG, green, socially responsible, responsible investing and so on might seem like a small-potatoes issue. But it goes to the larger standardization challenge, which is surely a mountain on the near horizon for the category.

On the global level, there is optimism around efforts like the United Nations-sponsored Principles for Responsible Investing, which launched in 2010 with the support of 23 asset managers and has since gained the signatures of 90% of the world's asset managers.

"We've gone from a bit unusual to ubiquitous, which means we're now getting more information on companies and other sources," said Andy Howard, global head of sustainability at London-based Schroders.

REGULATORS TAKING AIM

While Europe is still considered to be leading the world when it comes to ESG compliance and adoption, Howard believes the U.S. in on pace to "quickly converge with Europe" as awareness grows.

"It is becoming harder and harder for a company to just say, 'Sustainable investing is important to us, please buy our fund,'" he said. "You have to be able to demonstrate how the fund is different, and if you're swimming without your trunks on you should be starting to worry because more scrutiny on what this actually means is coming."

During the first three months of the Biden administration, the Securities and Exchange Commission has announced so many climate change and ESG-related plans that it has set up a tracking website.

Most significantly, the SEC Division of Examinations has elevated ESG as an exam priority and the commission has requested comment on its effort to expand climate and ESG disclosure requirements for public companies.

Erika Karp, chief impact officer at Pathstone, has been focused on sustainable investing for more than two decades and embraces the most straightforward approach to the vocabulary challenges.

"The language is definitely a problem, but the only word you need to use is investing," she said. "It's just investing done in an in-depth and thoughtful way."

Karp has been pushing the sustainable investing message for years and has heard most of the arguments against it.

"At that time when I started, most people perceived socially responsible investing as ideological, and not financial, but political and divisive," she said. "But I came at it from the investment process first. Then I realized, my god, this also happens to align with my values. It's blindingly obvious that this is the future of investing."

Amy O'Brien, global head of responsible investing at Nuveen, the asset management arm of TIAA, also recognizes how far the sustainable investing space has come and she optimistically envisions a path to the next level.

"Just taking ESG into account is not good enough anymore, because people want real outcomes," she said. "I see more credibility and more demand for capital flowing to where it can make a difference, and that's where it all started."

O'Brien, who has worked in the sustainable investing space for 25 years, recalls the evolution from a niche industry.

"Much of my career was about legitimizing and professionalizing ESG," she said. "Five to 10 years out, I think it will become universal for all investors, regardless of motivation, and it will be necessary to incorporate material ESG factors into investing. There will be very concrete measurable outcomes. That's where we're heading."

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17 PERCENTAGE POINTS, THE AVERAGE DECREASE IN EQUITY ALLOCATIONS IN Q1 2020 BY PEOPLE WHO SELF-DIRECT THEIR 401(K)S
SOURCE: MORNINGSTAR INC.

There's a new option for Social Security training

MARY BETH FRANKLIN

ONRETIREMENT

There's a new game in town for financial professionals who want to become more proficient in Social Security claiming strategies and learn how to use analytical software to provide specific claiming options for clients.

For years, the National Social Security Advisor certificate program has been the gold standard in Social Security education and training. Since 2013, more than 4,000 financial advisers have taken NSSA training courses in person or online, and more than 2,500 NSSA certificates have been awarded. I completed the course in 2014.

KEY POINTS
- The NSSA program has been the gold standard for years.
- Now there's another, more intensive online training program from NARSSA.

Tuition is $695 for NSSA's on-demand and live webinar formats, and $995 for in-person classes. Tuition includes education and ongoing support, including monthly webinars and answers to advisers' client questions.

The NSSA program provides eight hours of continuing education credits for insurance agents, certified public accountants and certified financial planners who attend in-person classes, as well as CE credits for CPAs and CFPS who attend live webinars.

VARIOUS CLIENT PROFILES

A typical eight-hour class in the NSSA program covers basic Social Security rules and strategies for various client profiles based on age and marital status, including case studies. It explains benefit reduction rules for some public employees, covers taxation of Social Security benefits and touches on disability benefits and Medicare.

"We focus solely on Social Security education and incorporate client and adviser experience in our education," said NSSA founder Marc Kiner. "We are not tied to a specific software tool." But Kiner said various Social Security software programs are discussed during the course, including Social Security Pro, Social Security Timing and Social Security Analyzer.

Now another program is offering more intensive Social Security education paired with training on a specific software program, Maximize My Social Security, which was developed by Boston University professor Larry Kotlikoff.

STUDY AT YOUR OWN PACE

The National Association of Registered Social Security Analysts offers an online training program approved by the IRS, the Certified Financial Board of Planners Inc. and the National Association of State Boards of Accountancy. The five-module, study-at-your-own-pace course costs $1,500 and provides members with 8.5 hours of continuing education credits. Upon completion, candidates can take an exam to earn the Registered Social Security Analyst certification.

In the past two years of beta testing, more than 2,000 financial professionals have taken the online courses and more than 200 have passed the national competency exam to earn the RSSA designation, said Martha Shedden, NARSSA's executive director and co-founder. The program is designed both for financial professionals and career changers.

"To date, most of our associate members are tax or financial professionals with established businesses," Shedden said.

But some of the RSSA designation holders are new to financial services. "For these encore career folks who become RSSAs, we have developed a complete business-in-a-box platform where they can do business and get all the resources and support from us that they need," she said.

The association recently launched its virtual business center on NARSSA.org. It offers several online resources, including a proprietary SECA Tax Savings Calculator that determines how much a business owner who's 50 or older can save annually on employer and employee Social Security taxes without sacrificing future benefits.

