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THE FUTURE OF FINANCIAL ADVICE

SEVEN WEALTH MANAGEMENT EXPERTS SHARE THEIR OUTLOOKS FOR THE INDUSTRY

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DOL delays fiduciary rule enforcement until 2022

BY MARK SCHOEFF JR.

THE DEPARTMENT OF LABOR delayed implementation of an investment advice rule that had been set for December, granting additional breathing room the financial industry had sought to prepare for the new regulation.

The DOL said on Oct. 25 that it wouldn't enforce until February a fiduciary rule for retirement accounts that was approved last year by the Trump administration and that went into effect last February.

The regulation would impose a fiduciary duty on most rollovers from 401(k) plans to individual retirement accounts. It would require advisers to document and explain the benefits, costs and conflicts of interest related to the recommendations.

In a field assistance bulletin, the DOL said it would extend from Dec. 20 until Jan. 31, 2022, a temporary enforcement policy that allows retirement account fiduciaries to receive prohibited transactions — such as commissions or revenue-sharing — as long as they follow impartial conduct standards, which include acting in a client's best interest, charging a reasonable fee and not making misleading statements.

ROLLOVER REQUIREMENTS

Most of the fiduciary rule will be implemented on Feb. 1. But the DOL will not enforce the documentation and disclosure requirements for rollovers through June 30.

The financial industry had pushed for an extension of the temporary enforcement policy while it prepared to comply with the rule.

The DOL acknowledged that the industry needed additional time to distribute disclosures to clients and automate the rollover documentation and disclosure requirements.

"The class exemption provides meaningful protections for individual investors and we continue to emphasize the importance of compliance," Ali Khawar, acting assistant secretary of Labor for employee benefits security, said in a statement. "Based on concerns raised, we've concluded that providing additional transition relief for financial institutions that are working in good faith to build systems to comply with the exemption conditions is appropriate."

DOL FIDUCIARY RULE

CHALLENGES AHEAD

One of the biggest challenges facing the industry is the rule's requirement to document fee comparisons between 401(k) plans and IRAs when recommending rollovers, said Brian Graff, chief executive of the American Retirement Association.

"We're pleased with the extension and appreciate the department's recognition that there were real challenges to complying by Dec. 20," Graff said.

Smaller registered investment advisers may be among the biggest beneficiaries of the implementation delay. The additional rollover documentation likely will be a heavy lift for them, experts have said.

The temporary enforcement policy went into place when the Obama administration's DOL fiduciary rule

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DOL's delay is hardly a reason for celebration

BY EMILE HALLEZ

RIAs AND broker-dealers now have a sense of finality from the DOL and are preparing to comply with the regulator's fiduciary rule.

The Department of Labor announced at the end of October that it would extend its nonenforcement policy by a little more than a month, through Jan. 31. Until Feb. 1, advisers can continue to use the regulator's Prohibited Transaction Exemption 2020-02 as long as they are complying with its impartial conduct standards. Additionally, the documentation and disclosure requirements for rollover recommendations won't go into effect until July 1.

The delay until February, while short, gives companies considerable breathing room.

"First, by extending the policy into next year, it means that financial institutions (broker-dealers, investment advisers, insurance companies and banks and trust companies) will not have to do the annual retrospective review for 2021," Fred Reish, partner at Faegre Drinker Biddle & Reath, said in an email. "Second, it will allow financial institutions to send out their 2020-02 disclosures with their Dec. 31 statements. Both of those are very practical and helpful."

PRACTICAL REASONS

The delay in the disclosures to retirement customers, which re-

CONTINUED ON PAGE 22

LPL will keep fishing in bank broker market

BY BRUCE KELLY

AFTER A BUSY year-and-a-half striking deals to provide retail brokerage and advisory services to banks and credit unions, LPL Financial will continue to fish in the market of financial institutions.

Since 2020, LPL has signed three major agreements with banks and a credit union. The two banks, BMO Harris Financial Advisors and M&T Bank Corp., have already moved financial advisers onto LPL's platform, with the credit union, CUNA Brokerage Services Inc., to be finished next year. In total, those three retail banks and credit unions represent more than 800 advisers and brokers and about $70 billion in client assets.

EXCITING OPPORTUNITIES

And LPL is still eyeing the financial institutions market, Dan Arnold, the company's CEO, said in a conference call Oct. 29 to discuss third-quarter earnings.

"Looking at the large financial institutions marketplace, we onboarded BMO Harris and M&T earlier this year and are applying the insights from those experiences to make our institutional offering even more robust and differentiated," Arnold said. "This innovation and marketplace momentum are helping drive a solid pipeline with a growing number of prospects."

