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MAY 24-28, 2021

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WHERE HUMAN ADVISERS AND BOTS COLLIDE PAGE 8

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TopNews

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Staying ahead of inflation can mean taking on more risk with emergency cash positions.

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SECURE 2.0 seeks to raise the age for RMDs, but that creates more problems than it solves.

CORRECTION: The article "Special-needs planning is about much more than ABLE accounts and trusts" in the May 17 edition provided an outdated title for Scott Adams. His correct title is private wealth adviser at the Special Needs Planning Center.

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Why is LPL's biggest branch opening up its own B-D?

BY BRUCE KELLY

LPL FINANCIAL'S LARGEST branch office, Private Advisor Group in Morristown, New Jersey, has taken the unusual step of launching its own broker-dealer; the intention is to put the $29.6 billion RIA in a better position to grab referrals of advisers from custodians who work with registered investment advisers reluctant to be affiliated with LPL.

Private Advisor Group is already a behemoth of a firm, with about 700 financial advisers and $29.6 billion in client assets. It has been an industry success story for the past decade after its two owners, industry veterans John Hyland and Patrick Sullivan, opened the RIA in 2010.

But with a continuing stream of brokers and financial advisers leaving Wall Street banks, it was time for Private Advisor Group to launch its own broker-dealer, called PAG Financial, said Robert "RJ" Moore, who was tapped late last year to be the RIA's CEO.

LPL has recently seen at least one large office that launched its own broker-dealer wind up a competitor; in 2018, Independent Financial Partners, a hybrid like Private Advisor Group, said it was breaking ties with LPL to launch its own brokerage, IFP Securities. At the time, IFP had 500 advisers, but the divorce wound up being messy.

That doesn't appear to the case, at least for now, with Private Advisor Group and LPL.

Moore stressed during an interview that the new broker-dealer doesn't have a negative impact on the firm's relationship with LPL.

'NOT COMPETING'

Rather, the move is intended to bolster Private Advisor Group's profile when it gets in line for referrals from the major RIA custodians like Fidelity Investments and the Schwab Advisor Services, and smooth over any potential complications, Moore said.

Those custodians are reluctant to feed Private Advisor Group referrals of advisers because the brokerage assets would wind up at LPL, which has been looking to grow its own RIA custody assets and business with advisers.

"We're not competing with LPL," Moore said. "But say if there is an adviser with a practice comprised of 70% RIA advisory and 30% brokerage, and the adviser wants to affiliate with us as an RIA and already has a custody relationship with Fidelity, and he has those brokerage assets as well, now we can say to that adviser, affiliate with a broker-dealer with more connectivity to Fidelity. We can do that for you."

PAG Financial has been registered with the Financial Industry Regulatory Authority Inc. since the end of last October, according to BrokerCheck.

"Private Advisor Group is a great partner and business and we are excited to see them continue to grow and thrive," an LPL spokesperson wrote in an email. "It's a privilege to work with this leading firm and their valued advisors."

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Fidelity adds youth account to attract teens

BY NICOLE CASPERSON

FIDELITY INVESTMENTS CO. is launching a new type of account that allows teenagers to save and invest their money, according to an announcement last Tuesday.

Meet Fidelity Youth Account, a platform where teens will be able to trade U.S.-listed stocks, Fidelity mutual funds and most exchange-traded funds with no account fees or commissions. The platform also lets 13- to 17-year-olds open savings accounts and debit cards with no account fees or minimums, according to the company's website.

The only requirement is that the teen's parent or guardian must have an existing Fidelity account. Parents can monitor their teen's account activity online, and through monthly statements, trade confirmations and by viewing debit card transactions. They can also set up alerts to notify them of trades, transactions and cash management activity.

Once the teen crosses over to adulthood at age 18, their account will be transitioned to a retail brokerage account for free.

NEW GENERATION

The announcement comes as a wave of young retail investors in the U.S. are exploring trading for the first time. This new generation of investors sparked the GameStop trading frenzy earlier this year, drawing new attention to the financial literacy threat America has faced for years.

CONTINUED ON PAGE 18

Going indie easier with $100M in AUM

BY BRUCE KELLY

FINANCIAL ADVISERS managing at least $100 million in assets under management are best suited to leave the commission side of the retail securities industry to start an independent registered investment adviser.

Leaving a wirehouse or bank to launch an RIA is a tantalizing, if daunting, proposition for many financial advisers. The term is broadly applied to the roughly 300,000 retail-focused wealth managers and salespeople working in the U.S. right now.

If they start their own independent firm, advisers are in charge of the relationship with clients, build their own business and increase personal wealth, with the potential to sell their firm in the future. And in the short term, advisers also get a higher payout working as an RIA, and typically work with less intrusion from a large bank or financial institution.

KEY POINTS

- Advisers opening an RIA will have a leg up if they start with at least $100 million in assets.
- That level also means the firm is registered with the SEC.

Brokers are salespeople and charge commissions; RIAs are fiduciaries and charge clients fees. The two sides of the retail wealth management industry have blurred over the past two decades, but brokers have been leaving Wall Street to work at or open RIAs at a steady and significant pace.

'LINE OF DEMARCATION'

Of course, financial advisers who manage any amount of client assets are free to open an RIA, but those with $100 million have a leg up, according to speakers last Tuesday at the InvestmentNews RIA Summit.

"The question is how much in AUM should an FA or team have before moving to the RIA structure," said Chuck Failla, principal of Sovereign Financial, an RIA who led a discussion titled, "What to consider before going RIA or joining an RIA?"

See more RIA Summit coverage on PAGE 12

"I'm going to call it $100 million as a line of demarcation if you had to pick one," Failla said. "The reason why I like that number is because you already start to have some scale and the firm is registered with [the Securities and Exchange Commission] as opposed to a state, which I think has some advantages."

"That said, I really believe [an adviser] with $20 million or $30 million in AUM and a laptop, if he or she really has that desire to have their own RIA for friends and family, you could do that," he added. "But I think it would be harder and more expensive than joining another firm."

Citing an *InvestmentNews* study, Matt Matrisian, senior vice president with AssetMark, noted that $100 million in assets under management is an industry watermark of sorts. A typical 1% fee means that adviser is generating $1 million in annual revenue, a level where profitability begins to accelerate.

"Again, it depends on the adviser and their goals, but with that concern of having to invest in your business in mind, the $1 million [in revenues] mark or $100 million in assets is a good point of reference," Matrisian said.

REGULATORY ISSUES

Those looking to open an independent RIA must keep legal and regulatory issues in mind, noted Christopher Winn, CEO of Advisor Assist.

Wirehouse advisers specifically have to tread carefully when setting up an RIA to avoid being accused of having an outside, undisclosed business, which breaks securities industry rules, he said.

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Morgan Stanley CEO Gorman revamps leadership

BLOOMBERG NEWS

MORGAN STANLEY Chief Executive James Gorman unveiled his biggest leadership shake-up in more than a decade last Thursday, positioning a small group of lieutenants — and two in particular — as his most likely successors.

Andy Saperstein, who built the company into a wealth management powerhouse, and Ted Pick, the architect of Morgan Stanley's trading revival, were tapped as co-presidents and given expanded roles atop the Wall Street bank that's been gaining ground on rivals.

Among a slate of other changes, investment management chief Dan Simkowitz will gain clout as co-head of strategy alongside Pick, and CFO Jon Pruzan will become chief operating officer.

JAMES GORMAN

The shuffle thrusts the quartet into a public bake-off to succeed Gorman, whose 11-year tenure makes him one of the longest-serving heads of any major U.S. bank. Behind the scenes, the boss has told the board he plans to stay on at least three more years, according to a person familiar with the matter.

"I am highly confident one of them will be the CEO in the future," Gorman, 62, said of his leadership team in an interview. "It feels like the right time to more formally set up a transition over the next few years."

The shakeup happens to come just two days after JPMorgan

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Legislators move to boost use of ESG in 401(k)s

BY EMILE HALLEZ

BILLS INTRODUCED last Thursday in the House and Senate would formally overturn the Department of Labor's 2020 rule, Financial Factors in Selecting Plan Investments, and seek to make 401(k) sponsors more comfortable with ESG investing.