CASE STUDIES

The first two modules of the RSSA program cover much of the same material as the NSSA program, including how benefits are calculated and descriptions of the benefits available for married, single, divorced and widowed retirees. Case studies illustrate the most commonly used rules and strategies needed to optimize Social Security benefits through the comparison of best versus worst claiming decisions. Both programs also cover family maximum benefits, important pension-related rules, taxation of Social Security benefits and basic information about Social Security disability benefits.

The Registered Social Security Analysts program distinguishes itself in its final three courses. One module focuses on incorporating optimum Social Security claiming strategies into an overall retirement income plan. It provides case studies that illustrate the tax implications of interrelated decisions on maximizing or optimizing Social Security income and the sequence of withdrawals from retirement accounts and other funds.

The RSSA course includes an introduction to Medicare, its eligibility requirements, a description of Medicare benefits, what Medigap, or supplemental insurance plans, are available, and the Medicare application process. It also explains how to market retirement income planning services and introduces students to Maximize My Social Security software.

"The knowledge you learned in the first four modules will be applied to analyzing real world Social Security client cases using this software," the course description says, but notes the course is only an introduction to the capabilities of the software. "Continued real case analyses are needed to become proficient with its use."

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

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BY MARY BETH FRANKLIN

Calculating survivor benefits for current and former spouse

Ryan: My client, Steve, was told by a Social Security Administration employee that even if he waited until age 70 to claim his maximum retirement benefit of about $3,100 per month, the most his current spouse and ex-spouse could receive as a survivor benefit would be based on his full retirement age amount of about $2,400 per month. So he decided not to wait until 70 and claimed his Social Security retirement benefits at his FRA. It looks like he got some bad advice. Now that he has been receiving benefits for more than 12 months, can he suspend his benefits and collect a larger amount later?

MBF: Clearly there was some confusion here, either in what the SSA employee said or what your client Steve thought he heard.

Maximum spousal benefits while Steve is alive are worth 50% of his FRA amount, even if he delays claiming his benefits until 70. Both his current wife and his ex-wife (assuming she was married to him for at least 10 years and is currently single) are eligible for spousal benefits on Steve's earning record if they are larger than their own retirement benefits.

But maximum survivor benefits are worth 100% of what Steve was collecting at the time he died — including any delayed retirement credits. Both Steve's widow and surviving ex-spouse would be entitled to full survivor benefits. They don't have to share.

Because Steve claimed Social Security at 66, both his widow and his ex-spouse would be entitled to survivor benefits worth $2,400 per month. If Steve had waited until 70 to claim his maximum benefit, they each would have received $3,100 per month as a survivor benefit.

Now that Steve is beyond his FRA, he could voluntarily suspend his benefit to earn delayed retirement credits of 0.66% per month up to age 70 to create a larger future retirement benefit and a potentially larger survivor benefit. But if he suspends his benefits, his monthly payment will stop during the suspension and so will those of his current wife if she is collecting spousal benefits on his earnings record. However, the suspension won't affect the spousal benefits of his ex-wife if she is collecting benefits on his earnings record.

62% PORTION OF ADVISERS SURVEYED WHO GREW NET ASSETS UNDER MANAGEMENT AMID THE PANDEMIC; 57% INCREASED THEIR NUMBER OF CLIENTS SERVED.
SOURCE: NORTHERN TRUST FLEXSHARES ADVISOR WELLNESS SURVEY

Michael Bolton sings Public.com's praises

Michael Bolton, the undisputed king of the unrequited love ballad, wants retail investors to break up with their discount brokerages.

SEAN ALLOCCA

ONTECH

He's betting a social-media-driven upstart, Public.com, is the next big thing in online investing. The New York-based company landed $220 million in funding in February, putting its valuation at $1.2 billion. High-profile investors who have sunk money into the project include actor Will Smith, NFL defensive end J.J. Watt and former professional skateboarder Tony Hawk.

MAKING A PITCH TO DITCH

The latest remake of Bolton's 1983 hit, "How Am I Supposed to Live Without You," asks retail investors to ditch commission-free brokerages that make money from payment for order flow, in which firms get discounts for routing through high-speed traders. Robinhood makes most of its money by sending customer trades to the highest bidder, and CEO Vlad Tenev has said repeatedly that the practice is legal, regulated and properly disclosed.

"I could hardly believe it, what I saw on Reddit today," Bolton sings in the accompanying music video. "They told me about order flow, so I Googled, now I know. I think I gotta find somebody new."

The advertisement is just the latest ploy in an industry war over the throngs of retail investors that have flocked to digital wealth platforms over the past year. Morgan Stanley, for example, opened more new accounts in the first two months of 2021 than in the last two quarters of 2020 combined, according to its chief financial officer. The bank's digital investment offering routed more than 2 million trades per day. Other online brokerages have also welcomed millions of new customers stuck at home during lockdowns.

Some of the biggest names in wealth management are diving into the feeding frenzy. Fidelity Investments hosted an hour-long Reddit discussion to reach out to those very customers just days after users discussed dropping Robinhood for suspending trades in so-called meme stocks in January. More than 1,300 comments from Redditors flooded the group.

There will certainly be repercussions from the massive new account openings. If the GameStop saga has taught us one thing, it's that retail investors are zeroed in on the stock market and clearly are not afraid of persistent volatility. These online platforms have opened up access to retail investors, who have arguably treated those apps like miniature slot machines. In fact, investors took massive risks during the short squeeze, and many novice investors were left holding the bag.

> **KEY POINTS**
> - Upstart investment platform Public.com has attracted celebrity endorsers.
> - The New York company has landed $220M in funding.

FINLIT CONCERNS

While access to the markets is generally good for investors, it could also put a strain on overall financial literacy. Some experts have criticized online apps like Robinhood for using gamification strategies that attract and manipulate investors, many of whom are new to the markets, into excessive trades. The Massachusetts Securities Division filed a complaint in December.

