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CI Financial adds Bay-area firm, sets up shop in Miami

BY JEFF BENJAMIN

IT WAS A BIG week for CI Financial. One day after logging its 21st acquisition of a U.S. wealth management firm in less than two years, the Toronto-based RIA aggregator announced the establishment of a U.S. headquarters in Miami.

Since entering the U.S. market in early 2020, CI has amassed more than $80 billion worth RIA assets south of the Canadian border and has more than $260 billion in global assets.

"Miami is an incredible place to establish our U.S. headquarters and support our fast-growing U.S. business," Kurt MacAlpine, CI's chief executive, said in a statement.

"It serves as the next logical step for our expansion plans as we work to build the leading high-net-worth wealth management platform in the country," MacAlpine said. "In addition, Miami is a vibrant, multicultural city that offers a deep talent pool, an attractive location for recruiting and a very business-friendly environment."

> **KEY POINTS**
> - CI Financial logged its 21st U.S. wealth management acquisition in less than two years.
> - The Toronto-based RIA also established a U.S. HQ in Miami.

CI, which last Tuesday announced the acquisition of $5.2 billion Portola Partners in Menlo Park, California, will represent the largest financial institution ever to place its headquarters in South Florida, according to Miami Mayor Francis Suarez.

"The significance of this cannot be overstated and moves us further towards our goal to become the capital of capital," Suarez said. "We thank Kurt MacAlpine, the board of directors, their executive team, and our own Venture Miami team for supporting their move to the City of Miami."

The office, located in the city's Brickell district, will be home to CI's U.S. operations and the primary location for its U.S. leadership team. CI's executive officers will divide their time between the Miami and Toronto offices. CI expects to expand its presence in Miami over time as the firm continues to execute against its U.S. corporate strategy.

"We are thrilled to welcome CI Financial to Florida," Gov. Ron DeSantis said in a statement. "Their move is the latest example of our welcoming business climate at work — something we continue to see from Miami to Pensacola. We appreciate CI Financial's commitment to our state and wish them all the success."

BAY AREA FOOTPRINT

The Portola Partners deal will expand CI's footprint in the San Francisco Bay area.

The announcement described Portola Partners as an RIA with "substantial expertise at the intersection of investments and tax, wealth transfer, estate and charitable planning."

Many of Portola's clients are from the San Francisco Bay area; they include technology company founders, executives and venture capitalists.

"Portola's expertise and client focus

CONTINUED ON PAGE 22

Biden's tax plan could upend Roth strategy

BY MARK SCHOEFF JR.

TAX REFORM PROPOSALS to finance the massive budget bill being cobbled together in Congress would close the door on an increasingly popular retirement savings strategy among advisers' wealthy clients.

Last Wednesday, the House Ways and Means Committee approved on a mostly party line vote, 24-19, legislation that comprises its portion of a sweeping $3.5 trillion Build Back Better Act that contains Biden administration priorities for social and climate programs.

The panel's measure features an array of provisions — including paid family and medical leave and a mandatory auto-IRA program for small businesses — as well as approximately $2.3 trillion in tax increases on high-income Americans to help finance the larger budget bill.

ONE DEM VOTED WITH GOP

After 40 hours of debate over four days, the committee's Democratic majority advanced the legislation. One Democrat joined all Republicans in opposing it.

"These life-changing provisions will level the playing field, expand opportunity and rebuild our economy to be more equitable and inclusive," Chairman Richard Neal, D-Mass., said in a statement.

Rep. Kevin Brady, R-Texas and ranking member of the committee, asserted that the legislation raises taxes on the middle class and small businesses.

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Schwab hit with class action over cash sweeps

BY NICOLE CASPERSON

CHARLES SCHWAB CORP. has been slapped with a class-action complaint filed by three investors who claim the firm systematically violated its fiduciary and consumer protection duties via its robo-adviser Schwab Intelligent Portfolios' cash sweep program.

The complaint alleges that Charles Schwab Investment Advisory, the subsidiary that manages the robo-adviser, placed its interest and those of Schwab before the interests of its customers by over-concentrating SIP program accounts in cash relative to other assets. The complaint, filed Sept. 10 in the U.S. District Court in Northern California, alleges that Schwab "willfully engaged in the unfair and unlawful acts and practices … and knew or should have known that those acts and practices were unfair and unlawful."

A Schwab spokesperson said the firm does not comment on active legislation.

'UNWARRANTED AND UNFAIR'

The class-action suit was filed by plaintiffs Lauren Marie Barbiero, Kimberly Jo Lopez and William Kenneth Lopez. The three investors claim that because Charles Schwab Investment Advisory did this, the plaintiffs and other investors who are a part of the program paid "hundreds of millions of dollars in unwarranted and unfair cash sweeps to Schwab and collectively missed out on over $500 million in portfolio growth since the inception of the SIP Program," according to the complaint.

Schwab's cash sweep program has garnered regulatory scrutiny in recent months. In July, Schwab disclosed that the Securities and Exchange Commission was probing the brokerage's robo-platform regarding disclosure issues. The brokerage has not detailed the SEC's investigation, but announced the company will take a potential $200 million charge in the second quarter related to the inquiry.

Following the SEC's announcement, research firm Backend Benchmarking estimated in August the Intelligent Portfolios platform and its high cash allocation within its cash sweep program could be costing investors more than $500 million in portfolio growth over the past six years. Instead of charging an advisory fee, Schwab's robo earns revenue by charging for its underlying exchange-traded funds and on interest collected on holding clients' assets in cash.

COMMON PRACTICE

The cash spread, as it's called, is the difference between what Schwab earns in interest and what it actually pays clients. The practice is certainly nothing new and is common with almost all of the big banks using them, and it's part of the reason clients earn next to nothing in interest in traditional savings accounts.

Using a high cash allocation to generate revenue has allowed Schwab to market its robo-adviser as technically having no advisory fee, and the brokerage has made its fee structure front and center on its website so customers can read about the practice.

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Galvin fines MML over Roaring Kitty

BY BRUCE KELLY

Massachusetts Secretary of the Commonwealth William Galvin last Thursday said he had fined MML Investors Services $4 million over the firm's failure to supervise agents, including Keith Gill, who is known on some social media sites as "Roaring Kitty."

The broker-dealer also agreed to overhaul its social media policies, according to a statement from Galvin's office.

MML Investors Services is the retail-focused broker-dealer subsidiary of MassMutual, the giant insurer.

Under the consent or-

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WILLIAM GALVIN

What LPL's offering employee advisers

BY BRUCE KELLY

LONG A POWERHOUSE at recruiting advisers who work as independent contractors, LPL Financial is putting its money where its mouth is when it comes to its new effort to hire employee financial advisers.

LPL's recruiting deal for employee advisers has two parts. The first is an initial signing bonus of up to 150% of an adviser's prior-year total revenue when the adviser or team walks in the door; the second is based on the adviser's assets. Such bonuses are paid out over time, and the second part of LPL's bonus comes in the form of a multiyear forgivable note, according to industry sources who spoke anonymously.

The employee financial advisers that LPL is targeting, including those from the four wirehouses, have to be highly profitable and have a large amount of client assets in fee-based accounts to qualify.

Take an adviser who's an employee with $100 million in client assets, most charging fees. Such an adviser typically generates around of $1 million in annual revenue.

That hypothetical adviser could see an upfront bonus of 150% of

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Morgan Stanley acquisitions expand its pipeline of new clients

BY BRUCE KELLY

WITH ITS MAJOR recent acquisitions in the rearview mirror, Morgan Stanley & Co. has multiplied its potential pool of wealth management clients by at least four times.

Some in the broad wealth management industry wonder whether financial advisers at wirehouses like Morgan Stanley ever get their hands on a fresh group of clients in the wake of a big acquisition or a firm's building a new platform for investors who don't have the wealth, typically at least $500,000, to work with a wirehouse adviser.

Regardless, Morgan Stanley is clearly pleased with its expanded pool of possible clients. Morgan Stanley said in February 2020 that it was buying ETrade Financial Corp. for $13 billion in stock. A year earlier, it said it was buying Solium Capital Inc.'s stock plan business for $900 million.

DEEPENING THE POOL

Those two deals, as well as other recent acquisitions, have deepened the pool for wealth management clients at the firm, with the company saying it now has more than 14 million net relationships, compared to 3 million previously, according to an investor presentation last Tuesday.

"So the ability for us to provide services for a much larger customer base is important," said Jonathan Pruzan, the firm's chief operating officer. "And that 14 million [of client] relationships have $8 trillion of assets held away."

14M
MORGAN STANLEY'S TOTAL NET RELATIONSHIPS

"We manage about $4.5 trillion in our wealth business, and so even before getting one incremental customer, if we can get any share of that $8 trillion, that would be a huge home run," said Pruzan, speaking at the Barclays' Annual Global Financial Services Conference. "So this is a funnel."

Both the deals for ETrade and for Eaton Vance Corp., which was also announced in 2020, "are exceeding expectations driven by underlying fundamental growth of those businesses," Jason Goldberg, U.S. large-cap bank equity analyst at Barclays, wrote in a note to investors last Tuesday.

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ESG loyalty will be tested as performance starts to lag

INSIGHTS
JEFF BENJAMIN

The good news for ESG investors is that the waves of bad environmental news over the past several years have been the primary contributor to recent investment performance.

That's also the bad news because, by simple economic logic, the only way ESG strategies can continue to outperform the broader market is through the existence of more and greater environmental catastrophes.

This is the fundamental premise of an academic study by a team of big thinkers from the University of Chicago Booth School of Business and the Wharton School of the University of Pennsylvania.

The paper has only been out since June and the authors are anticipating the standard exchange of academic criticism, but if the reasoning holds water, it could create a unique set of challenges for financial advisers trying to help clients invest their values while potentially sacrificing investment performance.

In some ways, this harkens to the early days of sustainable investing when certain companies were screened out, even if that meant diminished investment performance.

KEY POINTS

- Environmental crises have been a major contributor to the rise of green investing.
- ESG might not have the same success in the future.

'GREENIUM' FACTOR

The current version of the story underscores the warning that past performance is not necessarily indicative of future returns, and when it comes to ESG strategies, investors will need to be comfortable with the idea that the reward is knowing you're helping to make the world a better place.

"ESG investors should not expect that high recent performance to continue," said Lucian Taylor, Wharton finance professor, and one of the authors of the report, Dissecting Green Returns.