"WE SEE OUR PIPELINE CONTINUING TO GROW."

DAN ARNOLD, CEO, LPL FINANCIAL

"We're excited about the opportunities across both the traditional bank outsourcing markets — that's your bank and credit union — and then the new large institution market," he said. "We see our pipeline continuing to grow and without giving specifics, we have good confidence that we can continue to see the financial institution space as an ongoing sustainable and multiyear contributor to our organic growth."

LPL doesn't buy the banks it works with; rather, it serves as the back office for each bank's wealth management business.

Meanwhile, LPL continued to add financial advisers, and at the end of September reported a head count of 19,627. That's an increase of 513, or 3%, when compared to the prior quarter and 2,459, or 14%, compared to the same period last year.

LPL added approximately 280 advisers from Waddell & Reed in the third quarter, according to the company. During the quarter, LPL moved the remainder of $71 billion in Waddell & Reed client assets to its platform. LPL said at the end of last year that it was buying the wealth management business of Waddell & Reed as part of a larger, complicated transaction.

bkelly@investmentnews.com

RICHARD NEAL

Democrats' bill would expand Social Security

BY MARK SCHOEFF JR.

HOUSE DEMOCRATS introduced comprehensive Social Security reform legislation on Oct. 26 that would boost payments and expand the payroll tax that supports the program.

The bill would increase the average benefit for Social Security recipients by about 2%. It also modifies the cost-of-living adjustment formula to better protect against inflation, sets a new minimum benefit at 25% above the poverty line and ends the five-month waiting period for disability benefits, among its 17 enhancements to Social Security.

The bill would pay for the additional benefits by applying the Social Security

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Raymond James facing compensation pressure

BY BRUCE KELLY

AT THE START of the year, Raymond James Financial Inc. CEO Paul Reilly said the firm was boosting recruiting bonuses for experienced financial advisers who work as employees. Now, Reilly is pondering the question of future compensation for the employees who support financial advisers.

There's no doubt that compensation is under pressure industrywide, he said Oct. 28 on a conference call to discuss earnings.

"The pressure we're really seeing is in admin support, whether it's operations, risk, tech, branch professionals, comp is under pressure for the whole industry," Reilly said. "It takes longer to recruit, recruiters are being recruited away, so it takes a longer time in hiring."

"We see [pay] packages come in, so we see comp pressure," he said. "Until the market more normalizes and we see a return across the sector, that could continue for the year. It's a general comment."

Reilly didn't comment specifically on pay packages. Last September, Raymond James said it was cutting 500 jobs and laying off 4% of its workforce to control costs during the pandemic. The cuts did not affect any financial advisers.

4%
PORTION OF WORKFORCE LAID OFF IN 2020

COVID-19

The Covid-19 pandemic has shaken the job market and caused shortages of workers in some industries. It slowed down recruiting of advisers in 2020 and it appears to be tightening the market for employees in the trenches, based on Reilly's remarks.

Meanwhile, Raymond James Financial reported a series of records in its financial results for its fiscal fourth quarter that ended Sept. 30.

The private client group reported record quarterly net revenues of $1.8 billion, up 29% over the prior year's fiscal fourth quarter and 6% over the preceding quarter. It also hit record quarterly pretax income of $222 million, up 78% over the prior year's fiscal fourth quarter and 14% over the prior quarter.

bkelly@investmentnews.com

Supreme Court to review 401(k) fee lawsuit

BY EMILE HALLEZ

A FORTHCOMING DECISION by the Supreme Court could either stem the number of retirement-plan fee lawsuits being filed — or it could encourage plaintiffs' law firms to continue filing them at the fast pace seen in recent years.

In December, the high court will hear arguments in a lawsuit against Northwestern University, which has successfully defeated claims at the district and appellate court levels. The school allegedly breached its fiduciary duty in part by allowing multiple record keepers and hundreds of investment options in the plan.

Numerous trade groups and other entities have been flooding the court with briefs in support of the school, and in at least one instance against it.

The Supreme Court granted the hearing of the case in July, following the appellate court's decision last year.

The question before the court is whether a plaintiff can adequately bring claims for breach of fiduciary duty based simply on the fact that lower-cost options were available to the plan. Although the 3rd and 8th Circuit Courts of Appeals have found that that alone can be enough, the 7th Circuit, which decided the Northwestern case, found it to be insufficient to state a claim.

Because that's usually all that plaintiffs in excessive-fee lawsuits have to go on prior to discovery, an affirmation of the decision could make it much more difficult to bring litigation that can survive motions to dismiss or stand good odds of extracting big settlements.