The spike in account openings may also leave clients less inclined to seek out professional advice. The do-it-yourselfers generally don't delegate investment decisions, but the ease and popularity of these platforms has made investing almost alarmingly simple.

For now, Mr. Time, Love and Tenderness, as he's known to fans, has the perfect song to get investors over their breakup with their discount brokerages — and he's got just the app to trade on instead.

"Tell me, how am I supposed to trade without you?" Bolton sings in the memorable hook. "I think it's time I must be moving on."

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Former Goldman banker is barred by Finra

BY BRUCE KELLY

A FORMER GOLDMAN Sachs banker was barred by the Financial Industry Regulatory Authority Inc. on April 8 after he failed to cooperate with an investigation.

In 2019, Goldman had "discharged," meaning fired, the banker, Jared Ailstock, after he faced allegations of inaccurate business expenses reimbursement reports, according to his Finra BrokerCheck profile.

Finra barred Ailstock for not appearing to testify in its investigation of the matter, according to the order. The industry self-regulator makes inquiries when a registered rep is terminated from a firm.

It was not clear what type of business expenses were questioned by Goldman, where Ailstock worked from 2015 through the end of 2019.

Regulators like Finra and large firms like Goldman Sachs are watching closely for any potential fudging of brokers' and advisers' expense report submissions.

In November, for example, Finra sued a former Bank of America Merrill Lynch tech stock analyst who allegedly spent $21,000 at an "adult entertainment establishment" and charged it to his corporate credit card.

According to his BrokerCheck report, Ailstock was terminated from Goldman after he faced "allegations regarding inaccurate business expense reimbursement submissions for which the individual has agreed to work through a reimbursement plan."

Ailstock, and his attorney, Adrian M. Ward, did not return calls to comment. A Goldman Sachs spokesperson also did not return a call to comment.

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"GOLD HAS BEEN IN A BULL MARKET FOR A FEW YEARS AND IS NOW GETTING A LOT OF ATTENTION FROM ROBINHOOD-TYPE TRADERS,"
— DENNIS NOLTE, VICE PRESIDENT, SEACOAST INVESTMENT SERVICES

Are 60-40 portfolios leading investors off a cliff?

BY JEFF BENJAMIN

TRADITIONAL portfolio diversification, the bedrock of financial planning, is coming under assault from an unprecedented Federal Reserve monetary policy that is pouring trillions of dollars into circulation.

While some advisers cling to traditional models showing the long-term advantages of diversification across multiple asset classes, including stocks and bonds, the new money supply reality is raising concerns that fixed income might be riskier than ever, throwing a wrench into traditionally balanced portfolios of 60% stocks and 40% bonds.

"The 60-40 portfolio has been a great strategy over the years, depending on how far back you go, but the game-changer is that the M1 money supply just went from $6 trillion to $18 trillion in 12 months," said Mike Willis, founder and lead portfolio manager of Index Funds.

"The Fed, by pumping trillions into the system, just made obsolete any investment strategy that holds bonds," he added. "They just devalued the dollar in a way that a lot of Main Street investors and advisers are not aware of yet."

To be fair, warnings that the sky is falling in the bond market have been a steady drumbeat in certain corners of financial services for decades. But there is no denying the math that the M1 money supply, which represents the total value of money available in the economy, has more than doubled over the past year.

KEY POINTS

- Since the pandemic, the total money supply in the U.S. has sharply increased.
- Advisers should be aware of the reprecussions.

MONEY SUPPLY SATURATION

Willis believes the early indicators of hyperinflation are already here and will only get worse as the government's Consumer Price Index data catch up over the next 12 months, which is dire news for cash and bonds paying dollar-denominated income.

"Houses, art, collectibles and Bitcoin are all going through the roof because people realize cash is trash," said Willis, who cited as an example the sale of a Tom Brady rookie card for a record $2.25 million less than a month after a similar card featuring the seven-time Super Bowl champ sold for $1.32 million.

"The macro shift is happening right now at this minute that advisers will have to adjust to," he added. "They can't just turn a blind eye to M1 money supply diluting the market."

Bonds and cash will likely suffer the most from the inflationary cycle that could follow the money supply saturation, but some advisers are holding fast to old models.

"If a target allocation of 60% equities and 40% bonds makes sense over the long run, you shouldn't veer from the course," said Marisa Bradbury, investment adviser at Sigma Investment Counselors.

"However, given the current fixed-income environment, you might want to be somewhat strategic investing within bonds," Bradbury said.

Jon Ulin, managing principal of Ulin & Co., is also not a fan of "greatly deviating from one's portfolio risk tolerance based on current headlines."

"We are staying the course in our clients' strategic model-based approach to investing, especially for those in or nearing retirement with moderate to moderate-conservative risk parameters," he added. "Moving someone to all cash, more stocks or a great amount of insurance and alternative investments is not what disciplined fiduciary advisers are paid to do."

It is difficult to dispute the benefits of a balanced portfolio when relying on historical performance, which is what most advisers are working with.

A simple illustration by The Vanguard Group last year showed the historical risk/return profiles of various stock-bond allocations between 1926 and 2019, enabling investors to pick their poison.

'FALSE SENSE OF SECURITY'

On one end, the all-bond portfolio produced a 6% average annual return and suffered 19 negative years over the 94-year period. The best year for the all-bond strategy was a gain of 45.5% in 1982, and the worst year was a loss of 8.1% in 1969.