"The last several years were special years in an unexpected way," he added. "When people become more concerned about climate change that makes green stocks outperform."

As explained by Taylor, the green factor, or "greenium," starts with negative news about the environment, which

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J.P. Morgan's wealth unit cutsoff sales charges in 529 plans

BY EMILE HALLEZ

J.P. MORGAN WEALTH Management is the latest firm to halt the use of upfront sales charges in 529 college savings plans sold by its advisers, announcing last Monday that it will no longer allow that practice.

The decision is in line with overall trends toward fee-based compensation but also hints at the influence of the Securities and Exchange Commission's Regulation Best Interest on the 529 plan market.

"With this change, more of what the client invests goes towards their education goals," the company stated in its announcement.

J.P. Morgan is limiting its roughly 4,000 advisers in its branches across the country to recommend 529s without upfront sales charges, which the company noted can be as high as 5.75%. The list of "select plans" that they can sell has not changed, but the waiver of the sales charge is new, according to a company spokesperson.

Most adviser-sold plans include only mutual funds without those charges, but there are several that have share classes with front-end loads.

"They're trying to eliminate any appearance of a conflict," said Andrea Feirstein, managing director of AKF Consulting. "It takes away any question about whether the investment was suitable … It puts everything back into this 'act in the best interest' standard."

The announcement is separate from J.P. Morgan's own adviser-sold 529 plan for the state of New York, which was already designed for fee-based compensation and did not include funds with front-end loads.

MORE on planning for college loans PAGE 8

Although Reg BI doesn't apply to 529 plans, distributors last year were vocal about their decisions to move away from plans that include funds with sales charges, Feirstein said. Leading up to the effective date of Reg BI, for example, UBS widely halted sales of funds with sales charges, she noted.

While many firms have their own adviser-sold 529 plans in different states, they can't always recommend their own products and still act in a client's best interest. That is often the case when clients live in states that have their own tax benefits. If a J.P. Morgan adviser has a client in Colorado, which offers strong tax perks for college savings, it could be difficult to justify selling the company's own New York plan, for example, Feirstein noted.

"This shift in advisor compensation better aligns with the reality that college financial planning is an ongoing 18-year marathon that requires shifts over time in 529 account contributions strategies, coordination with other financial planning goals and educational goals from [kindergarten] to graduate school," Paul Curley, director of 529 and ABLE research at ISS Market Intelligence, said in an email.

Fee-based advisory share classes account for about 3% of the total 529 industry and about 7% among adviser-sold plans, Curley said.

A year ago, 23 of the total 31 adviser-sold 529 plans in the country included fee-based share classes for RIAs, and that figure has since increased to 27, according to AKF.

"Every plan in the country is getting the point where they have to offer a dedicated RIA share class," Feirstein said.

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[3] Beginning at age 45, Income Percentages are guaranteed to increase by at least 0.25% each year the clients wait to start income. These increases are not available before age 45. Income Payments can begin on any Index Anniversary once the eligible person(s) reaches age 50, and no later than age 100, after a minimum waiting period of three index years. For joint payments, the age of the younger eligible person will be used to determine income percentages, income percentage increases, and when income payments begin.

[4] The Income Benefit rider also offers an Increasing Income option. This option provides income payments that begin at a lower initial Income Percentage with the potential for Income Payments to increase over time.

[5] Lifetime Income Percentage examples assume a 5.30% initial Income Percentage at issue for a 60-year-old with a 0.35% Income Percentage Increase every year for five years (7.05%) and 10 years (8.80%). Note: The initial Income Percentage for eligible persons age 0 to 50 taking Level Income is 4.30% single and 3.80% joint.

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Opinion

EDITOR'S NOTE

Retirement security answers take teamwork

Retirement topics always resonate, whether it's Mary Beth Franklin's podcasts and columns, Ed Slott's webcasts, Fred Barstein on retirement plans, or any of the top-notch reporting by Emile Hallez. The reason is clients always have questions and insecurities, according to Natixis' Global Retirement Index report, released last Tuesday. That news comes in a country ranked 17th for retirement security in the world.

GEORGE B. MORIARTY

As Emile Hallez reports: "The U.S. ranked higher in the category of finances in retirement, 11th, than it did overall. The country's ranking in the health category has fallen significantly over the past two years, from 10th in 2019 to 17th this year, in part as a result of the number of deaths caused by Covid and the resulting decrease in life expectancy. The U.S. didn't even make the top 25 countries in material well-being, with income inequality being a factor. In quality of life, the country was ranked 21st."

If you've read our work on *InvestmentNews* or RPA Convergence, you know that no matter the area, improving retirement security in the U.S. requires expanding access to savings, and it requires a concerted effort among policymakers, employers and the financial services industry.

The full Natixis report speaks to areas that can be addressed to improve retirement security, and there's plenty of evidence of what needs to be done. But resolving the issue requires the courage for those parties to step up and to do the work.

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Toward a national auto-IRA

The House Ways and Means Committee approved legislation Sept. 10 requiring small businesses to provide retirement plans for employees, but lobbyist groups say the measure could steer potential clients away from the advice industry.

The national auto-IRA legislation requires businesses with five or more employees to offer individual retirement accounts, akin to 401(k) plans, and would impose a tax on firms that don't comply. The measure also provides tax credits to offset the costs.

The state-level involvement, however, squeezes some financial advisers out of the planning process, according to industry groups like the Financial Services Institute. With accounts mandated by the federal government, the measure would effectively remove advisers that would otherwise be needed to create the retirement accounts themselves.

What is well documented is the millions of Americans who need significant help to hit their retirement savings goals. The median account balance for individuals ages 55 to 64 is $84,714, according to an analysis by Vanguard, a worrying data point. California, Illinois and Oregon have only collected about $300 million in total assets in their state-facilitated retirement plans.

Retirement accounts at the national level would have to deduct 6% of wages from paychecks, rising to 10% over several years, and provide a safe harbor for existing state-level auto-IRAs. FSI claims the measure doesn't address the main cause of the retirement crisis: Americans simply don't have enough money to save for retirement in the first place.

OPPORTUNITY FOR ADVISERS

But if advanced, the bill may actually present an opportunity for retirement plan advisers while also helping Americans reach financial security. The legislation is a chance to help small businesses sort out how to effectively, and cost efficiently, open IRA plans, and it could spur wealthy business-owner clients to seek help from their financial advisers.

MILLIONS OF AMERICANS NEED SIGNIFICANT HELP TO HIT THEIR RETIREMENT SAVINGS GOALS.

The bill garnered support from the American Retirement Association, for example, which cited estimates showing an additional 62 million retirement savers and $7 trillion in retirement assets if the bill passes into law.

While those benefiting from auto-IRAs would most likely be low-income earners, there would still probably be an influx of folks looking for advice. The bill might wind up generating more investment advice clients as people get into the habit of saving for retirement. As their safety nets grow, so too does the need for additional guidance, wrote *InvestmentNews* senior reporter Mark Schoeff Jr., who reported on this in last week's issue (page 2).

ONE OVERARCHING FACT

In fact, proponents of the rule and the state-level action to build these auto-IRAs point to one overarching fact: Roughly a third of Americans don't have access to a workplace retirement plan, a proportion that has remained stagnant for years, according to data from the Department of Labor.

That has been exacerbated amid the pandemic, with four in 10 workers now reporting that their household experienced an income or job loss in the past year, and half of those reporting feeling less confident that they will have enough money for a comfortable retirement, according to an Employee Benefit Research Institute survey.

While the new program has the potential to hurt some retirement plan advisers, there are still opportunities to get involved and help clients, especially small-business owners, navigate the proposed legislation. If nothing else, it could bring in trillions of net new assets into retirement accounts and help millions more Americans live comfortably in their golden years.

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SHARING THE LOAD

THE FREEZE ON STUDENT LOANS HAS BEEN A FINANCIAL LIFELINE FOR MANY. THAT HASN'T BEEN LOST ON EMPLOYERS, WHO ARE JUICING UP BENEFITS.

BY EMILE HALLEZ

MORE THAN 40 million federal student loan borrowers will be required to resume payments Feb.1, after a freeze of nearly two years that also dropped interest rates to 0%.

For many advisers' clients, the pause in required monthly payments has provided breathing room, giving them time to pay down other debt, save up for homes or build their emergency savings.

But for many others, especially those who faced unemployment during the pandemic, the payment freeze has been a financial lifeline. That hasn't been lost on employers, who now more than ever are juicing up benefits in order to help fill vacant roles in a labor market that is favoring workers more than it has in the past.

One adviser's client, a pediatrician, saw her income drop during the pandemic as fewer patients made office visits, said Erik Kroll, a financial planner at Hilltop Financial Advisors.

With the pause on federal student loans, "she went from a $1,300 monthly payment to a zero-dollar monthly payment," Kroll said. The client's loans were originally outside of the federal system, but she consolidated them so that they fell within it, making her eligible for the payment freeze, he noted.

The pediatrician has more emergency savings now than she did prior to the pandemic and is well prepared for when payments resume, he said.

"That was a pretty big win for her," Kroll said.

BE PREPARED TO PAY AGAIN

When the payment freeze began in March 2020, it was set to expire in six months, but it has been extended multiple times. In August, the Biden administration renewed the moratorium for what looks to be the last time. Some Democratic members of Congress voiced support for the latest extension but argued that it did not go far enough, instead pushing for loan cancellations of up to $50,000. Meanwhile, several Republicans in Congress criticized the latest extension, noting that it would cost the government an estimated $20 billion, in addition to the $76 billion that resulted from the prior rounds of loan pauses.

"For a lot of people, [Feb. 1] will be the first time entering repayment in two years," said lawyer Adam Minsky, whose practice is focused on student loans. Minsky said he is advising clients to budget for those payments, and, since two federal service providers are changing at the end of the year, make sure their contact information is up to date and they have documented their payment histories.

Those who opted to make payments have chipped away more quickly at balances because of the 0% interest rate, and borrowers who are on public-service loan forgiveness programs have also benefitted, he said.

"A lot of those folks are now closer to achieving eventual loan forgiveness under that program without having made any payments," Minsky said.

Advisers also said they encouraged clients to

put the money they would have spent on loan payments aside, so they didn't get used to having extra money every month.