The Senate legislation, sponsored by Sen. Tina Smith, D-Minn., and Patty Murray, D-Wash., would "provide the legal certainty needed to reverse course and promote sustainable plans" and reestablish the tie-breaker rule for investments with environmental, social or governance criteria. That standard, which was the norm under the DOL for several administrations, gave fiduciaries clearer guidance to opt for ESG funds when the financial considerations were the same as those for other investment options.

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UBS hit with $4.8B fine over Puerto Rican bond sales

BY MARK SCHOEFF JR.

FINRA ARBITRATORS ORDERED UBS Financial Services Inc. to pay $4.8 million to investors who lost money on Puerto Rican bonds.

A three-person Financial Industry Regulatory Authority Inc. arbitration panel found UBS and UBS Financial Services Inc. of Puerto Rico liable for breach of fiduciary duty, breach of contract and rescission related to the sale of Puerto Rican bonds to the claimants, Eugenia Fidalgo Gutierrez, Mercedes Fidalgo Gutierrez and Fidalgo Gutierrez Holding Corp.

"The causes of action relate to the purchase of UBS closed end funds containing Puerto Rico bonds and the alleged unauthorized use of lines of credit and margin in claimants' accounts," the May 13 arbitration award states.

The claimants received $4,654,289 in compensatory damages for breach of

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Battle over risk analysis software for client portfolios gets ugly

SEAN ALLOCCA
ONTECH

The battle for risk analysis dominance took a nasty turn when market leader Riskalyze Inc. blindsided competitors with a campaign alleging the use of guesswork models that produce "wildly inaccurate" results.

A dedicated website cheekily named unhiddenlevers.com and a newly minted white paper added to the onslaught, in addition to a short video calling out HiddenLevers co-founders Raj Udeshi and Praveen Ghanta for naming a coronavirus-related risk scenario "Kung Flu."

"If you're going to make predictions, you'd better be accurate when your clients' future is on the line," the website reads.

Sadly, the aggressive campaign was heavy-handed and widely missed the mark. CEO Aaron Klein has since walked back the ads and said he regrets referring to specific companies by name.

After years of praising Orion Advisor Solutions and its CEO Eric Clarke, the real catalyst behind the campaign might have been Orion's recent acquisition of HiddenLevers in March.

Keep in mind, the turnkey asset management provider is a major platform with big-ticket clients like the Carson Group and Focus Financial. With Orion's backing, HiddenLevers will certainly ramp up its efforts and expand its profile. The technology is backed by a staff of more than 20 chartered financial analysts, two behavioral finance Ph.D.s, and roughly six CFPs, Clarke wrote in an email.

Perhaps Riskalzye was simply feeling the heat.

To be fair, Riskalyze dominates with a 25.8% market share, according to an adviser software survey. By comparison, HiddenLevers has just 1.6% of the market and another firm mentioned in the ads, RiXtrema, has less than 1%.

Questions remain, however, about the validity of the allegations lobbed at HiddenLevers. The predictive guesswork model that it uses makes assumptions about what will happen in the stock market and models the impact on a portfolio if those estimates are correct. According to Riskalyze — which uses a historical data model that calculates a range of probabilities based on actual risk in the underlying securities — any model that is not historical in nature is fundamentally flawed and perhaps even a fiduciary risk.

Experts told *InvestmentNews* that as long as models take in adequate data and accurately describe the data to clients, the methodology shouldn't really matter. Most models will fall within a certain target accuracy range, meaning most will have hits, misses and close calls. Risk models are just guidelines and most clients will readily understand that.

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Advisers walk a fine line when managing cash

BY JEFF BENJAMIN

WHILE MOST financial advisers continue to recommend their clients hold enough cash or liquid cash equivalents to cover between three and six months' worth of living expenses in case of an emergency, the crushing reality of historically low yields is leading some to shift their priorities when balancing safety and yield.

"I get the question about earning yield on cash at least once a week from clients," said Paul Schatz, president of Heritage Capital. "There are plenty of solutions, but solutions don't come with the same low level of risk as bank savings accounts."

Once presented with the notion that higher yields mean potentially risking principal, Schatz said some clients are content to lag behind the current rate of inflation.

But for those willing to take a few steps out on the plank to earn something on what can be considerable cash allocations, Schatz

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What advisers really want at the next in-person event

BY JEFF BENJAMIN

AFTER MORE THAN a year of virtual gatherings and Zoom calls, the road warriors of wealth management are champing at the bit to get back out there for in-person gatherings. But event organizers should be on notice that the pandemic-induced new normal has reshuffled the deck in terms of what financial advisers are expecting.

According to the results of a recent survey of 560 financial advisers, more than 82% highly value in-person events, compared to just 8% who find more value in virtual meetings.

But the lopsided result shouldn't be interpreted as a green light to go back to business as usual when it comes to expensive, glitzy mega-conferences that sometimes rely on celebrities and "fluff" to draw attendees.

CONTENT, GLITZ AND FEES

According to the 2021 T3/Inside Information Financial Advisor Conference Survey, the virtual conference experience has given advisers a taste of events they might not normally attend and as a result could lead to a growing demand for more specialized and niche events once things fully reopen.

"Everybody is trying to figure out when we're coming back, and about 50% of the people we surveyed said they're ready to come back to in-person conferences, but after more than a year of virtual events, a lot of advisers have gotten a chance to taste lots of different content," said Bob Veres, commentator at Inside Information.

While the largest industry events hosted by such major brands as Morningstar Inc., Charles Schwab Corp. and the Financial Planning Association have historically been able to attract thousands of paying attendees and command top rates from sponsors and exhibitors, Veres believes those hosting future mega-events might need to update the standard formula of content, glitz and fees.

Veres, the host of the annual Insider's Forum, expects the appeal of niche events to be elevated as long as the content is top-notch. Perhaps not surprising, when advisers were asked to rank the

importance of considerations for attending a conference, content topped the list, followed by the ability to network with peers. But number three on the list was the registration fee.

"That surprised me, because the registration fee is actually a very small component of the overall cost, which includes the adviser's time away from the office, travel and hotel costs," Veres said.

'FAMOUS SPEAKERS'

Among the things that ranked low on the list of considerations for attending were presentations by host company executives and "famous speakers" who may not be familiar with the wealth management industry.

Mindy Diamond, chief executive of Diamond Consultants, agreed that the organizers of large conferences might be overestimating the appeal of celebrity presenters. "I always felt that same way about famous presenters at conferences; it's kinda cool, but it doesn't help to elevate my business in any way, shape or form," she said.

Diamond, who was not involved in the Veres research study, agreed that after a year of virtual events that typically included very little fluff, event organizers

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Opinion

EDITOR'S NOTE

Pride is the word I'm looking for

I'm a huge "Hamilton" fan, so I don't quote it lightly. Last week, we were notified that *IN* is a finalist in six categories in the 67th Annual Jesse H. Neal Awards, and I cannot overstate the sense of accomplishment – and humility – this generates in me.

GEORGE B. MORIARTY

Our categories are:

1. Best Media Brand/Overall Editorial Excellence
2. Best COVID-19 Industry Coverage
3. Best Commentary (Bruce Kelly, On Advice)
4. Best Range of Work by a Single Author (Mary Beth Franklin)
5. Best Overall Art Direction (Scott Valenzano, Pablo Turcios)
6. Best Art Direction for a Cover (Scott Valenzano, Pablo Turcios)

Neal Award recognition is an honor any year, and the volume of recognitions this year is what brought Lin-Manuel Miranda's creation to mind.

More importantly, I'm honored to have the opportunity to represent and lead the team that put together an exceptional scope of work. This team has been resilient, creative and professional throughout the year. Each member deserves recognition, so in addition to those noted above, allow me to share their names: The editors are Paul Curcio, Sean Allocca, Susan Kelly and Liz Skinner. The journalists are Jeff Benjamin, Mark Schoeff Jr., Emile Hallez and Nicole Casperson. Our special projects manager is Brittney Grimes, our multimedia team is Stephen Lamb and Angelica Hester, and our digital designer is Ken Wilson.

They did not throw away their shot.