$18T

TOTAL VALUE OF THE M1 MONEY SUPPLY, UP FROM $6 TRILLION JUST ONE YEAR AGO

On the other end of the spectrum, the all-stock portfolio had an average annual return of 10.2%, with 25 negative years over that period. The best year for all-stocks was a 54.2% gain in 1933, and the worst year was a loss of 43.1% in 1931.

The average annual performance increases in stride with the increase in the equity weighting.

The 60-40 portfolio produced an average annual return of 9%, including 22 negative years. The best year was a gain of 36.7% in 1933, and the worst year was a loss of 26.6% in 1931.

"The basic 60-40 portfolio has been pretty unassailable for a long time, especially over the past couple of decades," said Amy Arnott, portfolio strategist at Morningstar.

Arnott, who has studied portfolio diversification against multiple market cycles, believes the extended and seemingly resilient bull market for stocks has "people lulled into a false sense of security."

"Even though large-cap stocks were hit pretty hard in the Covid downturn early last year, they also bounced back quickly, so it's easy to conclude any correction will be short-lived," she said.

That general attitude, while associated with equities, might be amplified regarding bonds, which are already generally viewed as the safer asset class.

While Willis believes equities are a safer place right now than bonds or cash, he argues that the S&P 500 Index's 50% rise from its March 2020 low was mostly the result of the increased money supply by the Fed.

"This rise in the S&P 500 isn't a rally based on company fundamentals, this rally is the result of the devaluing of the dollar," he said. "There's so much cash in the market that everyone is loaded even though they're poor. That's the kind of stuff you see down in Venezuela and Brazil when inflation gets out of control."

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Archegos implosion could lead to regulation of family offices

BY MARK SCHOEFF JR.

WHEN ARCHEGOS Capital Management recently stepped on a derivatives landmine, it may have set off an explosion that will have repercussions for advisory firms that manage wealthy families' finances.

In late March, Archegos defaulted on margin calls involving swaps transactions that forced the sale of approximately $20 billion in underlying securities. The conflagration, which caused major investment banks to lose nearly $10 billion, is likely to draw regulatory scrutiny of family offices, a category that includes Archegos.

Family offices don't have to register with the Securities and Exchange Commission, which makes it difficult for the regulator to monitor the inner workings of the vehicles.

"There's little to no insight on that side of the industry," said Amy Lynch, president of FrontLine Compliance.

But that may be about to change. The SEC had targeted family offices for review even before the Archegos blowup.

"We should not be surprised if this leads to a re-evaluation of where family offices fit within the regulatory structure," said Marlon Paz, a partner at the law firm Mayer Brown.

KEY POINTS

- Assessing the murky family-office world presents challenges.
- The SEC had targeted family offices for review even before Archegos.

CONGRESS TAKES AN INTEREST

Securities regulators are investigating the Archegos situation, and it's drawing attention from Capitol Hill. Sen. Sherrod Brown, D-Ohio and chairman of the Senate Banking Committee, sent a letter to Credit Suisse Securities, Nomura Holding America, Goldman Sachs and Morgan Stanley asking the investment banks to explain their role in the Archegos meltdown.

The collapse raises "several questions regarding … the treatment of so-called 'family offices,'" Brown wrote.

But assessing the murky family-office world presents challenges, such as sorting out the different kinds of family offices. One is the traditional manager of a family's legacy assets. Another is an investment fund that doesn't have third-party investors and just manages its own money. Hedge funds can avoid the SEC registration required by the Dodd Frank financial reform law if they're family offices.

"They would have to regulate with a scalpel," said Todd Cipperman, principal at Cipperman Compliance Services.

DERIVATIVES TO BLAME

The Archegos blow-up didn't occur because of lack of oversight of family offices, said David Guin, a partner at Withers Bergman. It had to do with regulation of derivatives trading.

"The issue was that there is no required reporting of swaps positions," said Guin, who has family-office clients. "Fixing this situation would require swaps reporting, not regulating family offices. It's possible the SEC will change course and say family offices ought to be regulated, but it seems unlikely to me."

Instead of requiring family-office registration, the SEC might strengthen its ability to assess the use of risky derivatives. "It could lead to much more examination of hedge funds that engage in these kinds of activities," Cipperman said.

Archegos owner Sung Kook (Bill) Hwang has previously run into regulatory trouble. His former hedge fund, Tiger Asia Management, paid $60 million to settle SEC charges of insider trading in 2012. The regulator prohibited him from managing clients' money, so he started Archegos.

For the most part, family offices concentrate on family wealth and aren't particularly big, Lynch said. "We're talking millions, not billions, in assets," she said. "Having those small entities exempt from SEC registration makes sense to me."

Bloomberg News contributed to this story.

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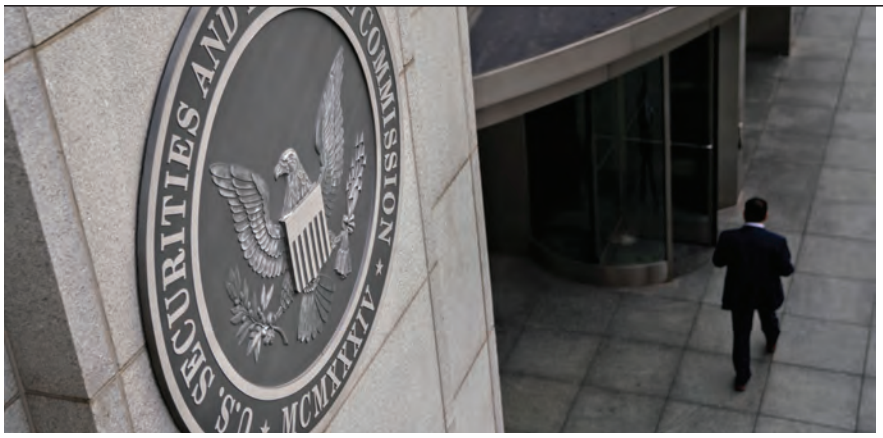

SEC won't assess merit of ESG investments, says Hester Peirce

BY MARK SCHOEFF JR.