A DILIGENT PROCESS

For example, a plaintiff's law firm can easily compare the investment options in the plan to those in others – claiming that the performance and fee levels indicate a potential breach of fiduciary duty. But they have virtually no window into whether a plan committee followed a diligent process and documented it. Without the ability to explore that through discovery, many potential cases could be dead in the water.

"Over 300 excessive fee lawsuits have been filed in the last five years, with well

CONTINUED ON PAGE 22

Women advisers stress listening to clients' stories

BY MARK SCHOEFF JR.

INVESTORS MAY initially turn to financial advisers for help in managing their finances but converting them into long-term clients means listening to their stories and connecting to what's important in their lives, women advisers said last Thursday.

"Relationships over transactions: Keep that in mind," Reshell Smith, founder and chief executive of Ames Financial Solutions, said at the InvestmentNews Women Adviser Summit in Naples, Florida. "It will keep your book of business intact."

Clients may not just pour out their aspirations and fears about their finances. Jean Fidone-Schroer, director of business development at Edwards Wealth Management, recommends that advisers engage in an appreciative inquiry.

"Ask a lot of open-ended questions," she said. "Let them tell you how they feel."

Then repeat back their answers during the conversation, she said. This kind of discussion is more interactive than didactic.

"It's the coaching method, not the expert method," Fidone-Schroer said.

women adviser summit

'BE GENUINE'

Keena Pettijohn, founder and chief executive of Lifelogix Strategic Consultancy Group, said advisers can best help their clients through conversations that explore their "transitions, milestones, peaks and pits."

Pettijohn encouraged the audience, which was made up almost entirely of female advisers, to practice "SME" when talking to clients. Advisers should be "sympathetic, meaningful and empathetic," listen actively and be genuine in telling their own stories and encouraging clients to share theirs, she said.

Strong communication skills also are important in pursuing market segments. Advisers should concentrate on one or two areas that really motivate them when building a specialty practice.

"Your niche should be what you're passionate about," said Melissa Loner, executive vice president for adviser services at Premier Wealth Management. "Being your authentic self is most important."

FIND A NICHE

Susan Washburn, senior financial planner at ProVise Management Group, has built a niche focusing on widows. Creating a community requires interpersonal aptitude and "being able to connect with people," she said.

If advisers can find a niche, it can pay off on their bottom line.

"Riches are in niches," said Renee Baker, head of private client group adviser inclusion networks at Raymond James.

Although investment advice and financial planning can involve a fair amount of math, that's not the most important skill for the profession, Loner said.

The psychology classes she took in college may have been the best preparation she received to work in the advice sector, she said. "You have to have that ability to communicate."

The summit itself was an opportunity for women advisers to tell their own stories and absorb lessons from others' journeys in the profession.

"Women need to support ourselves," said Reina Schlager, a financial adviser who spoke on one of the conference's panels. "We need to learn to be collaborative."

mschoeff@investmentnews.com

Mary Beth Franklin wins EPPY award

EDITOR & PUBLISHER, a news organization covering the newspaper and publishing industry since 1884, has named Mary Beth Franklin a 2021 winner of its EPPY Award for excellence in digital content.

Her "On Retirement" column won an EPPY in the content category for best business/finance blog for sites with fewer than 1 million unique visitors. Judges noted that one of her columns stood out for her "well-written description of the contents of a report of an online study of how attitudes about retirement have been affected by the pandemic."

This year's award contest received more than 400 entries across more than 40 categories.

"I'm thrilled and honored by this recognition," said Franklin, who has been an *InvestmentNews* contributing editor for a decade. "I also want to thank *InvestmentNews* for giving me such a broad and respected platform to reach advisers and their clients."

—Evan Cooper

Why hedging inflation requires tiptoeing through the TIPS

INSIGHTS
JEFF BENJAMIN

As the Biden administration continues its efforts to tamp down growing concerns about inflation with messages that it's "transitory" and "temporary," the markets and consumers are living with the reality of higher prices.

For financial advisers, this means placing inflation management at the top of their to-do lists, and for a lot of advisers the go-to move has been toward Treasury inflation-protected securities, also known as TIPS.

According to CFRA, $34 billion has flowed into TIPS exchange-traded funds so far this year, pushing the total asset base up to $96 billion.

A report from Morningstar shows that TIPS have been leading fixed-income returns all year, with the Morningstar US TIPS Index up 4.95% through October, including an impressive 1.76% gain in October.

Beyond just good performance in the current fixed-income market, where

CONTINUED ON PAGE 24

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IN THEIR OWN WORDS ...
from the web and print pages of *InvestmentNews*

"I can't say it enough. Inflation is the key issue."

Bob Doll, chief investment officer, Crossmark Global Investments

"There is no such thing as permanent tax law. Things change all the time."