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Special-needs planning is hard but rewarding

In the May 17 issue of *InvestmentNews*, Emile Hallez wrote about the complex challenges and personal rewards of providing financial planning for special-needs clients. Among the individuals interviewed for his cover story was an adviser whose pedigree for providing advice to this underserved community truly stands out. Andrew Komarow, himself on the autism spectrum, has been an advocate for and champion of the special-needs community both as an adviser and as founder of Planning Across The Spectrum. He embodies the personal and professional qualities that are a credit to the financial services industry and serves as an inspiration to all advisers.

Special-needs planning is, to be sure, a niche market. Most of the advisers who serve these clients do so to accommodate existing clients, according to a 2017 survey by *InvestmentNews*. Komarow backed that data up, telling Jeff Benjamin and Bruce Kelly in The InvestmentNews Podcast last week that the most common way special-needs clients come to him is through their parents.

About one in five people in the U.S. have a disability, and that will likely increase as the baby boomer population ages, according to the American College of Financial Planning. About two-thirds of people who are caregivers reported being worried about having enough retirement income, and more than half said they don't know how to build a financial plan for special-needs dependents, Hallez wrote in his article.

Since the American College launched its Chartered Special Needs Consultant Professional Program, about 500 advisers have received the designation, according to the article.

> "WORKING WITH THIS OFTEN-UNDERSERVED COMMUNITY PROVIDES THE OPPORTUNITY TO TRULY MAKE A DIFFERENCE."

Jessica Tuman, head of Voya Cares Center of Excellence at Voya Financial, wrote in a contributed article for *InvestmentNews* last year that the growing costs and complex benefits for special-needs care require planning and knowledge of the resources available. "For advisers, working with this often-underserved community provides the opportunity to truly make a difference," Tuman wrote.

Indeed, special-needs financial planning poses many challenges, especially navigating the complicated legal and governmental rules surrounding disability benefits, Heather Lavallee, CEO of wealth solutions for Voya Financial, explained in a Bloomberg article. One bad decision by an adviser, she wrote, could create a tax burden for parents or render their special-needs child ineligible for government benefits to which they are entitled.

"Anyone thinking of getting into the special-needs planning market, I can tell you it's the most rewarding work, but it's the hardest niche you can pick and the least profitable," Komarow said on the podcast.

For that reason, it takes a special kind of adviser to take on special-needs clients and provide them with the level of service and attention they deserve. But being on the spectrum is not a prerequisite for entry into this market niche. So, be advised: Taking on clients with special needs may not become a growth area for your book of business and that probably shouldn't be your impetus to start; it is a labor of love.

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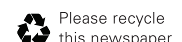

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ACCELERATING AI: WHY ADVISERS AND AUTOMATION NEED TO COLLIDE

ADVISORY FIRMS ARE MOVING TO ADOPT AI TOOLS TO ACHIEVE THEIR GROWTH OBJECTIVES, BUT IT'S NOT EASY, PARTLY BECAUSE FIRMS LACK THE DATA CONNECTIVITY THAT'S NEEDED FOR AI TO OPERATE EFFICIENTLY.

BY NICOLE CASPERSON

The doomsday prediction that fully digital advice platforms would cause the demise of human advisers hasn't panned out, but there is one critical technology where the collaboration between humans and robots could be table stakes for the future of financial advice: artificial intelligence.

There's a misconception in the industry that the advocates of artificial intelligence, or AI, envision a future in which financial advisers are replaced by emergent technologies, but this is not the case. The tech challenge still facing advisers in 2021 is not how to outwit the machines, it's how to cooperate with them, said Benjamin Brodie, chief technology officer at registered investment adviser GenTrust.

"Simply put, advisers are not going to be replaced by machines, they are going to be replaced by other advisers who recognize the value and the necessity of incorporating AI into their businesses," Brodie said.

AI, which refers to the simulation of human intelligence by machines programmed to think and act like humans, is expected to create $2.9 trillion of business value and 6.2 billion hours of work productivity in 2021, according to research by Gartner Inc. Moreover, wealth management firms that have increased their use of AI are reaping the benefits — with two times the success rates and three times the returns from AI investments, according to Accenture research.

Despite the benefits, advisers historically have been slow to adopt AI technologies across different segments of their business.

In fact, 84% of wealth management C-suite executives believe they must employ AI to achieve their growth objectives, yet 76% acknowledge they struggle to scale AI across the business in part because of uncertainties around what client experiences will look like in a post-pandemic world, according to Accenture.

Advisory firms face several other roadblocks to deploying AI across the enterprise, including an inability to establish a supportive organizational structure, the lack of employee acceptance and the absence of foundational data capabilities.

DOMINATING DATA

The challenges facing the advice industry when it comes to implementing AI are less about obtaining AI technology and more about firms not having the kind of data connectivity needed for AI to operate efficiently.

Advisers do not have patience to deal with the vast number of AI-based point solutions available, let alone figure out interconnectedness between data, said Hamesh Chawla, chief technology officer of Edelman Financial Engines, the nation's largest independent RIA with about $229 billion in assets under management.

What advisers want to see is a continued innovation toward a connected ecosystem, Chawla said. "They want to see that if they are working in a CRM today, the same information is flowing into another connective tissue."

CONTINUED ON PAGE 10

HOW ONE RIA USES AI

AI has been around since the 1950s, but advisers are just now adapting to the numerous ways the old technology can add value to modern practices, said Benjamin Brodie, chief technology officer at registered investment adviser GenTrust.

GenTrust, which manages about $2.4 billion in assets, built its own proprietary AI-enabled technology called Aria to better service clients. The RIA has identified successful use cases for AI, such as employing intelligent systems to plan, track and execute adviser workflows for servicing existing clients as well as landing new ones, Brodie said.

For example, automated systems monitor advisers' communication logs and help them keep in consistent contact with both clients and prospects.

"This allows advisers to deliver the level of service they are committed to without the added stress of having to keep track of so many moving pieces by hand," Brodie said. "In addition, complex cross-functional workflows are simplified through automated systems."

With just a few clicks, an adviser can submit a task on behalf of a client, something that would otherwise require extensive knowledge and time-consuming coordination between various operational teams, Brodie said.

"They can monitor and confirm completion of such tasks, and even larger projects, through integrated systems that keep deliverables consistent and accessible," he said. "Technology must fit into the on-the-go lifestyle of advisers, so all of this is done with attention paid to secure availability through mobile platforms as well as desktops."

AI can also connect advisers with what is happening with an investment team, and within clients' portfolios in real time. An integrated intelligent system gives advisers direct access to up-to-date portfolio risk analyses.

Advisers can use AI to analyze interactive client questionnaires and produce and present portfolio options based on individualized, multidimensional risk profiles in real time and with ease from an iPad or laptop, Brodie said.

"In this way, advisers are able to have virtually unlimited access to the expertise of our investment team, an otherwise finite resource," he said. "This AI-empowered intake flows seamlessly into client onboarding and portfolio construction processes and forms the basis of each client's highly individualized experience."

AI has also raised the bar in portfolio management for clients in terms of precision and specificity, Brodie said. By leveraging new AI-driven technologies, wealth managers can deliver more to clients, while keeping their head count low and continually increasing operational efficiency.

"AI allows users to digest vast amounts of information, equipping experts on an investment committee to react with agility to evolving market conditions," he said. "The ways in which AI enables an investment process fall into two broad categories: technologies that facilitate insights into markets, and technologies that enable highly specific analysis at scale."

To leverage AI for market insight, an RIA or wealth manager can utilize an analytical system that monitors markets, and continually performs in-depth analysis that might take a human several hours to perform on a single asset class, let alone a universe of many.

"In this use case, AI doesn't take on the role of the chief investment officer so much as that of an army of analysts who give the CIO the context they need to make decisions," he said.

— Nicole Casperson

CONTINUED FROM PAGE 8

The endgame is to get technology levers working in unison and articulate their impact through a scoring system, basis points, or pure dollars and cents, said Jack Sharry, executive vice president and chief marketing officer at LifeYield. This opens the door for advisers to easily recommend "next best actions" for their clients and show exactly how much value those actions will create, he said.

Just as Amazon suggests purchases to customers based on their search history, next best action enables advisers to identify and prioritize actions based on clients' needs and behaviors.