"As the Jan. 31 deadline approaches and student loan forgiveness looks unlikely, I will work with clients on an individual basis to determine if it makes sense to make a large lump sum payment to reduce their overall loan balance before interest begins to accrue again," Justin Green, founder of Assist FP, wrote in an email.

Adviser Diane Pearson of Pearson Financial Planning said she took on three clients during the pandemic who were affected by the payment freeze. All three clients set the money aside — for emergency savings, paying down credit card debt or contributing to an IRA, she said.

"They didn't get used to the extra money being in their checking account and spending it. When payments go back into effect, they're not going to feel it either way," Pearson said. "There's a psychological aspect of 'out of sight, out of mind.'"

BRACE FOR THE INEVITABLE

For recent grads who have student loan debt but have never had to make a payment, Feb. 1 could give them a jolt.

"Some borrowers may be shocked to see how much their monthly payments are, especially for new graduates who might find out their loan balance and monthly payments for the first time," Saki Kurose, a certified student loan professional at Insight Financial Strategists, wrote in an email. "The default repayment plan is a standard 10-year plan ... If that repayment option does not work for your budget, you should consider enrolling in one of the income-driven repayment plans that you qualify for."

Those plans require payments of 10% to 15% of a grad's discretionary income, or in the case of parent borrowers, 20%, Kurose said.

"It is very important to explore federal student loan repayment options before the payments resume and understand the short/long term implications on your financial situation," she said.

For employers that are fighting to recruit talent, that need is obvious. Many have gone beyond tuition assistance, adding perks such student loan

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contributions or 401(k) matching contributions for those who are paying down loans.

STEP AHEAD

In 2016, Fidelity Investments added a perk called Step Ahead, which provides up to $10,000 per employee in student loan payments.

"We did it because we heard our employees and managers say they were putting off major life decisions," such as buying homes, saving for retirement or building emergency savings, due to student loan payments, said Amanda Hahnel, head of student debt retirement at Fidelity. "That was really concerning to us."

The company, which now offers a similar service for its employer clients, has contributed payments to more than 12,000 of its employees' loans, representing about $58 million in principal and $27 million saved on interest. Cumulatively, that has saved the workers a total of 17,000 years in payments, Hahnel said.

Fidelity is beginning a push to hire about 9,000 new workers, largely for customer service and tech roles. Having attractive benefits, such as the student loan repayment program, is an effective recruiting tool, Hahnel said.

STUDENT DEBT IS A FAMILY ATTRIBUTE.

LAUREL TAYLOR, CEO
FUTUREFUEL.IO

About half of Fidelity workers who have since been hired and have student loans said that it was a major factor in their decision to work for the company, and the attrition rate among participants in the program is 75% lower than those who don't use the benefit, Hahnel said.

It's also a matter of supporting diversity and inclusion, as women and people of color carry disproportionately higher amounts of student loan debt, she said. And while younger workers are the most likely to have such debt, baby boomers with student loans have the highest balances, on average, she said.

"Student debt isn't going anywhere, and it's certainly something [employers] can help with," Hahnel said.

TAKING THE 401(K) ROUTE

Congress is currently considering legislation that would specifically allow employers to contribute to 401(k) accounts for workers who don't direct any of their earnings to the plan but are paying down student loans.

"This is such an exciting area of policymaking because we are anticipating about a 40% uptake following the passage of the SECURE Act 2.0 within 12 months," said Laurel Taylor, CEO of FutureFuel.io, a company that works with employers and individuals on student loan debt. "We would imagine near 100% adoption within 36 months" among the roughly 49% of employers that provide 401(k) matches already, she said.

About 70% of recent grads entering career fields have student loans, and it takes them an average of more than 17 years to pay those off, Taylor said. Such workers are also in high demand.

"This is largely a population that has not participated in any retirement savings previously," she said. A matching contribution from the employer "is going to be maybe the only retirement savings that much of our educated population has."

Taylor experienced the burden of debt repayment firsthand, having spent 12 years to pay off her graduate and undergraduate loans, she said. But her mother was also affected, having funded part of her education.

"Student debt is a family attribute," she said.

Since the pandemic began, FutureFuel.io has grown by about 1,600%, with the usage of its services more than doubling, Taylor said.

A CASE STUDY

In 2018, Abbott Labs received a private letter ruling from the IRS that allowed it to make 401(k) matches for employees who were paying student loans. The company was the first to request that arrangement, and some other employers have since followed, though many are reportedly waiting on a legislative change for those kinds of matches.

Abbott's program, Freedom 2 Save, provides a 5% company match in the 401(k) for workers who spend 2% of their pay on student loans. The firm has a goal of making $10 million in 401(k) matches under that program by 2030, Diego Martinez, divisional vice president of benefits and wellness, said in an email.

"We know that Freedom 2 Save gives us a competitive edge in recruiting and retaining the best and brightest workers and helping those employees attain financial success. Anecdotally, employees have told us Freedom 2 Save was the deciding factor in coming to work for us," Martinez said. "One of our clinical specialists used Freedom 2 Save to help pay down nearly $60,000 in student loans over two years while saving for retirement at the same time. She's now saving money to buy her first property."

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TAX PERKS NUDGING EMPLOYERS TO HELP PAY WORKERS' STUDENT LOANS

AS PART OF LAST year's CARES Act, employers received an incentive to pay down student loans for workers — they have been able do so, tax-free, for up to $5,250 per year. When Congress passed the Consolidated Appropriations Act of 2021, that arrangement was extended through 2025.

By next year, many large companies will likely add that perk for their workers, after they've had time to amend their IRS Section 127 Educational Assistance Programs, said Laurel Taylor, CEO of FutureFuel.io, a company that works with employers and individuals on student loan debt. More than 70% of employers provide tuition reimbursement assistance to workers, making that a more common benefit than a 401(k) match, Taylor said. However, only about 7% of their budgets for those programs are spent, and contributions to student loans would be an easy way to utilize more of them, she said.

"Employers have a budget that they've set aside that just isn't getting used," she said.

Currently, about 8% of large employers provide loan repayment assistance, up from 4% in 2018, said Lydia Jilek, senior director of voluntary benefits solutions at Willis Towers Watson. Another 3% of companies are planning to provide that benefit next year, although as much as a third of employers say they are interested in doing so, Jilek said.

The federal student loans payment freeze temporarily reduced the sense of urgency that employers felt about adding assistance programs, as did the push in Congress for loan forgiveness and the larger overall need to support workers affected by Covid, she said.

"That has caused a bit of dampening in the contribution or payment market for some of our clients," Jilek said. "There are so many other ways of spending money on employee well-being."

Employers that have loan contribution programs have typically allowed about $1,000 per employee per year, but some have increased that due to the recent tax benefits, she said.

Some companies also let workers cash out their paid-time-off balances and direct that to loan payments, Jilek noted.

— Emile Hallez

IN Webcasts

TUESDAY, OCTOBER 12, 2021 | 2:00PM-3:00PM ET

2021 YEAR-END PLANNING CONVERSATIONS WITH ED SLOTT

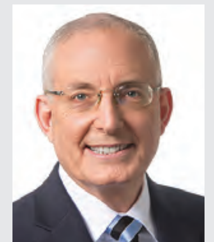
In 2021, Roth conversions may be more critical and valuable than ever with new tax and budget proposals being considered. However, these conversions are now permanent, so accurate tax projections and knowledgeable guidance are essential, especially during year-end planning! Plus, recent tax laws created an unusual and little-known opportunity that ends this year for clients to gain mega tax deductions for their charitable gifts. Finally, the combination of the CARES and SECURE Acts created confusion about RMDs. Make sure you are providing the right advice and showing your clients how to maximize their tax savings with these timely year-end planning decisions.

The discussion will focus on:

- How to identify the clients who will benefit most from locking in 2021 Roth conversions.
- MEGA QCDs: This BIG tax planning move expires at year-end!
- 2021 RMD Confusion for Clients who are 72 this year.

SPEAKERS

GEORGE MORIARTY
Chief Content Officer
InvestmentNews



ED SLOTT
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Registered index-linked annuities, or RILAs, have become increasingly popular with accumulation-oriented investors. But how do you choose the right one for your client?

HROUGH

ITY OF THE DECADE

In a year like no other, RILAs continued to offer an attractive opportunity for investors. In fact, with purchases topping $24 billion in 2020, RILA sales have maintained a 38% compound annual growth rate since they were introduced nearly a decade ago.* Why? Because RILAs offer unique growth potential for accumulation-oriented clients seeking to manage portfolio risk.

Also known as buffered annuities, structured annuities or indexed variable annuities, RILAs might best be described as a cross between a fixed indexed annuity and a variable annuity. The balance between risk and reward that a RILA can provide becomes especially important for those nearing retirement or when economic conditions remain uncertain.

[To determine which RILA may be the right solution for your client, you should answer 5 important questions.

Visit **Athene.com/5questions** to help narrow the field.]

* LIMRA Secure Retirement Institute, "U.S. Individual Annuities: 2020 Year in Review."

Registered index-linked annuities have a risk of substantial loss of principal and related earnings. They are designed to be a long-term investment product used to help provide income for retirement and are not suitable as a short-term investment.

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Registered index-linked annuities can only be marketed and sold by securities licensed financial professionals. Any discussion of this product must be preceded or accompanied by a Prospectus.

25127 (09/21)

How inflation affects Social Security, Medicare, taxes

MARY BETH FRANKLIN

ONRETIREMENT

This fall, the Social Security Administration is likely to announce that benefits will increase by about 6% beginning in January, which would make it the largest cost-of-living adjustment in almost 40 years. But what Social Security giveth, Medicare and the tax man can take away.

Each year, Social Security benefits are adjusted to keep pace with inflation if the average consumer price index for the third quarter of that year exceeds the third quarter of the previous year. The recent pickup in inflation indicates Social Security benefits could rise by about 6% next year, which would be the largest increase since 1983.

Based on the August CPI, which was up 5.3% over the previous 12 months, the Senior Citizens League projects Social Security benefits could increase by 6% or 6.1% in 2022. The final COLA determination will be made in October, once CPI data are available for September.

A spurt in inflation also affects two other factors that determine the net amount that retirees receive from Social Security. The first is the premium for Medicare Part B, which covers doctors' fees and outpatient services, and which is deducted automatically from Social Security benefits. Part D premiums, which cover prescription drugs, are also tied to income but are often paid directly to insurers. To the extent that Part B premiums rise faster than the COLA, the net Social Security benefit will not keep pace with inflation.