SECURITIES AND Exchange Commission member Hester Peirce said the agency will not try to determine whether environmental social and governance investing is good or bad, but rather will focus on whether investment advisers are following the ESG strategies they're promoting.

In a statement released last Monday, Peirce provided her interpretation of a recent SEC risk alert on ESG investing that warned advisers, investment companies and funds about compliance shortcomings. The alert said recent examinations have found instances of misleading claims as well as inadequate policies, procedures and documentation regarding ESG products and portfolios.

"Our examiners are not — and will not be in this space — merit regulators," Peirce said. "The SEC's role is not to assess whether any particular strategy is a good one, but to ensure that investors know what they are getting when they choose a particular advisers, fund, strategy or product."

SAME STANDARD

The SEC evaluates ESG strategies the same way it assesses other investment approaches, Peirce said.

"Firms claiming to be conducting ESG investing need to explain to investors what they mean by ESG and they need to do what they say they are doing," she said. "The same rule applies no matter what label an adviser puts on its products and services."

She also said the SEC will not assess whether an investment strategy is consistent with an ESG approach.

"The staff's role is not to second-guess investment decisions through an SEC-created ESG scoring system; rather, it is to understand whether firms are adhering to their own ESG claims," Peirce said.

Peirce and Elad Roisman are Republican SEC commissioners. They are now in a 3-2 minority after Gary Gensler, the Biden administration's nominee for SEC chairman, was confirmed by the Senate last week and gave the agency a majority of Democratic members.

As ESG investing becomes more popular, advisers and funds are trying to get their arms around the phenomenon as well as related regulation. Peirce's statement will give them some guidance on how to interpret the risk alert, Holly Smith, a partner at Eversheds Sutherland.

"I am not reading this as being contrary to the risk alert," said Smith, a former SEC counsel. "It's helpful in terms of providing context and her point of view."

The risk alert was the latest SEC move to emphasize ESG oversight, driven by Acting Chair Allison Herren Lee, a Democrat. It almost certainly will continue under Gensler. Peirce and Roisman have pushed back against the elevation of ESG policy by their Democratic colleagues.

Despite the political tension, it's clear the SEC is going to concentrate on ESG for the foreseeable future.

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Monday, Apr. 26, 2021 | 4:00pm-5:00pm ET

Register at investmentnews.com/postpandemic

While the pandemic ravaged the global economy, one of the biggest challenges for advisers has been the inability to reach out to new clients through traditional platforms to secure new business. As cocktail hours and face-to-face meetings faded away, digital prospecting became more important than ever, and advisers have come up with inventive new strategies to get themselves in front of new prospects and win new clients virtually.

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Providing the building blocks for school personal finance classes

Let me tell you a little about my journey with Jessica Endlich to found Next Gen Personal Finance, a nonprofit organization dedicated to expanding access to financial literacy and personal finance education everywhere.

GUESTBLOG
TIM RANZETTA

I was one of the fortunate few who had Depression-era parents who taught me to fear credit, love savings, get educated and serve the community. I had my first job at 7 (dog walker), my first CD (that is, certificate of deposit) at 10, and had saved $20,000 by the time I entered college. Regarding this idea of service, my Mom, while managing a household with six children, never saw a volunteer opportunity she didn't pour her heart and soul into: Girl Scout troop leader, story hour reader and volunteer at a soup kitchen, to name a few.

So a decade ago, given the opportunity to teach a personal finance class, I channeled my mother's volunteer spirit and said, "Yes!" Creating and then teaching a 25-hour course to three sections of ninth graders at Eastside College Prep in East Palo Alto, California, was the most terrifying, exhausting and exhilarating experience I've ever experienced.

Over six weeks, these students, many the first in their families to aim for college, analyzed charts showing the value of education, compared sticker and net prices for colleges they wanted to attend, created a budget for their 25-year-old selves and invested in a stock that they tracked over their high school careers.

INTEREST FROM PARENTS

Despite the tyro volunteer teacher leading them, the students' level of engagement and interest grew week by week. Then a surprising thing happened. Their parents started emailing me to learn more, and I saw how transformative this class could be beyond the classroom walls. When my subsequent research uncovered the fact that students were taking a personal finance course in high school in only five states, I felt motivated to act.

So in 2014, co-founder Jessica Endlich and I started a nonprofit, Next Gen Personal Finance. Our strategy, developed over time, places teachers at the center:

1. Provide educators with curriculum that students love and is easy to implement.

2. Deliver professional development that builds teachers' confidence and content knowledge.

3. Success with No. 1 and No. 2 will lead teachers to advocate for more personal finance courses in their school community.

Seven years later, 44,000 teachers in all 50 states and more than a dozen countries use NGPF curriculum, arcade games and other activities. On the professional development front, teachers have shown their eagerness to learn and collaborate with their peers. NGPF works with middle school, high school and college teachers.

Since the pandemic struck in March 2020, more than 6,000 teachers have invested 130,000 hours to learn more about investing, taxes, behavioral finance, Bitcoin, payment apps and the GameStop frenzy, to name just a few of our topics. While these numbers may seem impressive, the NGPF team and the community of educators feel an urgency to do more. The pandemic has reminded us that too many Americans are being left behind economically, and the stats for financial education demonstrate that is happening in the classroom too.

KEY POINTS

- Only 20% of students must take a personal finance course in high school.
- Next Gen Personal Finance provides a curriculum and training for teachers.