Morgan Stanley, for one, already has a next best action tool that lives on its WealthDesk platform. The tool factors in the adviser's investment strategy and the firm's internal research to suggest a prioritized list of activities tailored to each client's unique needs and preferences.

"It's all about data," Chawla said. "Our philosophy as a firm is to augment the planner experience and client experience, rather than impose technology and AI solutions on our planners.

"We built a connected technology ecosystem, and now the data is smoothly flowing through the system, allowing us to mine, learn and leverage it to produce intelligent insights for our planners and ultimately for our clients," he said.

The platform connecting Edelman Financial Engines products and services is the cloud-based Amazon Web Services. Chawla said cloud technology makes RIAs' use of these connected frameworks and models much easier than it was 10 years ago.

Differentiating a firm's client experience is a huge factor, too, since the competitive landscape among RIAs has not gotten any easier, said Adam Boyer, senior vice president of digital investment advice at digital investment platform Emotomy.

Connected AI tools enable advisers to provide a luxurious client experience as the industry competes with the higher client expectations that have been set by companies like Apple, Peloton or Netflix, Boyer said.

Tech providers are well positioned to come up with innovative solutions for these adviser needs and pain points. For example, wealthtech Riskalyze is leveraging AI-based integrations and the personalization trend to capture adviser attention.

Riskalyze co-founder and CEO Aaron Klein is looking into ways AI could make the Riskalyze trading dashboard a solution for advisers facing "decision fatigue," he said. "There's a lot of opportunity there to make software and integrations a lot smarter if we leverage AI in the right way."

Klein is also interested in the idea of AI helping create more intelligent defaults for advisers.

"Advisers need to be making decisions so that they are exercising their fiduciary duty," he said. "I don't think we see the AI necessarily making the decision for the adviser, as much as prompting the adviser with the default decision that is most likely."

THE STRUGGLE TO SCALE

The world generated roughly 1.7 megabytes of data every second in 2020, according to Accenture, and most organizations are struggling to manage the sheer volume of information and figure out how to use it without increasing their risks.

AI decisions that employ this data have a real bearing on people's lives, and placing decision-making capability in the hands of machines raises questions around ethics, trust, legality and responsibility that have made advisers wary about increasing their use of AI.

"This has never been truer than today, in a climate where fairness and justice are front and center of most of our personal lives," according to the Accenture report. Relying on AI can expose businesses to additional risks, including reputational, employment compliance, data privacy, and health and safety issues.

Employee adoption is also a struggle even though the majority of advisers (71%) see AI transforming the client-adviser relationship in the next year, and 100% expect that to happen within three years, according to Accenture.

There's a false impression that integrating AI technologies is taken care of by hiring a technology team to handle it, but that's where things fail and fall apart, said Cory Haberkorn, senior manager of global go to market for wealth and asset management at Salesforce.

> **"THERE'S A LOT OF OPPORTUNITY THERE TO MAKE SOFTWARE AND INTEGRATIONS A LOT SMARTER IF WE LEVERAGE AI."**
> AARON KLEIN, CEO, RISKALYZE

Today, advisers have access to new data points such as clients' online presence and behavior, life stages, events and geolocation, signaling that the industry is undergoing a strategic digital transformation that needs to be recognized by the business overall, Haberkorn said.

"I've seen it many times that if we view this as a technology project and a technology problem, it will be a problem forever because that will never fix it," Haberkorn said. "It will just waste a bunch of money and time, and we're not getting anything out of it."

To achieve more employee adoption, AI use cases need to be driven by the firm's business strategy, not the technology. Moreover, to successfully scale AI requires an operating model that includes defined processes and owners, ways to measure value, appropriate levels of funding, and established executive and organizational support.

Advisory firms should bring marketing and IT together to help solve a problem — and it needs to be driven by return on investment, Haberkorn said. Advisers need to treat AI as an ongoing and iterative process as the data landscape and underlying technologies evolve.

AI is also enabling advisers to provide a level of customized, in-depth service to all clients that would otherwise only be available to the select few who can afford a dedicated team or family office, said GenTrust's Brodie. The better that human advisers and AI work together, the more sustainable the result.

"If a firm is able to wield the power of automation effectively, it is able to deliver complexity and depth of analysis previously only afforded to the wealthiest of clients," he said.

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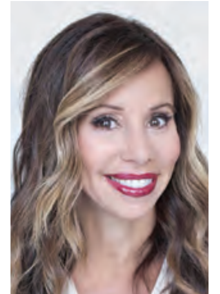
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Why the career path for advisers is less certain

BY EMILE HALLEZ AND LIZ SKINNER

The path to becoming a financial adviser is not as clear as the paths to other professions, like doctors and lawyers, but that's changing, and more people should be prepared for a heightened fiduciary obligation.

Professionals in any trade "have a sacred obligation to the client and society as a whole," Blaine Aikin, founder and principal of Fiduciary Insights, said during last Tuesday's keynote presentation at the InvestmentNews RIA Summit. The chasm in knowledge between financial professionals and their clients makes that all the more important, he said.

Since Dodd-Frank was enacted in 2010, "we've spent a great deal of time to migrate advice to a fiduciary status more consistently across the board," Aikin said. "It's really difficult to do that on a consistent basis."

Federal and state regulators, companies and industry membership groups have made that fiduciary status clearer, and there is now less of a gap between what is considered a transaction as opposed to a fiduciary relationship, he said. The SEC's Regulation Best Interest, the Department of Labor's revised fiduciary rule and several state-level standards are all behind a push toward putting clients' interests ahead of the advisers', he said.

The need for that is evident, both for consumers and professionals, with companies operating both broker-dealers and RIAs, Aikin noted.

Expect the government to increase protections for consumers receiving financial services, he said. The SEC recently hinted that there was insufficient testing with consumers over the effectiveness of client relationship summaries, on Form CRS, and it will likely change the form to make it clear whether the relationship is transactional or fiduciary in nature, Aikin said.

"I think you're going to see the SEC pushing more members of the broker-dealer community that are providing advice that clearly goes beyond a transaction" to accept more of a fiduciary role, if advice is not just incidental, he said.

Across various occupations, there are usually five attributes that determine whether someone is a professional, Aikin said. That includes having a code of conduct, a body of professional knowledge, governing or sanctioning authority, a pathway to the profession and recognition of the social and service obligation of professionals, he said.

For advisers, the pathway to a career is hardly certain.

A glance at the professional designations listed by Finra shows 212 options, for example. Of those, nine are accredited, meaning that they have undergone a process by a regulator or have been certified by a national organization. Some, like the certified financial planner designation, have gained prominence.

"There is a very wide variation in how strong they are," Aikin said. Many of the more than 200 remaining designations are valuable to have, even if they haven't gone through the accreditation process, he said.

But the fact that the government doesn't push financial professionals toward the designations means that "it's largely a free-market approach to how we distinguish one another in the financial services community," he said.

> **"IT'S LARGELY A FREE-MARKET APPROACH TO HOW WE DISTINGUISH ONE ANOTHER."**
> BLAINE AIKIN, FOUNDER, FIDUCIARY INSIGHTS

CONTROL YOUR FATE

In a separate panel focused on growth through mergers and acquisitions, Kurt MacAlpine, CEO of CI Financial, said advisers who "want to continue to control your fate" should avoid private equity buyers with their own goals.

Last week, CI completed its 18th deal since entering the U.S. wealth management space in early 2020, purchasing $5.2 billion Dowling and Yahnke.

MacAlpine and fellow panelists David Devoe, CEO of DeVoe & Co., and Rick Dennen, CEO of Oak Street Funding, all acknowledged that it's much harder for smaller companies to be active buyers because of their limited access to capital.

Any advice for a $50 million firm that wants to grow by buying smaller advice firms?

Dennen recommended that firms be very specific about their acquisition targets and look for those businesses that are most similar to their own.

DeVoe said the adviser M&A market has had seven successive years of record growth and he expects that acceleration will continue as firms try to get deals done before taxes rise.

Finally, MacAlpine advised those selling their firms to show strong organic earnings growth (excluding growth from market performance) and how they are benefitting from scale.

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Private equity digs its heels in on RIA buying spree

BY BRUCE KELLY

Private equity money and managers are just starting to settle in and get cozy with the wealth management and financial advice industries.