The second issue pertains to taxation of Social Security benefits. Because taxes are levied on Social Security benefits for households with incomes above certain thresholds ($25,000 for single taxpayers and $32,000 for joint returns) and the thresholds are not adjusted for inflation, rising benefit levels subject more benefits to taxation each year, thereby reducing the net benefit.

A recent brief from the Center for Retirement Research at Boston College explores the impact of inflation on retirees and concludes that given the dual impact of higher Medicare premiums and taxation of benefits, "Social Security does not fully insulate older households from inflation's erosive impact.

"In most years, rising Medicare premiums mean that a larger and larger chunk of the Social Security benefit goes to health insurance, so the net benefit available for non-health expenditures does not keep pace with inflation," the CRR report said.

'HOLD HARMLESS' PROVISION

However, a "hold harmless" provision protects most retirees from an actual decline in net Social Security benefits by limiting the dollar increase in an individual's Part B Medicare premium to the dollar increase in their Social Security benefits. This provision protects about 70% of Medicare beneficiaries.

The 30% who are not eligible for the hold-harmless protection include newly enrolled Medicare beneficiaries, Medicare enrollees who don't receive a Social Security benefit, high-income enrollees who are subject to Medicare premium surcharges and low-income beneficiaries dually enrolled in Medicare and Medicaid whose full premiums are paid by state Medicaid programs.

The effect of rising Medicare premiums is even more profound for high-income retirees whose Medicare premiums are tied to their income.

For single people with incomes of $88,000 or less and married couples with incomes of $176,000 or less, the monthly Part B premium in 2021 is $148.50. The premium rises for taxpayers above these thresholds, reaching a maximum of $504.90 per month per person for those in the highest income brackets. Between 2000 and 2020, the average annual adjustment for the Part B premium has been 5.9%, compared to an average annual Social Security COLA of 2.2%, according to the CRR issue brief.

5.9% AVERAGE RISE IN THE PART B PREMIUM SINCE 2000

The other way that inflation affects Social Security benefits is the extent to which they are taxed under the federal personal income tax.

INCOME THRESHOLDS

Under current law, individuals with less than $25,000 and married couples filing jointly with less than $32,000 of "combined income" do not have to pay taxes on their benefits. Combined income is adjusted gross income as reported on tax forms plus nontaxable interest income plus one-half of Social Security benefits. Above those thresholds, recipients must pay taxes on up to 85% of their benefits.

Because the thresholds aren't indexed to inflation, more and more beneficiaries are being taxed on Social Security benefits over time. Although Social Security provides benefits on an individual basis, the income tax is levied on a household basis.

When taxation of benefits was first introduced in 1983, only 8% of eligible families paid taxes on their benefits, the CRR report said. Today, it's estimated 56% of beneficiaries pay taxes on their benefits. If inflation is moderate, that's projected to increase to 58% by 2030. If inflation rises faster, Social Security benefits will be even higher in nominal dollars and more families will pay taxes on more benefits — further reducing the net Social Security benefits.

(Questions about Social Security rules? Find the answers in Mary Beth Franklin's 2021 ebook at MaximizingSocialSecurityBenefits.com.)

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BY MARY BETH FRANKLIN

Combo claiming strategy for married couples

Bob: If a married couple wants to take advantage of the Social Security claiming strategy that allows one person to file solely for spousal benefits while their own retirement benefit continues to grow until 70, do both spouses need to be born before Jan. 1, 1954?

MBF: No. Only the person who files a "restricted claim for spousal benefits" must be born on or before Jan. 1, 1954. But the eligibility rules are different for married couples and divorced spouses.

In the case of currently married couples, one spouse must claim Social Security to trigger a spousal benefit for the other. The spouse who files a restricted claim for spousal benefits must be born on or before Jan. 1, 1954, to do this.

For example, I was born in December 1954, my husband in 1952. I claimed my retirement benefit last December when I turned 66 to trigger a spousal benefit for my husband. He filed a restricted claim for spousal benefits and now collects half of my FRA amount. At 70, he will switch and file for his own maximum retirement benefit.

In some cases, eligible divorced spouses born on or before Jan. 1, 1954, can file a restricted claim for spousal benefits if their ex-spouse hasn't yet claimed Social Security. To be eligible to file as an independently entitled ex-spouse, the couple must had been married at least 10 years and divorced at least two years, and the person filing the restricted claim must be unmarried.

People born after Jan. 1, 1954, can't use this claiming strategy. Whenever they file for Social Security, they will be "deemed" to file for all available benefits and will receive the largest benefits to which they're entitled, whether on their own earnings record or as a spouse. They do not get to choose.

But these "deeming" rules do not apply to survivor benefits. If you're entitled to your own retirement benefit as well as a survivor benefit, you can choose to claim one type of benefit first and switch to the larger benefit later, regardless of when you were born. Survivor benefits are worth the maximum amount if claimed at the survivor's full retirement age.

Why annuities are now a big business for private equity firms

BY EMILE HALLEZ

PRIVATE EQUITY HAS been an encroaching player in the insurance market over the past several years, and recently it's made its interest clear in one area: indexed annuities.

Over the past five quarters, annuity providers owned by private equity firms have accounted for more than 40% of all indexed annuity sales, according to data provided by Moore Market Intelligence. Such sales totaled more than $6.8 billion during the second quarter, or about 41% of all indexed annuity sales industrywide, at $16.7 billion.

In some cases, private equity firms have been entering the market or building on their presence by buying up old books of business that insurers no longer want.

That insurers are keen to offload some of these older products is no surprise — the rates promised to contract holders are sometimes more generous than those available today. Those lines might not be highly profitable for insurance companies.

But for private equity firms, that's not necessarily the case, said Sheryl Moore, CEO of Moore Market Intelligence.

"The mentality is some of these private equity firms have more sophisticated investors" and see higher margins than insurers outside of the private-equity world, she said. "They are specifically interested in the indexed annuity market."

A NEW APPROACH

It's a strategy that Kerry Pechter, publisher of The Retirement Income Journal, has called "The Bermuda Triangle." In a piece outlining the strategy last year, Pechter noted that private equity firms use captive offshore reinsurers to back the old books of business, mostly fixed annuity assets. That has allowed U.S.-based firms to have more capital to invest more aggressively than in traditional fixed-income vehicles like 10-year Treasuries.

The firm that pioneered that strategy, Athene, is backed by Apollo Global Management, which acquired the business in 2013, when it was known as Aviva Life, Pechter noted.

Athene, which has since gone public, is merging this year with Apollo, the companies disclosed in March. The annuities provider is the biggest private equity-backed provider of indexed annuities, having sold roughly $1.7 billion worth of the products during the second quarter, representing about 10% of industrywide sales, Moore Market Intelligence data show. A spokesperson for Apollo wrote in an email that the appropriate staff who could comment on the business' interest in indexed annuities were unavailable.

Other private equity-owned firms that sold a lot of fixed indexed annuities during the second quarter were Fidelity & Guaranty Life ($1.1 billion), Forethought Life ($901 million), SILAC Insurance Co. ($901 million), Security Benefit Life ($793 million) and Guggenheim Partners, which owns Guggenheim Life & Annuity and Delaware Life ($432 million), according to Moore Market Intelligence.

Earlier this year, KKR closed its purchase of Global Atlantic's outstanding shares and now owns 60% of that firm, which itself owns Forethought.

ONGOING M&A

A report a year ago from Cerulli Associates found that insurers were concerned about the prolonged low-interest-rate environment and that factor was fueling the volume of mergers and acquisitions in the market. By partnering with private equity firms, insurers have more access to sophisticated investments that can be used in their general accounts. And private equity firms get a reliable, long-term source of capital. Fidelity & Guaranty Life, or F&G, was acquired last year by Fidelity National Financial.

During the firm's second-quarter earnings call, president Mike Nolan said F&G was setting "records for its retail annuity sales, while expanding into new institutional channels, further validating our decision to acquire the company just over one year ago."

"We are building a company designed to deliver more stable earnings and cash flow as market conditions change and interest rates eventually rise and pressure our title business, and we can already see the early signs of our success," Nolan said.

F&G reported total annuity sales of $1.6 billion for the second quarter, an 80% increase from the second quarter of 2020.

The second quarter was a good one for annuity sales in general, with the industry bringing in nearly $68 billion across all products, up 39% from the $48.6 billion seen during the second quarter of 2020, according to figures from LIMRA's Secure Retirement Institute. Fixed indexed annuity sales were up by 28% over the second quarter of 2020. Through 2021, the Secure Retirement Institute projects sales of those products will ramp up by 5% compared to 2020.

INDEX OVERLOAD

A separate trend — one that has some implications for private equity firms in the annuities business — is the proliferation of proprietary indices that are used to credit accounts.

There are 115 "hybrid" indices used for the products, and some include fees, Moore said. Not all fixed indexed annuities use such indices, and the indices themselves are not necessarily bad.

"Insurance salespeople need to make sure they understand the indexes on the annuities they are selling in order to protect themselves and their business," she said.

The use of such indices can be a good deal for the annuity providers, as they can get favorable pricing from the banks they work with, which is part of the reason in-house indices have become so popular, Moore said.

"The insurance companies are getting Sam's Club-style pricing for their options on this," she said.

Despite the volume of indices used within the products, "there is much less differentiation in terms of the actual strategies," said Tamiko Toland, director of retirement markets for Cannex.

"We tend to focus on the index performance, but the insurer also needs to buy options to support the [fixed indexed annuity] and crediting method," Toland said. "Whether a bank can issue the particular options and how efficiently it can do that do affect the ultimate yield."

Since fixed indexed annuities are relatively basic financial instruments, some might ask whether it would be more advantageous to take a do-it-yourself approach, reproducing a product by buying zero-coupon bonds and investing in options, Toland said.

"The issue is whether an individual can do both of these things efficiently and effectively," she said. "With higher volumes and dedicated teams, any institution is able to have better access and prices. This is especially true of novel indices."

Insurers should have no motivation to sell products with poorly performing indices, she said.

"A client is more likely to want to move that money into a different annuity or a different product altogether," Toland said. "The insurer wants clients to stick around and not jump ship. It's really not in their own interest to promote products that discourage their customers."

UPSHOT FOR ANNUITY OWNERS?

Whether private equity's foray into the annuity world is a positive development for consumers is not yet known, said Jasmin Sethi, CEO of Sethi Clarity Advisers.