I'm usually a sentence or two into my spiel about co-founding a nonprofit organization focused on financial education when I'm interrupted with, "That's a class I wish I had in school" or "Can you teach my children/grandchildren?"

The statistics, the quizzes and the behaviors all point to a lack of financial capability, a term I prefer to literacy since there is nothing basic about understanding how to manage money. Talk to adults, high school students, parents and community members, and almost all would agree that:

1. This is important.
2. This should be taught.

Peruse the results of survey after survey, and then more surveys, and it's clear that there's overwhelming support. So why are so few high school students guaranteed to have taken a personal finance course before they cross that graduation stage?

Our 2021 Report on Access to Financial Education to be released later this month finds that only 1 in 5 students (20%) currently graduates from a high school where every student is guaranteed to take a personal finance course. One in 3 students (33%) attend a high school where no personal finance courses are available.

We have Mission 2030 set as the Big Hairy Audacious Goal for this community of personal finance educators. We strive in partnership to guarantee that by 2030, every student will cross that high school graduation stage with the financial skills to thrive in the future. How? By taking a one-semester personal finance course that is relevant, up-to-date and engaging.

Entrepreneurs are "glass half-full" people, so let me share with you signs of positive momentum. Here are a few, including grassroots stories that inspire us to do more:

• 25 states and the District of Columbia have introduced bills in their state legislatures that focus on increasing access to financial education.

• There are 1,400-plus "Gold Standard" schools (outside of the five states mentioned earlier) where a teacher, a student, a board member, a community member, a principal or a superintendent stood up and said personal finance needs to be a priority in our community.

• Sue Comparato of Swampscott High School in Massachusetts advocated for more than a decade to make it happen.

• Bill Joy, a long-term substitute teacher at Lucy Beckham High School in South Carolina with 25 years of corporate experience, made it happen there.

So how can you make a difference in this fight for financial education? Here are some ideas on how to get started. Talk about it at home with your children or grandchildren. Amplify your impact by meeting with the local high school principal or board members to tell them you believe that all students deserve to learn this.

These resources can help you make the case. When they complain about cost, let them know that all of this curriculum and professional development are provided at no cost. NGPF is funded through an endowment that allows us to offer all of our services at no cost.

Together, we can accomplish #Mission2030, when all students will cross the graduation with the financials skills they need to thrive in the future. What a legacy that will be for the next generation!

Tim Ranzetta is co-founder of Next Gen Personal Finance.

WELLS FARGO

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bot Downing, which are being merged into Wells Fargo Advisors.

Wells Fargo has been hemorrhaging financial advisers for years, with the exodus in part sparked by the fallout from the bank's 2016 scandals. The bank has also seen advisers retire and sign up for a new succession plan called Summit that ties them more closely to the firm.

DEPARTURES CONTINUE

But departures will only continue to erode the firm's adviser head count over the next six months as Wells Fargo Advisors shuts down its international wealth management operations, which includes stopping advisers from managing money for overseas clients. Wells Fargo has not released a specific number of international advisers who will leave the firm.

But overseas clients are often wealthy and therefore can be lucrative and can contribute thousands of dollars of annual revenue for financial advisers at wirehouses, who earn roughly 40 cents for each dollar of revenue they generate for the firm.

The firm has said it would offer retention — meaning some form of payment — to advisers who lose international clients to offset the lost revenue. But one Wells Fargo adviser said any reimbursement to advisers who lose clients will be partial, temporary and limited.

"It only takes a couple of $10,000-to-$20,000-per-year revenue clients to lose to put a dent in one's practice," said the adviser, who asked not to be identified.

As it simplifies its business lines, Wells Fargo Advisors is trying to focus on advisers who produce more annual revenue rather than on its head count, said Shea Leordeanu, a company spokesperson.

In the first quarter, Wells Fargo also announced the sale of its asset management business, which had been anticipated.

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MERRILL LYNCH

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$4.2 billion at the Merrill Lynch wealth management franchise, and the 6,400 net new households in the first quarter.

Attrition, or loss of employees to competitors, was 4% for the quarter, the second consecutive quarterly decline, the executive said.

"We continue to selectively hire, mostly through programs for advisers early in their careers," the executive said, adding that the firm hired 220 advisers last year and 60 in the first quarter. Merrill had pulled back on hiring trainees in the first half of 2020 given the hurdles created by the Covid-19 pandemic.

TRAINEE TROUBLE

The total number of financial advisers with the firm will likely be in the neighborhood of 20,000 going forward, the executive said.

Meanwhile, Merrill Lynch's vaunted trainee program is coming off some difficulties in 2020; last summer, the firm suspended its adviser trainees' ability to contact potential new clients after outreach-related violations were noted. With cold calling for prospects facing questions, trainees likely will switch to using LinkedIn to build and expand networks, the executive said.

One industry recruiter said the social media platform geared to business professionals was a great way to prospect wealthy individuals.

"When it comes to finding executives and using title searches, with proper training Merrill can have a lot of junior advisers going out there and prospecting," said Casey Knight, executive vice president and managing director at ESP Financial Search, a recruiting firm. "They can search for engineers, doctors, vice presidents, and then get thousands of messages out to them."

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MORGAN STANLEY

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Referring to the 2009 acquisition of Smith Barney's wealth management business, Gorman said, "When we started the wealth management journey 12 years ago, we had $500 billion under management, now we have $4 trillion."

"And so we're heading to $10 trillion," he continued. "We've got all these growth verticals, and I just couldn't be more excited about it."

Gorman listed several factors contributing to the strong quarter, including an online and direct-to-consumer business channel in ETrade, and Morgan Stanley's burgeoning stock plan platform from both its 2019 acquisition of Solium Capital Inc. and ETrade. The firm is also recruiting financial advisers, although Morgan Stanley did not state the number of financial advisers currently employed at the firm, in a break from a standard industry practice.