With registered investment advisers kicking off such steady revenues each year, don't expect private equity investors to stop investing in RIAs and make a dash for the door any time soon. Private equity managers typically invest in a business for up to seven years before looking to sell and cash out of their investments.

By most accounts, mergers and acquisitions of RIAs continue to be close to record numbers for the past several years.

Much of the capital for that deal-making comes from private equity funds and managers, and there are plenty of reasons for them to continue to be interested in the industry, according to members of a panel speaking last Wednesday at the InvestmentNews RIA Summit, a virtual event with nearly 700 attendees.

"The way that RIA businesses are run, and the margins that are part of it, I find that private equity is here to stay," said Steve Young, president and co-founder of HGGC, a private equity investor. A three-time Super Bowl champion, Young is also a member of the Pro Football Hall of Fame.

Private equity managers are keenly interested in the wealth management industry, said Young, who was speaking on a panel titled, "Cashing out: Succession planning, transfer ownership, P/E investment." Like the computer software industry, wealth management has recurring revenues from charging client fees, strong growth, good margins and low capital expenditures.

POTENTIAL FOR EROSION

Asked about the potential for erosion in the fees advisers charge to clients, Young replied: "There will be some changes and we'll [get] through them." He added that despite the possibility of

fee pressure, which could dampen valuations for firms or a create "a different underwriting perspective," as he put it, private equity will remain focused on the RIA industry.

At the start of the year, Merit Financial Advisors sold a minority ownership stake to HGGC and a private investor,

"THE WAY THAT RIA BUSINESSES ARE RUN ... PRIVATE EQUITY IS HERE TO STAY."

STEVE YOUNG, CO-FOUNDER, HGGC

Wealth Partners Capital Group.

"We've been talking about this migration from asset-based fees for a long time, and it hasn't happened yet," said Bob Oros, CEO of Hightower, an RIA aggregator owned by private equity shop Thomas H. Lee.

"Even if it did, the fundamental profile of the business is so attractive, the annuitized revenues, and even if we got away from asset-based fees, we would find some other form that looked similar," Oros said.

"And number two, there's high retention of advisers' clients," he added. "I don't see that changing. I think this business remains attractive for years to come."

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How firms can avoid getting burnt out by tech choices

BY SEAN ALLOCCA

Breakaway advisers welcome the ability to choose their own technology and tailor their practices to their lifestyles, but those choices can be some of the most vital decisions newly minted RIAs have to make.

"These are really small businesses," said Adam Boyer, senior vice president of digital investment advice at Emotomy. In fact, the majority of U.S. registered investment advisers have less than $100 million in assets under management, he said. "Making the right decision with budget choices becomes really important."

Advisers now have a wide array of options — from financial planning software, risk management and analytics platforms, digital marketing and CRM tools — and it's leading to fatigue, according to experts speaking last Tuesday on a panel at the InvestmentNews RIA Summit.

With dozens of fintech vendors to choose from, at what point does an abundance become too much?

"Looking back because, I remember those days, know what you need to get done and then take a deep breath," said Mike McDaniel, co-founder and CIO of Riskalyze, who opened up his eponymous RIA firm in 2005. Creating a spreadsheet of what advisers need and what they want can help cut through some of the clutter, he suggested.

It also helps to delegate some of the responsibilities, which takes some pressure off of firm owners. Consider bringing team members into the decision-making conversations early in the process to get the best feedback, he said.

For example, McDaniel took a hands-off approach to selecting a CRM vendor and let the team members who would be using the software on a daily basis make the final decision. That paid unexpected dividends, he said, including building trust with and empowering his team.

"Looking back, it has had a big impact," McDaniel said.

"KNOW WHAT YOU NEED TO GET DONE AND THEN TAKE A DEEP BREATH."

MIKE MCDANIEL, CO-FOUNDER AND CIO, RISKALYZE

BEYOND THE BOTTOM LINE

While a major factor in decision-making is cost, not all tech investment should be about the bottom line, Boyer said. Lifestyle advisers will want to ensure their tech stacks allow them to run the type of practice they want to build.

"There are other parameters about the choices to make in your technology," Boyer said. "If it's a lifestyle firm, then how can your tech get you there?"

As a business owner, nobody cares more about your business than you, which makes delegating tech decisions important, Boyer said. If you do rely on an industry expert, like an outsourced chief technology officer, it can certainly help advisers avoid the daily grind and keep them focused on the client-facing side of the practice. While hiring an outside CTO to help will take some of the pressure off, it might not make the most sense for some firms.

"It's great in theory," said James McClenahen, senior manager of product and development at SS&C Salentica, but advisers will want to be part of the important decisions. "It's a decision that's hard to unwind in the future."

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Rethinking fees means figuring out your value

BY LIZ SKINNER

Financial advisers should be rethinking the fees they charge clients if they're just billing 1% on assets under management simply because it's considered an industry norm, according to an InvestmentNews RIA Summit panel of experts last Wednesday. They need to be matching the value they provide clients with their cost.

Most advisers still charge just an AUM-based fee. Some advisers, though, are now experimenting with alternative fee models in which an additional flat fee per quarter, a monthly subscription fee or an hourly fee is added to an AUM-based fee, said Bob Veres, Inside Information commentator.

"If I survey advisers in 10 years, it will be mostly something other than AUM-based fees, but I don't know what it will be based on," Veres said.

FEES MATTER

Rick Ferri, founder and CEO of Ferri Investment Solutions, said "the 1% fee is a legacy" and is likely too high unless a client has about $250,000 or less.

"We are all supposed to be fiduciaries," Ferri said. "If you are charging someone $10,000 a year for something they could be paying $5,000 a year for, are you really being a fiduciary? You are supposed to be looking at all fees, including your own."

Sheryl Garrett, founder of Garrett Planning Network, a group of advisers who charge clients by the hour, said she advocates charging based on six-minute increments.

"If you are starting to think about a new fee structure, I recommend charging for your time," Garrett said, noting that's how most every other consulting-based profession does it.

SHERYL GARRETT

Financial advisers should figure out their value propositions and be able to explain to clients what they are providing, said Richard Chen, managing partner of his eponymous law firm.

"It's a whole lot these days, more than it used to be when it was an asset-based fee that was for active investment," Chen said. "Now it's much more financial planning."

Veres agrees. "The value proposition of the profession has evolved from 'I'm going to find you the very best actively managed mutual funds in the market,' to 'I'm going to give you really great advice on how to make your life more efficient financially,'" he said.

Veres recommends advisers start bifurcating their fee structures so that some fees cover financial planning and some asset management. "Gradually move from an AUM to a flat-fee retainer model, which is what I think the marketplace is mostly going to accept and embrace."

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Social Security to feel pandemic's effects

The Covid-19 pandemic has taken a toll on the Social Security system, both in terms of how long it takes to process benefits today and how well the program will be financed in the future.

Social Security Commissioner Andrew Saul warned last month that his agency will not be able to process benefits on a timely basis unless Congress increases its budget for more frontline workers and improved technology.

KEY POINTS

- Covid-19 has taken a toll on the Social Security system.
- Commissioner Andrew Saul warns that underfunding the system will increase benefit delays.

Meanwhile, Social Security watchers are anxiously awaiting the release of the annual trustees' report for a snapshot of how the economic fallout from the pandemic will affect the solvency of the critical retirement program.

At the start of the pandemic in March 2020, the Social Security Administration closed its field offices to the public except for the most critical cases that could only be solved in-person, shifting the bulk of its operations online and over the phone. The field offices remained closed today.

"The abrupt changes to the way we do our work has caused bottlenecks in certain workloads and service deterioration beyond our control," Saul wrote in a letter to Rep. John Larson, D-Conn. and chairman of the Ways and Means Subcommittee on Social Security. "2021 is a critical year to shape the agency for post-pandemic success, but our resources constraints will delay our recovery."

While President Joe Biden's budget request for the Social Security Administration of nearly $14.2 billion dollars for fiscal year 2022, which begins Oct. 1, represents a $1.3 billion increase over the current year's budget, that is still not enough, Saul said. In addition to processing applications for retirement and survivor benefits, SSA is also charged with handling more complicated requests for disability benefits.