By its nature, private equity lacks transparency, but insurance products are highly regulated, Sethi noted.

Having more transparency in the annuity market would generally benefit customers, as products are currently hard to compare, despite a handful of services designed to help people vet annuities side by side, she said.

If private equity owners guide their companies to slim down product sets, that would be a plus, Sethi noted.

"There are a lot of high-cost products, and there are too many products," she said. "There could be a reduction, to a better value set."

"There is room for the market to grow," and private equity firms likely see the possibility of annuities increasingly being considered within defined-contribution plans, Sethi said.

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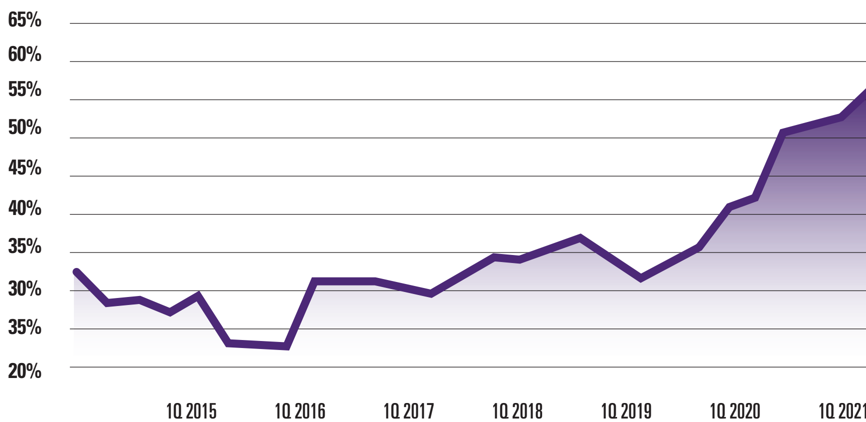

Adviser's passion for fishing reels in clients

In some respects, Jared Reynolds is going against the grain of popular thinking by developing a niche advisory practice in reverse.

Reynolds, 42, the co-founder and senior wealth adviser at WR Wealth Planners in Columbia, Missouri, first discovered his niche of providing financial advisory services to professional bass fishermen about 15 years ago.

NICHEADVISER
JEFF BENJAMIN

An avid fisherman, hunter and general outdoorsman whose father was a top-level professional bass fisherman, Reynolds described his original niche as "passion prospecting," which he kind of fell into.

"I had interviewed at an advisory firm in Chicago when I was still in college, and they said I needed to specialize, and I didn't know what that meant," Reynolds recalls. "Then a few years later my dad told me about a bass fisherman who said his financial adviser did him wrong, and a light bulb went off."

That was back in 2004, when Reynolds had only been in the financial planning business for a few years. He started showing up at professional bass fishing tournaments where everyone knew him through his father.

"The second year of showing up at tournaments I was getting more familiar with everyone, and by the third year of being seen repeatedly at the events I think it helped solidify myself in that arena," he said. "I got a few big-name clients, and everybody talks, so they all knew who I was working with."

MOVING BEYOND BASS

The rest, as they say, would have been history, except for the fact that Reynolds saw a larger and more diverse market beyond just bass fisherman that could be developed through his original niche.

"It went on with just bass fisherman for quite a while, then I got a client who owns a saltwater charter business," he said. "Now I'm bringing in business owners who love fishing, which are fantastic clients because they have a business that supports their hobby. Then I thought about trying something along the lines of hunting, because most fishermen are hunters as well, and those seasons are usually opposite."

While most industry consultants advise narrowing a niche as much as possible, Reynolds learned to leverage his very specific niche of professional bass fishermen to make deeper connections within the subculture of avid outdoorsmen.

"The fishing is still fishing, but instead of very specific bass fishing, it's now saltwater, and bass and ice fishing," he said.

And as he continued to network within the fishing and hunting communities, Reynolds discovered the "real sweet spot" of wealthy business owners who have company retirement plans that could be managed.

"We started out using fishing to get to the larger clients," he said.

WHERE THE REAL FUN BEGINS

Client prospecting is where the real fun begins because Reynolds plans and coordinates exotic hunting and fishing trips for clients and potential clients that can amount to once-in-a-lifetime experiences.

"I wanted to plan bigger and more attractive trips," he said. "Bird hunting in Argentina, fishing in Cuba, peacock bass fishing in Brazil, salmon fishing and bear hunting in Alaska."

The clients and prospects each pay their own expenses for the adventures that continue to get more elaborate.

"I just organize everything; I guess I'm like a glorified travel agent, but high-net-worth people want it easy," he said.

Reynolds believes in "making it really easy for them to say yes," because he fully appreciates the time with potential clients even though he never discusses business unless they bring it up.

The adventures appear to have few limits.

"I had a client who took me helicopter hog hunting in Texas," Reynolds said. "That trip went from one day, originally, to now we're doing it for a month next year, and we're talking about bringing down prospects and clients when they can come. The more memorable the trip, the more life experience it is, the more the bonding experience is."

Reynolds launched his firm along with Carroll Wilkerson in 2008 and currently serves 500 clients who combine for more than $300 million in total assets under management.

Wilkerson primarily focuses on the farming community, which is his background. But Reynolds said 75% of his clients are part of the hunting and fishing community, and 90% of his new clients are coming through those hunting and fishing channels.

"Birds of a feather flock together, but my rule is I do not bring up business on the trips," Reynolds said. "I'm not going to do that, because if people think I'm taking them somewhere to corner them and talk business, they'll never go with me again. Just be a good person and be kind to people. The conversation always comes up, because when you're in a boat and just sitting there fishing, there's nothing left to do but talk, and they can't get away."

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NICHE ADVISER

JARED REYNOLDS, co-founder

NICHE FIRM
WR Wealth Planners,
Columbia, Missouri

NICHE
People who like to fish and hunt

PRO TIP
"Look to your own background. It doesn't matter if you grew up a chicken farmer. You can be the chicken farmer adviser. But you can't fake it if you don't love it and are not passionate about it."

Why multiyear earnouts can cause problems

If you're considering selling your practice or firm to another advisory firm, think twice before agreeing to any long-term earnouts.

GUESTBLOG
SCOTT HANSON

An earnout is an incentive for an acquired firm to deliver on some agreed-upon result.

Some earnouts are straightforward, such as a requirement that, say, 95% of clients remain with the acquiring firm for a year. This type of earnout aligns interests. The buyer wants to make certain the clients stick, and the seller has a financial incentive to make sure the clients are pleased with the new structure.

But what I've recently noticed is that not only are earnouts becoming more complex, and their durations longer, they are increasingly structured in ways that leave the interests of the buyers and sellers misaligned.

DESIGNED TO INCENTIVIZE

One common earnout is designed to incentivize a seller to continue to grow its business or practice for several years after the transaction.

Here's an example: A practice has a purchase price of $1 million. The seller receives that in the form of cash or a combination of cash and equity; there's also a three-year earnout that will pay the seller an additional

$300,000 if certain client, asset, revenue and profitability goals are achieved.

This all sounds fine on paper. But for firms that want quality relationships with partners and employees, long-term earnouts can be highly divisive.

The selling firm carries responsibility but no authority. When a firm sells to another firm, that firm gives up control and along with that, the authority to manage their practice as they'd like. The earnout provides a financial incentive to grow, but without the authority to do things such as increase marketing, hire additional staff or upgrade technology. The seller is left with the responsibility of delivering results without any power or control.

EARNOUTS ... ARE INCREASINGLY STRUCTURED IN WAYS THAT LEAVE THE INTERESTS OF THE BUYERS AND THE SELLERS MISALIGNED.

The selling firm must fight for resources. To achieve the earnout, the selling firm will try to get as many resources as possible without incurring any costs. They'll want the parent company to help with tasks such as IT, human resources, trading and more, but they won't really care about what it means to the parent company. And they won't want to pay for these services. This misalignment of interests can create tense conversations and can be detrimental to relationships and success.

The acquirer will have an incentive to saddle the new firm with costs. The acquiring firm would obviously like to see the practice grow, but it would prefer not to pay for it. Allocating a higher percentage of operating costs to the acquired firm reduces profitability and in the process, reduces the earnout that must be paid.

I've personally been a seller with a large earnout, and it was an awful experience. We sold a mortgage company to a Fortune 500 company and a good chunk of our payment was in the form of an earnout over a two-year period. Once the transaction closed, the Fortune 500 company changed the business so drastically that it was impossible for the company to hit its targets. It created a great deal of tension and did not end well.

If you're selling your advisory practice (as so many principals are), always strive to align interests with the buyer to the same extent you strive for alignment with your clients.

Scott Hanson is co-founder of Allworth Financial, formerly Hanson McClain Advisors, a fee-based RIA with $13 billion in AUM.

4 key Olympic lessons for advisers

ALLYSON FELIX (CENTER, TOP) AND SIMONE BILES

GUESTBLOG
KAY LYNN MAYHUE

This year's Olympics were incredible, showcasing the world's top competitors as a bright light following an incredibly difficult year. There were displays of kindness, such as U.S. swimmer Caeleb Dressel sharing his gold medal with fellow relay team member Brooks Curry, who watched from the stands. Records were shattered, as when Allyson Felix became the most decorated U.S. female track and field athlete in history. And courage was on display, such as Simone Biles withdrawing from competition to prioritize her mental health.

Each of these moments, and the countless others that made the Tokyo Olympics so memorable, provide important learning opportunities across disciplines, including for those of us in the financial services space. Here are the top four lessons I walked away with and will strive to instill in my team.

TEAMWORK IS CORNERSTONE

There is an old and often-cited proverb that says, "If you want to go fast, go alone; but if you want to go far, go together." The Olympics show the best of what teams have to offer for the entire world to see. At their core, teams allow every individual to put his or her best foot forward, showcase strengths and minimize weaknesses.

In the last several years, we've seen a clear shift in the financial services industry away from the antiquated "eat what you kill" mentality to a new, more constructive approach, in which individual experts have the ability and structure to focus on mutual success and growth. The industry, previously dominated by rogue individualists, now sees teams coming together in a partnership model, leveraging individuals' strengths and advancing the group as a whole. It's when these individuals come together as a team that the entire team can shine.