At the end of December, Morgan Stanley reported 15,950 registered reps and financial advisers.

"We've become a destination of choice," said CFO Jonathan Pruzan. "We've seen higher levels of recruiting pipeline as we bring in [financial advisers], and they are successful and they like the platform. They're obviously talking to their previous colleagues and therefore, it's sort of accelerating."

"We're bringing in bigger teams, better teams, and attrition has dramatically slowed down," Pruzan said.

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10-YEAR RULE

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most RMDs in the first years (in this case, years one through nine) are smaller. With the 10-year rule, there was no issue of looking up life expectancies of beneficiaries or worrying about which age or factor should be used to calculate the RMD, since the funds simply had to be withdrawn in full by the end of 10 years. But apparently now these RMD issues all return, but only for years one through nine, like a mini-stretch IRA.

The IRS also says eligible designated beneficiaries can elect the 10-year rule in lieu of the stretch IRA but only if the death occurs before the required beginning date. That's also strange and I don't know where in the SECURE Act that came from.

But given this new IRS interpretation requiring RMDs in years one through nine, who would ever want to elect the 10-year rule? No one.

If this is truly the way the post-death 10-year rule works, then some beneficiaries who inherited in 2020 will already be subject to 2021 RMDs that will need to be calculated (including RMDs for trust beneficiaries).

That said, I would urge all beneficiaries subject to the 10-year rule to hold off on taking any RMDs this year until we are sure of the rules.

IRS hasn't yet released official regulations, plus there will be a comment period. This could all change. So wait until this 10-year rule issue is resolved with certainty. In other words — stay tuned.

For more information on Ed Slott and Ed Slott's 2-day IRA Workshop, please visit www.IRAhelp.com.

COINBASE DEBUT

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continue to dismiss digital assets will soon start losing clients and assets to those who are embracing them."

Advisers are taking notice as more clients ask about cryptocurrencies. In fact, 61% of advisers have had clients ask about cryptocurrency, and client demand was among the top factors motivating advisers who have already jumped into the space, according to a recent white paper produced by Grayscale Investments in partnership with InvestmentNews Research.

Investor engagement could skyrocket as Coinbase's public listing puts the concept of crypto assets firmly in the zeitgeist of the investing public, said Christopher Shea, chief investment officer at RIA WealthSource Partners.

"[Coinbase] represents an opportunity for advisers to allocate to the crypto space indirectly through a firm that facilitates people's ability to participate in the crypto craze — a firm with real assets that generates measurable cash flow," Shea said. "It's the old Levi Strauss model: Don't mine the gold, sell the jeans."

Coinbase's direct public offering is also a watershed moment for technology, as the listing will mint new investors who will likely invest in the blockchain, said Alex Tapscott, managing director of the digital asset group at RIA Ninepoint Partners.

Coinbase will also be the first and only large-cap company dealing in digital assets that institutions can own in the public markets, Tapscott said.

"I expect they'll invest enthusiastically, as they have with other high-profile large-cap technology IPOs throughout history," he said. "This [direct public offering] is a shot across the bow of Wall Street ... the crypto wave has become a tsunami."

However, some advisers aren't able to use cryptocurrency exchanges like Coinbase for regulatory and compliance reasons, Tapscott said. "Until that changes, and we expect it'll take some time, a more convenient way to get exposure to Bitcoin and other digital assets is via listed products."

Financial adviser Mark Struthers of Sona Wealth Advisors said his clients are asking about cryptocurrencies more, so he's helping them get set up on Coinbase. Theresa Morrison, a financial planner and founder of Beckett Collective, said clients with small accounts are already using Coinbase.

"For a typical client who wants exposure to crypto, but is not singularly crypto, we usually end up with 1% to 4% allocation," Morrison said. "Soon new businesses and existing behemoth companies will develop goods and services that bridge the crypto and physical worlds, bringing consumers into the fold."

Having well-financed companies like Coinbase go public gives investors a sense of confidence in platforms and the investment experience in digital assets, said Damon Deru, founder and CEO of AdvisorPeak.

"For advisers, their clients are increasingly trading digital assets on their own through these retail channels," Deru said. Last Wednesday, AdvisorPeak announced a partnership with Prime Trust to deliver a trading solution advisers can use to manage accounts to trade and rebalance digital assets and accounts just as they would traditional assets like exchange-traded funds or mutual funds.

For advisers who aren't setting up clients on apps like Coinbase, waiting for a Bitcoin ETF might be the best route, particularly for those restricted from engaging with digital assets for compliance purposes, said Terry Sawchuk, CEO of Sawchuk Wealth.

Eight applications for Bitcoin ETFs have been filed with the Securities and Exchange Commission since late December.

"As for clients, it seems likely that through financial advisers, very soon crypto will be available through the brokerage channel via ETFs, and when that happens it opens up a massive amount of liquidity that could potentially move into crypto," Sawchuk said.

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ELECTION REFORM

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But democracy writ large is systemic issue, making it difficult to drill down to the influence at the corporate level, said Paul Washington, executive director of The Conference Board's ESG Center.

"There is less of a direct connection between a particular company and these voting laws, unless a company takes a stand and it backfires on them," Washington said.

There's plenty of crossfire to step into on the voting rights debate. Last Wednesday, the conservative Heritage Foundation launched a $1 million advertising campaign in support of the Georgia law.

PROTECTING THE RIGHT TO VOTE

Jessica Anderson, executive director of the Heritage Action Fund, said in a statement that the Georgia law "makes it easier to vote and harder to cheat."

The challenge for a company in opposing the Georgia law is that it's full of policies that proponents argue expand voting opportunities and that opponents assert deny the franchise, especially to voters of color.