"These [funding] decisions have a lasting negative impact on the service we can provide to the American public," he warned in an earlier letter to the same subcommittee. "It will increase waits for service from our field offices and on our 800 number as we begin to emerge from the pandemic."

UPDATE DELAYED

Meanwhile, it has been a little over a year since the Social Security trustees issued their last report on the financial outlook of the nation's essential retirement program. But it looks as if we may have to wait a bit longer to get an update on how the economic fallout from Covid-19 pandemic affected the crucial benefits program that relies largely on payroll taxes for its funding.

MARY BETH FRANKLIN

ONRETIREMENT

Last year, the Social Security and Medicare Trustees' annual report released on April 22, 2020, projected the combined reserves of the retirement, survivor and disability program would be depleted in 2035 — unchanged from the previous year's report.

The trustees predicted Social Security would be able to pay only 79% of projected benefits from ongoing payroll tax revenue in 2035, potentially resulting in a 21% across-the-board cut in benefits for all beneficiaries less than 15 years from now. But that report did not reflect the potential impact of the Covid-19 pandemic.

WARNINGS ISSUED

At the time, several organizations that closely monitor Social Security policy and funding issued warnings that the pandemic-induced recess would accelerate depletion of the trust funds. But the economy has bounced back faster and stronger than previously forecast, mitigating some of those doomsday forecasts.

For example, the Bipartisan Policy Center, a Washington, D.C.-based think tank, had predicted the combined Social Security trust funds could be depleted as early as 2029 if the impact of the pandemic's economic downturn were similar in duration and intensity to that seen during the Great Recession.

"It looks like economic impact will be closer to modest recession," Shai Akabas, director of economic policy at the Bipartisan Policy Center, said in an interview last month. He noted that while millions of people lost their jobs, others were able to continue to work remotely, resulting in K-shaped recovery in which parts of the economy suffered while others boomed.

"The people who were the least impacted by the recession pay the most Social Security taxes," Akabas explained.

FREE CALCULATOR

Such dire warnings about the program's finances prompted Joe Elsasser, president of the Covisum financial software company and financial planning firm, to create a free calculator consumers can use to gauge the impact of potential impact of future Social Security benefit cuts on their lifetime income. It's a simplified version of the firm's Social Security claiming tool for financial advisers.

The calculator is designed to help consumers make rational decisions about when to claim Social Security in the event the next trustees' report shows a further deterioration in the programs' finances. By supplying their year of birth and full retirement age benefit amount, an individual can see the impact of future benefits based on the size of a potential cut and the year it would begin. The default values are a 29% cut beginning in 2029. Users can email their results to their adviser.

"The tool demonstrates that even with a dramatic benefit cut, there is still value for most people in delaying benefits, though not as much as before any cuts," Elsasser said. "It is an attempt to debunk knee-jerk reactions to claim early."

(Questions about new Social Security rules? Find the answers in my 2021 ebook at MaximizingSocialSecurityBenefits.com)

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BY MARY BETH FRANKLIN

Requesting lump sum Social Security benefits retroactively

Tom: Could you confirm my thinking on a client situation? Clients are married. Wife is older. Both spouses have strong earnings records based on their respective careers. His benefits will be a little larger than hers. The husband was born in 1953 and the wife in 1952, meaning they are eligible to file a restricted application for spousal benefits. We will recommend that she apply for her retirement benefit this year at 68 and have him apply for spousal benefits on her record and allow his to accrue until his age 70 and then switch to his own benefit. Have I missed anything?

MBF: Perfect strategy, Tom. It generally makes sense for the spouse with the higher benefit — the husband in this case — to wait until age 70 to claim his maximum Social Security retirement benefit. In the meantime, because he was born before Jan. 2, 1954, he is eligible to file a restricted claim for spousal benefits once his wife files for her Social Security. His spousal benefit would be worth half of her full retirement age benefit amount.

Since both of your clients are older than their full retirement age, they may have an additional claiming option, depending on their income goals.

When the wife applies for her Social Security, she can request up to six months of retroactive benefits in a lump sum. The husband can also request a lump sum when he files a restricted claim for spousal benefits, reflecting the retroactive start of his wife's benefits. Retroactive benefits are available only to individuals who file for Social Security after their full retirement age or later. The maximum lump sum is limited to six months and can't be paid for months prior to full retirement age.

For the wife, the trade-off is receiving a lump sum versus collecting an additional six months of delayed retirement credits worth 4% of her full retirement age benefit amount.

There is no trade-off for the husband since spousal benefits max out at full retirement age. However, be aware that the lump sums could boost the couple's income taxes and future Medicare premiums.

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Congress, stop the madness and eliminate RMDs once and for all!

Congress has come up with what some are calling SECURE 2.0, or Son of SECURE — a bill entitled Securing a Stronger Retirement Act that includes many positive changes to encourage retirement savings.

IRAALERT
ED SLOTT

However, one seemingly pointless proposal in the legislation would raise the required minimum distribution age from 72 to 75 over 10 years. Most advisers might argue that consumers will probably love this. After all, isn't delaying RMDs a good thing? No.

First, some statistics. In the explanation of the Proposed RMD/Life Expectancy Table Regulations issued by the IRS in 2019, the Treasury Department said only about 20% of those who are subject to RMDs take the minimum amount, which means that the remaining 80% take more, because they need the funds. Delaying RMDs would only help the 20% who don't need the money.

Last year, the CARES Act waived RMDs as a result of the Covid-19 pandemic, but again, this only helped those who didn't need the money. Telling people who need the RMD funds that they don't have to take the withdrawals is meaningless — they need the money.

But even those who don't need the funds may not fare well in the long run by delaying RMDs to a later age.

In the SECURE Act, Congress eliminated the stretch IRA (the extended post-death tax deferral for non-spouse beneficiaries), saying that retirement funds should be used for retirement, not as a wealth transfer or estate planning vehicle for future generations. The legislation replaced the stretch IRA with a 10-year rule for most non-spouse beneficiaries, such as adult children and grandchildren.

The SECURE 2.0 proposal would delay the start of RMDs to age 75, leaving fewer years for the 20% to use these funds in retirement. (The 80% are unaffected because they will withdraw the funds they need anyway.) This goes against the SECURE Act rationale that these funds should be used in retirement, since raising the RMD age means more of the funds will pass to beneficiaries. It also tightens the timeframe in which IRA funds will have to be withdrawn and taxed to however long the IRA owner lives, plus the 10 years after death. That could cause a bunching of income into those years.

Delaying RMDs would likely mean people take larger RMDs when they do begin, potentially resulting in higher tax bills. As such, putting off RMDs to later years may result in higher overall taxes than if the RMDs were spread over more years.

RMDs have always been a sore spot for seniors. Before the SECURE Act, the RMD age of 70½ was a constant source of confusion, particularly in the first year. One of the best provisions in the SECURE Act was that it eliminated that half-year issue by raising the RMD age to 72. But even that change left many confused about whether they would use age 72 or follow the prior rules, based on their age. Now SECURE 2.0 would create the same issue, raising the age to 73 in 2022 and then to 74, and 75 over the next 10 years. What a mess!

20%
PORTION OF THOSE SUBJECT TO RMDS WHO TAKE THE MINIMUM AMOUNT

Mistakes in calculating RMDs have been rampant and cause anxiety among seniors, who worry about taking the right amount knowing that there's a 50% penalty hanging over their heads if they come up short. In reality, virtually no one ever paid that penalty since the IRS would waive it for any reasonable cause, including confusion, calculation mistakes and medical reasons. Some seniors were dealing with illness and forgot to take their RMDs, resulting in having to seek advice from financial advisers and tax preparers to help them make up the missed RMDs and file for RMD penalty waivers.

RMDs cause problems for beneficiaries too. Navigating the complicated rules for the year-of-death RMD from an inherited IRA can add unnecessary stress at the worst possible time for grieving family members.

RMD PENALTIES COULD INCREASE (BY REDUCING THEM)

A seemingly taxpayer-friendly item in the proposed law may indirectly result in more people paying the penalty for missed RMDs (unless I am being overly cynical). The provision calls for a reduction in the penalty from 50% to 25%, and then even lower to 10% if the missed RMD is timely made up. This seems a bit devious since it could result in people paying a 10% penalty when under the existing law there was no penalty to be paid, since the former 50% was almost always waived. A 10% penalty might be more easily assessed since it is much less draconian. Hopefully, the IRS will be as liberal waiving the 10% penalty as it was with the 50%. In addition, this new 10% penalty will no doubt be confused with the 10% early distribution penalty. There would now be the same 10% penalty for withdrawing too early or too late. Add this to the list of annoyances that will keep seniors up at night.