KNOW YOUR BLIND SPOTS

To successfully compete at the Olympic level, athletes need to be open to candid feedback. Athletes watch videos of their own performances, as well as those of their peers, and rely on a team of experts to analyze their performance and identify issues they may be overlooking.

This type of direct feedback is pivotal to short- and long-term success. As advisers, we should be asking our clients and teams for similar insights. Ask clients: "What would you like to see more of from me?" On the professional level, this type of feedback can be elicited through a 360-degree review process, which lets direct reports share feedback on their supervisor.

Asking for feedback from those around you is important, but analyzing and reflecting is key to future success. We have implemented a process called "Keep, Start, Stop," in which we ask ourselves what aspects of a particular process are working (keep), what ideas we need to consider implementing (start) and what needs to be eliminated entirely (stop). This process is a core element of our Merit culture and establishes a mindset of constructive discussion, continual improvement and proactive change.

BE A STUDENT OF SUCCESS

Olympians rely on the paths of those who have gone before them to better comprehend the challenges ahead and recognize the keys to success. These mentor relationships are integral to prompting ongoing learning and improvement in any career. In my career, I have relied on the insight and guidance of mentors to help me succeed and define my path forward.

The perspective of continual learning applies to every experience, and lessons can be found in every client interaction, peer-to-peer engagement and networking opportunity. It can be a difficult exercise to assess failures after they occur, yet we have to reflect on each experience and seek opportunities to learn from them. Quite simply, we cannot let our failures define us.

Our team facilitates mentor-mentee relationships, pairing new employees with more tenured team members for a full year of formalized coaching and mentorship. These relationships have been a hallmark of our success.

TAKE CARE OF YOURSELF FIRST

One of the headline moments of the 2021 Olympics was Simone Biles' prioritization of her mental health in the face of competition. The move came on the heels of a challenging year amid the pandemic, when the importance of prioritizing holistic health was at the forefront.

Burnout is perhaps one of the most pressing issues in the workplace, and the financial services industry is no stranger to the impacts of a high-stress environment. When I entered the industry, I was expecting autonomy and flexibility. What I quickly realized was I needed to answer to my clients in the way others answer to their bosses. When I started adding employees, I was accountable to the team; others depended on me in ways they hadn't before. As a result, it was difficult to truly take time off and rest.

At Merit, we mandate true time off and have built a company structure that supports it. We believe we owe it to our clients to take the time to relax and recharge; we are not invincible and in order to do our jobs — and do them well — we need to take time to pause, too. Keeping your finger on the pulse of where you are physically and mentally and being vocal with your team and clients about it is becoming more widely accepted across the industry — and is a welcome change.

One of my mentors once told me, "you win some; you learn some." What a remarkable way to view the challenges we encounter on a daily basis. As we reflect on this year's Olympics and incredible displays of sportsmanship, athletic performances and kindness, there are clear leadership lessons to be learned, too.

Kay Lynn Mayhue is president of Merit Financial Advisors.

"THE SALT CONFERENCE ... WAS ITSELF GROUNDBREAKING WHEN FIRST LAUNCHED IN 2009. I'VE ALWAYS WANTED TO BE AT THE FOREFRONT OF TECHNOLOGICAL INNOVATION."

- ANTHONY SCARAMUCCI ANNOUNCING LAUNCH OF AN NFT AT THE SALT CONFERENCE

SALT CONFERENCE 2021

How crypto will bring the cool kids to financial advisers

BY NICOLE CASPERSON

FINANCIAL ADVISERS who are still on the fence about crypto investing may miss out on attracting clients among affluent millennials who are a part of the generational wealth transfer.

That was the takeaway of panelists in New York last Tuesday at the SALT conference — financier Anthony Scaramucci's event covering finance, technology and geopolitics. Members of the panel, moderated by *InvestmentNews* deputy managing editor Sean Allocca, shared different perspectives on crypto, saying they believe it either doesn't fit into their business model, is only for young people, or is only for advisers interested in working with future millionaires and billionaires.

Active discussions connecting investor interest in crypto tied to younger generations is happening as the largest generational transfer of wealth, at roughly $68 trillion, is poised to fall into the hands of the millennial generation.

For David Bahnsen, founder, managing partner and chief investment officer of The Bahnsen Group, crypto investing "doesn't fit into the principles" he built his business around, so it's not a focus for his firm, he said during the session, titled "Modern wealth management: How Covid-19 reshaped the advice industry."

Crypto perspectives: Sean Allocca, David Bahnsen, Karen Firestone and Josh Brown

A PLACE FOR DIGITAL ASSETS

Karen Firestone, chairman, CEO and co-founder of Aureus Asset Management, said she believes there is a place for digital assets, and it's for "young people in particular who feel that it's very important to them." But it's critical for young investors to know some wealth managers can't analyze crypto in the same way they analyze other assets, she said.

"It's not a confidence of ours, it may be for other people, but I can see the appeal," Firestone said. Aureus doesn't invest directly in Bitcoin, but it does have an allocation to some external managers that own Bitcoin, she said.

In an environment in which wealth management firms like Ritholtz Wealth Management are attracting clients via social media platforms such as YouTube, it's critical for the firm's financial planners to understand crypto as they attract young millionaires and young "almost" billionaires, said Ritholtz CEO Josh Brown.

"Without a doubt, if your answer to crypto is: 'There's no cash flow, so I can't even have a conversation about it,' then you're not a candidate for their wealth, not the recovered wealth, and definitely not their future wealth," Brown said.

To be fair, Brown said the notion of wealth managers actively managing a portfolio of crypto is "ludicrous" so advisers can move that off the agenda. On the flip side, an adviser shouldn't just ignore a client who wants exposure to crypto to let them go do it themselves with Coinbase.

What advisers should be doing is setting parameters around what their firms will do this year to address crypto investing, like deciding which software providers they're comfortable using and developing a cybersecurity plan.

"You've got to go through this process and speak with the vendors, and in many cases, the vendors you encounter are in their infancy," Brown said. "We'll get there, but there are all these considerations that have to take place as you go through this process to find the least bullshitty way to do crypto for a wealth management client."

A CHALLENGING TIME

Ultimately, it's just a challenging time for financial advisers. The meteoric rise of crypto has shaken the wealth management industry as more retail and institutional investors crave being one of the cool kids investing in digital assets.

"Wealth managers are trying to keep up with what's going on in the culture and in the markets, but also not end up making a huge mistake for the people that trust them with their assets," Brown said. "It's a very hard time."

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Panel ponders prospects for wider adoption of crypto by institutions

BY NICOLE CASPERSON

AT A SALT CONFERENCE panel on the opportunities and obstacles facing institutional crypto adoption, participants addressed common misconceptions surrounding crypto custody and investors' fear of getting hacked or losing their investments.

The takeaway? Crypto custodians must provide the same types of institutional infrastructure that are available for any other asset classes. As institutional interest in crypto swells, the panel concluded, crypto exchanges and custody providers must address industry concerns about safe custody and fraud prevention.

The panel was featured last Wednesday at the SALT conference — hedge funder Anthony Scaramucci's annual networking forum covering finance, technology and geopolitics — held in New York City.

"I am amazed all the time when I hear people talking about how they still believe you can't track these transactions," said panelist Jalak Jobanputra, founding partner for early stage venture capital firm FuturePerfect Ventures.

Most investors don't understand public key cryptography, she said, which has kept digital assets on the blockchain secure all along. Public key is a method of encrypting data with a public and private key. Since the data is encrypted by two separate keys — the public and private — instead of a single shared one, it's more secure.

INSTITUTIONAL INFRASTRUCTURE

So it's up to crypto custodians to promote that they can provide the same types of institutional infrastructure to custody crypto that are there for any other asset classes, said panelist Brett Tejpaul, head of institutional sales, trading, custody and prime services at Coinbase Global Inc.

"We built the platform to meet the rigorous due diligence requirements of institutional investors in the same way that they would undergo diligence of Goldman Sachs or JPMorgan, or others," Tejpaul said. "If we can put crypto in a position relative to other financial assets, and evaluate its operational risk security and other elements of risk relative to financial assets, you'll find that, actually, crypto, in many cases, is more secure."

really don't think they're going to leave."

Most institutions are still not willing to hold primary crypto assets, but gain passive exposure, as when JPMorgan Chase & Co. announced in March the launch of a structured note offering tied to a basket of Bitcoin-friendly stocks.

"The big regulatory question is how do we actually open this up for real institutional participation in the underlying projects we're all working on, that's the heavy lift for the next year or two," said Brian Brooks, former acting Comptroller of the Currency and former CEO of Binance.

"One of the things that we don't do a great job as a community in conveying to the world is: 'We're new, so we seem risky,' and we never asked the question: 'Risky compared to what?'" Brooks said.

"HOW DO WE ACTUALLY OPEN THIS UP FOR REAL INSTITUTIONAL PARTICIPATION?"

BRIAN BROOKS, FORMER CEO, BINANCE

Glenn Barber, head of sales and business development at digital custodian Copper, said the confusion for institutions is in the messaging.

"Those new to crypto don't realize that custodians have layered into their systems military-grade security and technology," Barber said. "The base layer value proposition is simply how do I make sure that if I'm going to buy digital assets they're stored in a place where I

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Finra looks to extend remote broker inspections

BY MARK SCHOEFF JR.

FINRA IS ON the verge of extending into next year a rule that allows brokerages to conduct remote inspections of branch offices.

During the coronavirus pandemic, the Financial Industry Regulatory Authority Inc. implemented temporary rules that relieved member firms of the on-site inspection requirement. Finra said the change was necessary because the outbreak made in-person examinations impractical.

The temporary rules were due to expire on Dec. 31. Under a proposal Finra filed last Tuesday with the Securities and Exchange Commission, remote inspections would continue through June 2022.

RULE CHANGE

The rule change took effect immediately, the SEC said in a regulatory notice last Wednesday. It will become operative on Jan. 1 unless the agency temporarily suspends the rule change within the next 60 days. The SEC will solicit public comments for 21 days after the regulatory notice is published in the Federal Register.

"The proposed extension of [the temporary rule] is necessary to address the continuing operational challenges resulting from the COVID-19 pandemic many member firms face in planning for and timely conducting, during the first half of calendar year 2022, the on-site inspection component of [the Finra supervision rule] at locations requiring inspection in calendar year 2022," the Finra proposal states.

INSPECTIONS WELCOMED

The brokerage industry, most of which has been operating remotely during the pandemic, has embraced remote office inspections and has been pushing Finra to extend them.