"Companies may want to take a more principles-based approach rather than engage in a detailed debate about the specific provisions of these laws that are unfolding in a hyperpartisan environment," Washington said.

That's the approach many Wall Street firms seem to have adopted. When I recently surveyed 14 brokerages and the Washington trade associations that represent them, none took a stance on the Georgia law or legislation the U.S. House recently approved to expand ballot access.

Instead, I received a couple of general statements — from Morningstar Inc. and Merrill Lynch, for instance — that called on lawmakers to protect the right to vote.

Hundreds of companies and business leaders signed a statement this week that said in part, "we all should feel a responsibility to defend the right to vote and to oppose any discriminatory legislation or measures."

It ran as an ad in the New York Times and other publications last Wednesday. The effort was led by the Black Economic Alliance, and industry signatories included Bank of America, Berkshire Partners, BlackRock, Broadridge Financial Solutions, Cambridge Associates, Goldman Sachs, T. Rowe Price, Vanguard and Wells Fargo.

FLYING OVER THE DEBATE

Staying at the 35,000-foot level allows a company to make its presence felt by flying over the voting-access debate without getting close enough to the legislative ground to get hit with shrapnel from the legislative firefight.

A big financial firm like JPMorgan has the heft to take care of itself in the rough-and-tumble political world. It also has a CEO in Dimon who is plugged into Washington. He can pretty much stand up to McConnell and other Republicans who take umbrage at the firm's political activity.

But a small advisory firm in Georgia has a tougher decision to make if it wants to oppose the state's voting law or just generally support expanding voting rights.

It doesn't have JPMorgan's political wherewithal. Instead, it may want to join a coalition of like-minded firms or work through a trade association that represents advisers.

"It might make sense for firms to consider what kind of collective impact they can have," Washington said.

The debate over how the U.S. conducts its elections is sure to continue for a long time because it is fundamental to this country's democratic foundation. Firms will have to weigh in, whether it's to support the principle of wide voting access, to criticize bills that curtail it, or to do a little of both.

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GENSLER'S SEC

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The close Senate tally could signal more congressional focus on the agency, said Michael Zona, vice president of the Bullpen Strategy Group and a former Republican aide on the Senate Finance Committee. Unlike many other Biden nominees, Gensler, a former Goldman Sachs executive, didn't get much deference from Republicans.

"The tighter-than-normal vote margin shouldn't have much effect on the SEC's regulatory process, especially with unified Democratic control of government, but it does indicate tougher oversight from Congress is likely," Zona wrote in an email. "When a nominee doesn't earn enough trust from a senator to get their vote, that's usually a sign that the agency will be a target for tougher scrutiny down the road."

KEEPING POLITICS IN MIND

One area where Gensler and Republicans are likely to clash is ESG regulation. During his confirmation hearing last month, Gensler indicated support for a broad range of ESG disclosures in areas such as climate risk, political spending and racial diversity.

"Based on his record and statements during the nomination process, I'm concerned he will cause the SEC to use its regulatory powers to advance a liberal social agenda focused on issues such as global warming, political spending disclosures, and racial inequality and diversity," Sen. Patrick Toomey, R-Pa. and ranking Republican on the Senate Banking Committee, said during the debate over Gensler's nomination.

With Gensler on board, the SEC now has a 3-2 Democratic majority.

In the months prior to Gensler's confirmation, Democratic SEC member Allison Herren Lee enhanced the agency's ESG oversight by establishing an enforcement task force, among other moves. She drew pushback from the Republican members Hester Peirce and Elad Roisman.

But the agency hasn't yet undertaken writing new ESG rules.

"The fact that the SEC is talking about enforcing existing standards instead of creating new standards is likely an indication that they're thinking about both sides of the aisle," said Schroeder, a former enforcement chief at the Financial Industry Regulatory Authority Inc.

Addressing ESG standards is likely to garner bipartisan support but expanding required corporate disclosures is likely to increase partisan tension, Taft said. "It depends on what aspect of the issue you're talking about."

Congressional GOP skepticism won't have a direct impact on how the SEC develops ESG policy under Gensler, said Ken Joseph, managing director of Kroll, a regulatory compliance consulting firm.

Nonetheless, Gensler does have to keep politics in mind.

"Although the commission is an independent agency, one has to be sensitive to the concerns of the minority party," Joseph said.

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CAPITAL GAINS

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that want their money back as separate from the pool of assets in the fund, because he's transferring some of the underlying stock into a new entity, without penalizing the broader investor base," said Todd Rosenbluth, director of mutual fund and ETF research at CFRA.

"The technique is highly beneficial to other shareholders, who often are dragged along for the ride when fellow shareholders have shorter time horizons," Rosenbluth said.

While moving securities into separate accounts has proven effective in reducing the tax hit, Huber said there are reasons most fund companies are not following his lead.

"We're not the only ones to figure this out, but there are negatives associated with it that other fund companies probably don't want to deal with," he said. "For starters, you have to call up clients, wasting a touch point by asking them to do some work for you."

Huber said that he "incentivizes" investors to go along with moving the assets into separate accounts by offering to manage the assets in the separate accounts for a reduced fee.

"The separate account is an expensive proposition that cost me $10,000 a year per account," he said. "My first four tax management tools are basic blocking and tackling, but don't require a ton of work. This fifth one requires a ton of work and involves working with bankers, accountants, custodians and lawyers."

Christine Benz, Morningstar's director of personal finance, described Huber's strategy of moving securities to separate accounts as "very clever."

"Most mutual fund prospectuses include language that funds can redeem in kind," she said. "It is nicely addressing the disadvantage that ETFs have uncovered in active mutual funds."

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