GET RID OF LIFETIME RMDS

Why bother with lifetime RMDs at all anymore? They are completely unnecessary, especially since the SECURE Act set an end date for when retirement funds will have to be withdrawn after death with the 10-year rule. Why not just eliminate lifetime RMDs and all the problems and worries that come with them? That would harmonize the RMD rules with Roth IRAs, which have no lifetime RMDs.

Doing so would certainly simplify the rules for retirement accounts, which Congress has long held out as a goal. The RMD rules are so complex that in our two-day workshop, we have to spend at least a third of our time explaining them to advisers so they can explain them to their clients.

Eliminating lifetime RMDs will have close to a zero-revenue effect (or more likely result in increased tax revenue) since 80% of people will be taking what would have been the minimum or more anyway because they need the funds to live on in retirement. Why make them worry about what amount to withdraw, going through their IRA statements and making calculations? Let them take what they need when they need it. It might just be that they end up withdrawing more, thereby increasing revenue for the government without any RMD anxiety.

The 20% who don't need the funds may be doing themselves a disservice if they don't take withdrawals during their lifetime. The eventual tax bill for their heirs will be bunched into a 10-year window, likely increasing the overall tax paid. Delaying RMDs even for those who don't need the funds would not be a good tax move. Even the 20% might end up withdrawing more during their lifetime to smooth out the tax bill.

NO RMDS MEAN MORE ROTH CONVERSIONS

Another benefit (for both the government and retirees) to eliminating lifetime RMDs is that all IRA withdrawals could be converted to Roth IRAs. This would increase the government's take and allow more people to build tax-free Roth savings.

The revenue provisions of the proposed bill, where they show how they are going to pay for everything in the bill, included several ways to encourage more Roth contributions by creating Roth options for SEPs and SIMPLE IRAs. Congress also proposed having plan-matching employer contributions and catch-up contributions go to Roth plan accounts. It's clear that Congress loves Roth IRAs (they really want full "Rothification") because of the revenue it brings in when tax deductions are not claimed for contributions to retirement accounts.

RMDS HAVE ALWAYS BEEN A SORE SPOT FOR SENIORS.

If Congress likes Roth IRAs so much, eliminating lifetime RMDs would open the door to more Roth conversions. Currently, RMDs cannot be converted to Roth IRAs, but if there were no RMDs, all IRA funds could be converted. That's what happened last year when RMDs were waived. Many people did Roth conversions of funds that would not have qualified for conversions had they been treated as RMDs. Eliminating lifetime RMDs would give rise to an increase in Roth conversions which means more government revenue.

There is no longer any need for lifetime RMDs. Congress, please end the RMD misery for seniors (who vote!) and raise revenue at the same time. It's a win-win.

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

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FIDELITY

CONTINUED FROM PAGE 2

A critical factor for Fidelity's youth accounts is going to be gamifying knowledge instead of actions, said Nikhil Sharma, managing principal at Capco.

"The user experience of this initiative is going to be key, so that they don't gamify it too much," Sharma said. "It can look like a game to younger adults but a bit heavier on literacy side so a younger population understands the risks of investing, even before committing to an action."

GAMIFICATION UNDER FIRE

Gamification strategies have come under fire since the GameStop stock surge, generating harsh criticism at the time from lawmakers.

"Fidelity is committed to responsibly supporting young investors," Jennifer Samalis, senior vice president of acquisition and loyalty at Fidelity, said in a statement. "Our goal for the Fidelity Youth Account is to encourage young Americans to learn through action and foster meaningful family conversations around financial topics."

With Fidelity Youth Account, teens will be able to manage a spending and savings account, along with a debit card with all domestic ATM fees reimbursed, and will have a choice of cash sweep options for any uninvested cash.

Teens will also be able to buy and sell domestic stocks, most ETFs and Fidelity mutual funds, such as Fidelity ZERO expense ratio mutual funds, and have access to Fidelity's Stocks by the Slice, where they can learn the basics of investing using fractional shares for $1.

Fidelity's platform also has in-app education modules that include a library of jargon-free educational content that explains complicated financial concepts in simple ways.

Fidelity began piloting Fidelity Youth Account in mid-2020 with Fidelity employees who volunteered and had teen children ages 13 to 17. By the end of April, the pilot included 759 total accounts.

After the pilot, nearly three in four teens (73%) were more confident about achieving financial success. Using the account increased their knowledge about trading stocks as well as about researching investments by more than double.

Fidelity also offers the free online game Five Money Musts for individuals who want to learn about how to manage their money to prepare for the "real world," according to the announcement. Open to everyone, Five Money Musts allows users to explore the basics of budgeting, credit cards, debt, investing and retirement. The game tracks progress and grants points based on the decisions users make about different financial choices.

LATEST MOVE

The new youth accounts are just the latest move by Fidelity to capture the influx of young investors now seeking out financial services, largely fueled by the pandemic. In March, the company offered free and unlimited trading via its mobile app, Fidelity Spire.

Fidelity Spire trading, which the company has teased since Fidelity Spire's launch last summer, lets users buy and sell stocks, exchange-traded funds and mutual funds, with no minimum on how many times a user can trade per day. The app is free for everyone and does not require users to be Fidelity customers.

The introduction to free trading launched about a month after Fidelity hosted a Reddit "AMA" or "Ask Me Anything" session to engage with customers and answer live questions regarding retail trading. More than 1,300 comments from Redditors flooded the discussion, yet trading education was largely overshadowed by comments comparing Fidelity's mobile app interface to Robinhood's.

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UBS

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contract and rescission and $142,557 for breach of fiduciary duty. In addition, UBS paid $9,767 for the claimants' witness fees. The claimants requested more that $15 million in damages.

One of the arbitrators, William D. Goren, concurred with most of the award but dissented on the damages for rescission.

The case was filed in July 2019. The bond sales date back to 2013, when the Puerto Rican municipal market collapsed, triggering a wave of legal actions against UBS and other financial firms that sold the instruments.

The lawyer for the investors, Francisco A. Feliu Nigaglioni, declined to comment.

UBS criticized the decision.

"Although the arbitrators awarded less than the full damages claimants requested, UBS is disappointed with the decision to award any damages, with which we respectfully disagree," a UBS spokesperson said in a statement. "UBS notes that the decision in this case was based on the facts and circumstances particular to these individual claimants, and is not indicative of how other panels may rule with regard to other customers who invested in similar products."

The arbitrators allowed the claimants to introduce in the record arbitration awards from previous bond cases against UBS but did not allow them to introduce regulatory settlements, according to the award.

EXPUNGEMENT DENIED

The arbitrators denied a request from UBS to expunge the case from the BrokerCheck records of brokers Miguel Pascual and Eduardo Gonzalez. They were not named as parties in the proceeding. Gonzalez continues to work for UBS, while Pascual is now with Nationwide Planning Associates. Both are based in Puerto Rico.

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MORGAN STANLEY

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Chase & Co.'s Jamie Dimon — the only head of a giant U.S. bank with a tenure longer than Gorman's — reconfigured his own leadership team, promoting two women who could someday assume his post.

Morgan Stanley's CFO role will pass to investor relations head Sharon Yeshaya, giving her a more prominent voice among investors and analysts.

The spot as Gorman's top deputy had been vacant for two years since the exit of the firm's colorful President Colm Kelleher. That departure set off a race for the next generation of executives.

Gorman ultimately landed on two who were key to Morgan Stanley's comeback from the 2008 financial crisis, helping to strengthen its Wall Street operations and building up a franchise tending to customers' money. Morgan Stanley has turned out the best stock performance among top rivals in the last five years.

REVENUE GENERATOR

Saperstein, 54, led the bank's charge in wealth management, building a reliable revenue generator that's become the envy of many rivals. Gorman himself had made his name in that business at Merrill Lynch, where he worked with Saperstein, and together the pair made it the centerpiece of Morgan Stanley's pivot after the financial crisis.