In a recent blog post, Bernard Canepa, vice president and assistant general counsel at the Securities Industry and Financial Markets Association, said brokerages continue to have trouble functioning normally as the pandemic lingers.

"Firms clearly see the benefit of onsite inspections when the circumstances warrant it, but not now," Canepa wrote. "Not during an ongoing pandemic when the prudent choice is to do our best to stop the spread of the virus. There is no reason to reinstitute onsite inspections, particularly when the last 18 months demonstrated that remote inspections work well."

Finra's experience with remote inspections during the pandemic could cause it to rethink its supervision rule.

"What I'd like to see happen here is that we would extend [the relief] into next year and that we would step back and look at that [supervision] rule holistically and think about whether it could use some updating to accommodate a thoughtful, risk-based approach to when in-person exams would be necessary," Finra Chief Executive Robert W. Cook said at SIFMA's online compliance conference in July.

The issue was also a topic during last month's Finra board election.

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GPB Capital unloads its top auto dealership group for $880 million

BY BRUCE KELLY

AFTER MONTHS of speculation, troubled private investment manager GPB Capital Holdings said last Tuesday it was selling a top auto dealership group for $880 million in cash.

Specifically, GPB Automotive Portfolio, the private partnership with thousands of retail investors, said it was selling the assets known as Prime Automotive Group to Group 1 Automotive Inc., according to a filing with the Securities and Exchange Commission.

GPB will receive half the money 12 months after the close of the sale, which the companies expect to occur by the end of November, and the rest 24 months post-closing.

It appears to be a positive development for confused and cash-starved investors in GPB Automotive and financial advisers who sold the private placements, which were marketed in $50,000 and $100,000 chunks. GPB stopped paying distributions, akin to dividends, to clients beginning in 2018, raising confusion and a series of red flags along the way.

BIG PROMISES

GPB and more than 60 broker-dealers grabbed investors' attention with promises of annual yields of 8%, plus special distributions.

GPB lured "investors with promises of monthly distributions that would be covered by funds from the investments and not drawn from underlying invested capital," according to a statement by the FBI this winter. "As we allege, however, this was all a lie."

Launched in 2013, GPB Capital was the brainchild of David Gentile, its owner, and Jeff Schneider, a longtime wholesaler and promoter of securities and alternative investments.

Along with another executive, they were charged in February by the Justice Department with securities fraud, wire fraud and conspiracy. They have also been charged with fraud by the SEC. Gentile is no longer CEO and an independent monitor was appointed in February by a federal judge to oversee the company.

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Focus Financial buys Canadian wealth manager

BY JEFF BENJAMIN

FOCUS FINANCIAL PARTNERS is acquiring a $1.2 billion Canadian wealth management business that operates in both the U.S. and Canada.

The acquisition of Cardinal Point Management and Cardinal Point Wealth Management will represent Focus' 78th acquisition, adding to its more than $300 billion of assets under management.

Founded in 2009, Cardinal Point operates a unique cross-border niche advisory practice, with three offices in the U.S. and two in Canada that serve clients with homes and family in both countries.

In addition to an expertise in cross-border tax management and estate planning, Cardinal Point has been growth machine, with assets under management tripling over the past five years.

"Our motivation for partnering with Focus is we are looking at how we can take the business to the next level," said Jeff Sheldon, Cardinal Point founder and chief executive.

$1.2B
COMBINED ASSETS OF CARDINAL POINT'S FIRMS

"We also like the idea of maintaining the independence factor, because Focus is not looking to turn us into employees, but they are embracing our entrepreneurial spirit," Sheldon said.

INTERNATIONAL DEALS

Rajini Kodialam, Focus co-founder and chief operating officer who leads the international strategy, said Focus has been doing international deals since 2008, but that the Cardinal business "has a unique value proposition."

"They might be one of the best-integrated firms that is truly integrated cross-border," she said. "And they have savvy digital marketing."

Rudy Adolf, Focus founder, chief executive and chairman, in a statement described Cardinal Point as a "clear leader in cross-border wealth management, adding a unique expertise to our partnership as we continue building a portfolio of firms that are highly complementary."

The deal is expected to close in the fourth quarter; terms were not disclosed.

A company representative confirmed that Focus' deals typically involve a combination of cash and low-cost debt with free cash flow.

In July, Focus took out a new 7-year term loan for $800 million to help finance growth through acquisitions.

Focus shares are up 20.1% in 2021.

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IN Podcasts

InvestmentNews podcasts share personal stories and analysis from leaders in the financial advice, fintech and investment industries. Here's a sample of what's offered and how to download the latest episodes.

Veteran financial reporters Bruce Kelly and Jeff Benjamin dive into the stories you find on the pages of *InvestmentNews*. With exclusive interviews of industry leaders and the hosts' strong knowledge, this podcast goes deep into a few select topics each week.

EPISODE #55

Ric Edelman's next move aims to bring advisers into digital assets

"This is going to prove to be the most impactful innovation for global commerce since the invention of the internet itself, but most financial professionals are unaware of how it works. Most people can't explain, 'What is blockchain?'"

– Ric Edelman, Edelman Financial Services

EPISODE #52

Going long with Michael Kitces and Ben Harrison

"It's quickly becoming a requirement to have a niche … you're not going to enjoy your practice very much in the future if you don't have one."

– Michael Kitces, Buckingham Wealth Partners

"We have seen this great evolution occur in the wealth ecosystem towards an advisory model … At the end of the day a holistic goal-based financial plan supported by an adviser is very much the same in an independent RIA as it is in a corporate RIA."

– Ben Harrison, Pershing

InvestmentNews CEO Christine Shaw sits down with financial professionals to explore how advisers can work together to create an inclusive culture and build a path for women to succeed in the financial industry. Shaw seeks to connect with powerhouse executives and break down the barriers for next-gen female financial advisers. Episode #52 began the second season, featuring a fresh lineup of top executives, influencers and historical figures as guests.

EPISODE #52

Righting history with Rosie Rios, 43rd Treasurer of the United States

"Does it impact this next generation of [women's] leadership if they can't see what they could be? If they can't visualize their potential? If they don't feel like they are valued in our history, how can they feel valued in our future?"

– Rosie Rios, former U.S. Treasurer

EPISODE #49

Amundi U.S. CEO Lisa Jones unveils her keys to success

"Having grown up in an environment where trust and loyalty and respect were so key and core to who we are as people, those are critical components of effective leadership and of building relationships."

– Lisa Jones, Amundi U.S.

Each week, hosts Liz Skinner and Steve Lamb explore the sustainable investing landscape, telling powerful stories of ESG and impact investing. Advisers will learn how to align their values with their investing and other financial decisions through episodes that are designed to be shared with clients interested in generating financial returns while maximizing their impact. The first 17 episodes dig into the United Nations Sustainable Development Goals and present related investment opportunities.

EPISODE #17

How do we pay for the SDGs?

"We have to feel the urgency of our fellow citizens on this planet who are living in deprivation and poverty. We have to feel that it's an urgent need to move them out of that state and that it's an urgent need to solve the climate crisis and adjust to it."

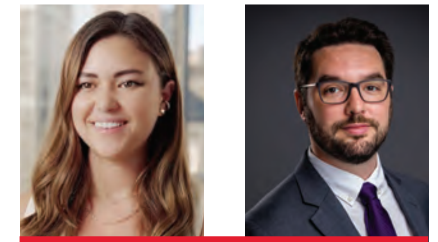
– Esther Pan Sloane, United Nations Capital Development Fund

EPISODE # 13

An investor blueprint for net zero

"We are basically substituting long run costs of fuel and operating costs for upfront capital. This introduces another interesting challenge … the challenge of rapidly mobilizing zero carbon capital so we can feed the pipeline of projects that are really going to have to be built in really quick time."

– Dr. Chris Greig, Princeton University



Hosts Nicole Casperson and Sean Allocca craft this monthly financial technology podcast that builds off interviews with tech insiders. Each episode features the latest in tech, what's next and what you need to grow your business and tech stack.

EPISODE #8

Risk takes center stage

"Hidden Levers allows us to talk tentatively about what the future might look like."

– Dr. Daniel Crosby, Orion

"Not having a risk solution on your desk in the 2020s is a little like not having a computer on your desk in the 2000s."

– Aaron Klein, Riskalyze

"Number one is asking assessable questions that people understand and not subjecting them to things like, 'Well if this occurred to your portfolio, what would you do?'"

– Jeff Schwantz, Morningstar

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CI FINANCIAL

CONTINUED FROM PAGE 2

have earned them the loyalty and trust of some of the country's most successful wealth creators, and we are thrilled to have the team join CI," MacAlpine said.

"Portola has developed wide-ranging capabilities to address the multifaceted needs of ultra-high-net-worth families, from intellectually rigorous, endowment-style investment management to complex tax planning to a wide range of family office services," he added. "The Portola team and model will be valuable in fostering the development of our ultra-high-net-worth offering across CI Private Wealth."

Co-managing partner Zack Herlick described the deal as a "big step forward" in taking care of the clients and employees of the RIA.

"CI's quality and scale will allow us to broaden and deepen the array of best-in-class services we offer to discerning families with sophisticated needs and wants," Herlick said.

The transaction is expected to close later this month, subject to regulatory approval and other customary closing conditions.

Financial terms were not disclosed.

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GALVIN

CONTINUED FROM PAGE 3

ders signed last week, MassMutual has agreed to undergo an independent compliance review of its social media policies and trading by its broker-dealer agents. The company will also be subject to a three-year compliance audit.

Gill , who gained prominence during the meme stock frenzy, stopped working at MML Investors Services in February and is no longer registered with a broker-dealer, according to his profile on BrokerCheck.

"MassMutual is pleased to put this matter behind us, avoiding the expense and distraction associated with protracted litigation," a company spokesperson wrote in an email.

POSTING VIDEOS

According to the consent order, Gill was employed by MassMutual from April 2019 until January 2021, a period in which he frequently posted videos and other materials online regarding investments and trading.

The period of Gill's employment overlapped with his involvement in the trading frenzy around GameStop and other meme stocks that occurred in late 2020 and early 2021, according to the regulator.

While employed by MassMutual, Gill was responsible for creating educational content for use by MassMutual broker-dealer agents to present to individuals, according to Galvin. At the same time that Gill was preparing those materials, he posted more than 250 hours of videos on YouTube, under the moniker "Roaring Kitty," detailing investment strategies, which went unnoticed by his employer, as did at least 590 securities-related tweets posted by Gill, according to Galvin.