Along the way, Morgan Stanley took over Smith Barney from Citigroup and last year scooped up ETrade Financial Corp. — assembling a franchise that contributes almost as much to the top line as the investment bank.

With Pick, 52, Gorman is promoting a turnaround artist. He's credited with rebuilding the firm's equities business after the financial crisis, and followed up by overhauling a fixed-income division that had been flagging, which won him oversight over Morgan Stanley's investment bank.

The sedate handoff Gorman is setting up is quite a change from when he assumed the top perch in 2010.

"Back then, we were reeling from the financial crisis, we had a number of problems we needed to resolve," Gorman said. "This is different. You make these changes when you can and from a position of strength."

LEGISLATORS

CONTINUED FROM PAGE 3

The companion bill in the House is sponsored by Rep. Suzan DelBene, D-Wash.

Last year, the DOL tamped down on ESG investing in retirement plans with two different rules — one affecting financial considerations in plans and another related to proxy voting and shareholder rights affecting pensions plans. The financial factors rule did not expressly prohibit ESG in 401(k)s, though it was generally perceived as having a chilling effect.

AMENDS ERISA

However, in March the Biden administration announced that it would not enforce the Trump-era rules and would reexamine the need for them.

"Retirement security is all about planning for the future — and you can't truly do that if you aren't able to consider the environmental, social and governance factors that will shape the future," Murray said in a statement.

The legislation introduced last Thursday would amend the Employee Retirement Income Security Act to specifically allow plans to consider ESG factors "when they are expected to have an impact on investment outcomes, provided plans consider them in a prudent manner consistent with their fiduciary obligations," according to the announcement.

Perhaps most significantly, the legislation would allow ESG factors to be considered in the selection of a plan's qualified default investment option, which is usually a target-date fund. The DOL's 2020 rule all but prohibited such QDIAs.

Plan fiduciaries that choose ESG funds would "not be required to maintain any greater documentation, substantiation or other justification" for picking those investments, according to the Senate bill's text.

By their nature, ESG considerations are financially material, Lisa Woll, CEO of US SIF, said in a statement supporting the legislation.

"Without this clarification, plan fiduciaries may remain reluctant to offer sustainable investment products in default options due to concerns about regulatory and litigation risks," Woll said. "In fact, it is prudent for QDIA investments to consider long-term threats like climate change to protect the long-term interests of plan participants."

SUPPORT FROM SIFMA

The legislation also has support from Sifma, the American Retirement Association, Morningstar, the CFA Institute and Smart USA, a provider planning to launch a pooled employer plan this year.

"It is clear that ESG factors can have an economic impact. It is also possible to include ESG factors in the investment decision-making process in a way which is entirely consistent with a fiduciary's responsibility to ensure appropriate investment returns," Smart USA CEO Jordan Ledford and Catherine Reilly, its director of retirement solutions, wrote in a letter to Smith's office.

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UBS begins plan to cut 700 jobs

BLOOMBERG NEWS

UBS GROUP has started a broad round of job cuts across its largest divisions as part of a restructuring plan intended to save the bank $1 billion over the next three years.

The reductions are taking place in the investment bank, wealth management unit and Swiss business, people with knowledge of the matter said.

Over the next three years, as many as 700 positions are expected to be eliminated in Switzerland alone, with the bulk at the corporate cost center and about 200 between wealth management and the bank's Swiss unit for personal and corporate banking, the people said. That's on top of about 125 cuts still to come from a previous wealth restructuring.

Chief Executive Ralph Hamers, in his first year in the job, is taking a deep look at where he can cut costs and digitize the bank's offering. The bank said it would take a $300 million restructuring charge related to the cuts in the second quarter.

UBS declined to comment.

The job cuts this month are a first wave, the people said, as more reductions are expected over the next three years as the bank rolls out its digital strategy.

At least a dozen managing directors and junior employees in the advisory and trading units of the investment bank recently lost their jobs, while another five managing directors and several executive directors in the wealth management division were also let go, the people said.

The investment bank cuts were mostly roles that almost exclusively served the wealth unit's clients, the people said.

RISK ANALYSIS

CONTINUED FROM PAGE 4

After all, predictions about market performance are about as reliable as weather forecasts.

HIGHLIGHTING METHODOLOGY

Like other wealth management debates, there is likely real value in both approaches, and advisers should have the ability and the option to decide which methods are best suited for their practice.

The ad campaign did accomplish the goal of highlighting methodology — and it's a worthy discussion to have. After all, advisers need to be aware of the underlying technologies that support their desktop tools to make sure they're best serving client needs. Unfortunately, there's probably not enough long-term evidence to determine effectively which model reigns supreme, according to experts.

While it's too early to tell if the marketing campaign will bolster Riskalyze's position in the market, it did start a healthy discourse. What's going on under the hood of new technologies is important for advisers to understand in order to make sure the tools are best suited for clients.

Hopefully next time, we'll get there without all the drama.

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CLIENTS' CASH

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recommends iShares 1-3 Year Treasury Bond ETF (SHY), which has a current SEC yield of 0.04% and is down 0.02% from the start of the year. The ETF gained 3.03% in 2020.

To put that in perspective, the shortest-term certificates of deposit are yielding less than 65 basis points, according to Bankrate.com. Savers would have to lock up their money for at least five years to get a CD rate close to 1%.

Moving further out the risk spectrum, Schatz, who doesn't charge fees on cash balances, will direct clients to Pimco Short Maturity Active ETF (MINT), iShares Short Maturity Bond ETF (NEAR), and Invesco Ultra Short Duration ETF (GSY), which have SEC yields between 27 and 39 basis points.

Dennis Nolte, vice president at Seacoast Investment Services, often directs client cash balances to the online bank Ally, yielding about 0.5%, but said he gets some pushback because many of his clients are not familiar with and therefore uncomfortable with online banking.

"A local credit union sponsored by a large employer at a 0.4% yield" is often his last resort, he said. "Some of my clients like a local presence if the yield difference isn't life-changing. Most clients think the difference isn't worth the uncertainty, even with FDIC coverage, because 2008 isn't that far away for some folks."

TAKING ON RISK

The recent stock market turmoil might make it easier for some advisers to convince clients to hold cash, but the trends of low yields and looming inflation from record government spending are likely here to stay.

"Unfortunately, with rates near all-time lows and massive amounts of stimulus making their way into the system, bonds are in a precarious position," said Jamie Ebersole, founder and chief executive of Ebersole Financial.

Among the "few things that investors can do," he said, is realize that they won't earn much on cash in the near term without taking on risk.

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IN-PERSON EVENTS

CONTINUED FROM PAGE 4

should start to realize that the content is often all advisers are looking for.

Among the findings from the survey, Veres noted that financial advisers have grown tired of political commentary coming from the stage, including presenters specifically analyzing politics, as well as presenters who express their personal political opinions.

hybrid event will have to be rethought because you will have two different classes of attendees," he said. "You might get some revenue from a larger group of people who want the content but don't want to travel to the event, but then you have still got to sell the exhibit hall without as many attendees. A lot of it is still up in the air."

Based on the way the wealth management industry quickly adapted to the shift to virtual, Diamond is confident the industry's leaders will figure it out. But she also believes the old ways are already in the rear-view mirror.

"ANY FIRM THAT'S MARRIED TO ... THE OLD WAYS IS PROBABLY GOING TO BE LEFT BEHIND."

MINDY DIAMOND, CEO, DIAMOND CONSULTANTS

According to the report, conference attendees are looking to learn things they can take back to the office.

When asked the rank the most important components of a conference experience, the respondents listed presentations related to practice management and client service, conference location, technology-related presentations and networking, in that order.

While there has been a lot of discussion about industry conferences rolling out next year with hybrid models for in-person and virtual attendees, Veres said even that seemingly simple tweak comes with challenges.

"I think the whole economics of a

"Any firm that's married to just one way of doing events or the old ways is probably going to be left behind," she said. "One of the biggest reasons advisers are leaving big brokerage firms is they feel their leaders are not listening to what's important to them, and if a firm is going to put on a conference and is married to one way of doing things because that's the way they've always done it and that's the way they get sponsors, they will lose."

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