MassMutual failed to detect or monitor nearly 1,700 trades made by Gill in the accounts of three other individuals, as well as transactions effected by Gill that were nearly double MassMutual's per-transaction limit of $250,000.

Also without notice of his employer, Gill was able to execute at least two trades in GameStop Corp. in excess of $700,000.

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LPL

CONTINUED FROM PAGE 3

their annual revenue, which means a signing bonus of $1.5 million, according to industry sources. Over several years, that same hypothetical adviser would receive the second part of that bonus, up to 100 basis points on assets, which would translate into $1 million. That's $2.5 million in total, sources said.

An LPL spokesperson wouldn't comment on the specifics of the recruiting deal. Instead, the spokesperson wrote in an email: "We present offerings in the marketplace that are unique to individual advisers, and we are consistently quite competitive in those offerings."

The LPL signing bonus is by no means the biggest in the market right now for wirehouse reps. Over the past few years Rockefeller Capital Management has offered a signing bonus of three times an adviser's annual revenue — double the amount LPL has on the table.

Recruiting advisers who are employees is different from targeting those who are independent contractors. Broker-dealers pay independent contractor advisers a much greater percentage of each dollar of revenue they generate, typically 80%. But those advisers have higher business expenses because they pay their own costs.

NO OVERHEAD

Advisers who are employees, like those at Merrill Lynch and the other wirehouses, get about 40% of each dollar they generate in revenue but don't pay for overhead. They also typically generate $1 million or more in annual revenue, or roughly two to three times what many independent contractors produce.

In 2018, LPL tapped a wirehouse veteran, Rich Steinmeier, who helped launch the wildly successful Merrill Edge, as head of recruiting. And last year it launched its Linsco-branded platform for wirehouse advisers, promising to increase those advisers' payouts, putting more money in their pockets.

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BIDEN TAX PLAN

CONTINUED FROM PAGE 2

The proposed tax increases are the first that have been put in legislative language in the so-called budget reconciliation process — a parliamentary approach that bypasses a Senate Republican filibuster and requires the support of almost all House Democrats and every Senate Democrat.

Among its many tax provisions, the Ways and Means proposal would increase the top individual tax rate to 39.6% and the top capital gains rate to 25%, while imposing a 3% surcharge on adjusted gross income in excess of $5 million, according to a summary.

It also would curb large retirement savings accounts for high-income earners. One of the reforms targets a strategy for making contributions to Roth individual retirement accounts.

"THESE LIFE-CHANGING PROVISIONS WILL LEVEL THE PLAYING FIELD."

REP. RICHARD NEAL, D-MASS.

In a so-called "back-door" Roth conversion, taxpayers whose incomes exceed the limitation for a Roth IRA make a contribution of after-tax money to a traditional individual retirement account and then convert that contribution to a Roth IRA.

The money in the Roth IRA can then grow tax-free and be taken out tax-free in retirement. In a traditional IRA, contributions are tax-deferred and retirement withdrawals are taxed.

Under the Ways and Means measure, Roth conversions would be prohibited for individuals with taxable income of more than $400,000 and married couples with taxable income of more than $450,000 as of Dec. 31, 2031.

Despite the 10-year phase-out, the policy change could immediately affect financial planning for wealthy clients who have complex estates and generational transfers, said Jonathan Duggan, an adviser at Hemington Wealth Management.

"Maybe now [a Roth conversion] is something you have to think about doing more proactively," Duggan said. "They've now got a clock ticking on that decision."

ANOTHER ROTH CHANGE

Another Roth conversion change would happen sooner. The bill would prohibit all after-tax contributions to company retirement plans and to traditional IRAs from being converted to a Roth IRA regardless of income level. That provision would take effect on Dec. 31 of this year.

"It really limits what folks can do with that after-tax money," said Brandon Garrett, president of BentOak Capital.

President Joe Biden and congressional Democrats indicated as early as last year's election that they would attempt to raise taxes on the wealthy. But the limits on Roth conversions caught Julie Hall, an adviser at Vision Capital Partners, by surprise.

25%
PROPOSED CAPITAL GAINS TAX RATE ON INDIVIDUALS

She said Roth IRAs are the second-most tax-advantaged account she recommends to clients, following health savings accounts.

"That piece alone is like, 'Wow!'" Hall said, referring to the Roth reforms. "We've been wondering how long Roths will stay as tax-favorable as they are."

Hall recommends Roth conversions when they make sense in a financial plan.

"From that perspective, [the Roth restriction] is not going to be a good thing for our clients," she said.

LONG WAY FROM LAW

But the Ways and Means measure is a long way from becoming law. A Senate bill may not include the same tax provisions.

In addition, the legislative path for Build Back Better requires that almost all Democrats in the House — where the party has a three-seat margin — and all Democrats in the Senate — where the party has 50 members — back the bill.

That political balancing act could come tumbling down. Some moderate Democrats have raised concerns about Build Back Better. Uncertainty will continue for weeks or months.

"It's going to take longer than expected, and the bill is going to go through significant changes in the process," said Jorge Castro, a member at Miller & Chevalier. "It's very unlikely it will look like the Ways and Means Committee product."

Financial advisers were relieved that the House Ways and Means tax proposal was less expansive than anticipated. For instance, it did not contain a provision to end the so-called step-up-in-basis and tax unrealized capital gains on inherited assets.

Castro, a former Democratic tax counsel for the House Ways and Means and Senate Finance committees, doesn't expect the tax provisions to become stronger as Democrats try to find common ground.

"At this stage of the process, the legislation is likely going to become more moderate," he said.

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ESG INVESTING

CONTINUED FROM PAGE 4

leads to increased investor appetite for ESG investments, which results in stronger performance for ESG strategies.

According to the report, the greenium produced a cumulative investment performance spread between November 2012 and December 2020 of 35% over non-ESG investments.

The ESG outperformance was particularly evident in 2020 with examples like Invesco Solar ETF (TAN) gaining 234%, FirstTrust Nasdaq Clean Energy ETF (QCLN) gaining 184%, and iShares Global Clean Energy ETF (ICLN) gaining 141%.

By comparison, the S&P 500 Index gained 16.3% in 2020.

Through Sept. 9 of this year, TAN is down 18.9%, QCLN is down 7.1%, and ICLN is down 19.6%.

The S&P is up 18.7% over the same period this year.

The research report separated "green" and "brown" companies based on the global ESG scores calculated by MSCI. The researchers then studied the impact of climate-related news reports on the stock price performance of those companies.

"Where we are today, green stocks are fairly valued, but they have high prices because ESG investors like holding them, and because they have high prices today, they have low expected returns in the future,"Taylor said.

EXPECTED FUTURE RETURNS

To test the theory that negative climate news drove up green stocks, the researchers "set the climate shocks to zero" and found that green stocks lagged their less-environmentally friendly counterparts.

"When we zero out flows into ESG funds and remove the climate shocks, we find green stocks would have underperformed," Taylor said. "That's what leads us to conclude this past great outperformance should not be expected to continue and tells us the future of green assets might be quite bad relative to the past eight years."

While it might seem logical that the same kind of negative climate news that drove recent ESG investment performance could continue to do so,Taylor argues that green stocks are already priced high based on past climate shocks and that the unique loyalty of many ESG investors will keep those prices high.

35%

"GREENIUM" SHOWING OF ESG FUNDS FROM NOVEMBER 2012 TO DECEMBER 2020

"People really like holding these green stocks today and that means their prices are high today," he said. "That also means their expected future returns should be low."

While this might not sound like great news to any investor or financial adviser who jumped on the ESG bandwagon for the recent performance, it should be good news for ESG purists.

"One way you can make the world a better place is by reducing the cost of capital for green companies and increasing the cost of capital for environmentally unfriendly companies," Taylor said. "If you're an ESG investor, you want green stocks to have lower expected returns because the expected return is the cost of capital."

So, while green stocks rode the wave of bad climate news and potentially drew some converts to the ESG side of the house, the real test will be how investors and advisers start to balance doing good for the planet against doing less good for the portfolio.

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ICapital and Grayscale team up to offer investors digital currency

BY NICOLE CASPERSON

ICAPITAL NETWORK INC., a provider of alternative investment products to financial advisers, announced last Monday a partnership with Grayscale Investments to offer its network of more than 6,700 advisers access to digital currency investment strategies.

Advisers on iCapital's platform will be able to allocate digital currency investments for their high-net-worth clients through a Grayscale diversified market-cap weighted investment strategy. This is the first time a digital currency offering will be available on the iCapital platform, according to the announcement.

ACCESS TO PRIVATE EQUITY

In addition to its new digital asset offering, iCapital gives advisers and their clients access to private equity, private credit, hedge funds and other alternative investments to increase diversification of portfolios. In July, iCapital raised a new round of funding that pushed its valuation to $4 billion, enabling the firm to expand its current menu of alternative investment products, enhance its technology platform and pursue more acquisitions to broaden its client footprint.

"Advisers and their clients have expressed increasing appetite for uncorrelated return potential in their portfolios, and digital currencies are at the center of the conversation right now," said Lawrence Calcano, CEO of iCapital Network in a statement.

Founded in 2013, Grayscale is the largest asset manager in the digital currency space with $43 billion in assets under management and 15 digital currency investment strategies, including six SEC-reporting investment products. Grayscale's regulated products enable investors to access digital assets in their investment portfolios alongside traditional investment options including stocks, bonds and ETFs.

"The digital currency landscape is complex and ever-evolving, which can make it difficult for advisers and their clients to determine the most appropriate methods to access the asset class," Hugh Ross, chief operating officer of Grayscale, said in a statement.

SURVEY SAYS

According to a Grayscale Investments and *InvestmentNews* survey, 61% of advisers had been approached for information about cryptocurrencies by clients, and 79% planned to increase recommendations of cryptocurrency investments in the next year if their firm recommends them.

"In a world with trillions of dollars of fiscal stimulus and negative real interest rates, the wealth management industry is recognizing the diversification benefits and inflation hedge potential that digital currencies can offer in an investment portfolio,"Ross said.

The uncertain future of regulation around digital currencies has kept advisers cautious of crypto assets, but the shift to embrace crypto as an investment vehicle for clients throughout the next year is on the rise.

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