Tim Steffen, Director of tax planning and private wealth management, Robert W. Baird & Co.

"The pitch has changed. When I call an adviser, now I want to gauge what he thinks about being an independent adviser and what that all could mean, versus saying, 'This is the deal from Wells Fargo.'"

Casey Knight, Executive vice president, ESP Financial Search

New fee models could open up pricing choices

Fees took center stage last month as executives from Fidelity Investments and Charles Schwab Corp. squared off over the merits of so-called free custodial platforms that pass on fees to advisory clients.

While many advisers enjoy the free service, the complex revenue streams used by custodians are forcing many advisers to rethink how and where they hold client assets. Many RIA custodians sweep cash into interest-earning accounts, or even loan it out through affiliate banks at significantly higher rates, and don't pass those revenues on to clients. The practice has forced some advisers to look elsewhere for higher returns on holdings in cash.

Pressure from the likes of industry thought leader Michael Kitces, who comes to the argument from a strong fiduciary position, is also forcing custodians to take a closer look at the numbers. Instead of the status quo, Kitces has suggested a model that would charge registered investment advisers an asset-based fee somewhere around 25 basis points, requiring almost a full redesign of the business model.

Kitces' vision of a more straightforward approach to revenue generation might make sense. A simple fee based on AUM would open new business relationships and pricing plans, and theoretically allow advisers to pick and choose the services they want to pay for and at what cost.

During an *InvestmentNews* keynote discussion last month, Fidelity's David Canter and Charles Schwab's Bernie Clark took Kitces to task over his calls for a reconfigured model, challenging him to debate the topic in an open forum.

"I am going to make an offer right now; I'm happy to come on and talk to Michael Kitces in a debate, because I think he's asking the wrong question," said Canter, executive vice president of the RIA segment at Fidelity Institutional. "One of the things we could do, and maybe educate Michael on a little bit more, is make more transparent how we make money."

A REVAMPED MODEL COULD OFFER NEW OPTIONS FOR ADVISERS WHO WANT TO PAY A MORE STRAIGHT-FORWARD FEE.

Historically, custodial fees are paid in a third-party payer model where the investors pay fees based on the way the investments in their accounts create revenue, Canter said. He suggested Kitces is oversimplifying the models for custody fees and the services custodians provide.

Charles Schwab, too, is adamant about maintaining its current fee structure, according to Clark. "That is not the direction we're going ... So we have no intention of raising any fees as per our pledge," he said during the event. "I will commit to the fact, and I have in our pledge that's been public, that there will be no custody fees in the future at Charles Schwab [or] TD Ameritrade."

RIA service providers are certainly notching strong growth in both clients and assets under custody, according to the annual InvestmentNews Custody & Clearing survey. The breakneck pace of RIA growth has allowed new players to enter the landscape with newer revenue models, even as the largest incumbent players have so far maintained their relative dominance.

While these so-called free services are offered at very little cost to registered investment advisers, they do pass on fees to clients through revenues on commission, trading and for brokerage services on those assets. A revamped model could offer new options for advisers who want to pay a more straightforward fee and would also make explaining those charges to clients easier.

Rethinking custodian fee models could open choice and transparency around pricing, which is almost always the best option for advisory clients.

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Chief Executive Officer
Christine Shaw, cshaw@investmentnews.com
Chief Revenue Officer
Mike Schott, mschott@investmentnews.com

CONTENT
Chief Content Officer: George B. Moriarty gmoriarty@investmentnews.com
Executive Editor: Paul Curcio pcurcio@investmentnews.com
Deputy Managing Editor: Sean Allocca sallocca@investmentnews.com
Assistant Managing Editor: Susan Kelly skelly@investmentnews.com
Senior Editor, Special Projects: Liz Skinner lskinner@investmentnews.com
Contributing Editor: Mary Beth Franklin mbfranklin@investmentnews.com
Senior Columnist: Jeff Benjamin jbenjamin@investmentnews.com
Senior Columnist: Bruce Kelly bkelly@investmentnews.com
Senior Reporter: Mark Schoeff Jr. mschoeff@investmentnews.com
Reporter: Emile Hallez ehallez@investmentnews.com
Editorial Special Projects Manager: Brittney Grimes bgrimes@investmentnews.com

Director of Multimedia: Stephen Lamb
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TECHNOLOGY
Chief Technology Officer: Simon Collin simon.collin@bonhillplc.com
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ADVERTISING SALES
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Digital Ad Operations Campaign Manager: Kimberly Hall, khall@investmentnews.com
Senior Ad Operations and Programmatic Specialist Mirsad Brkic, mbrkic@investmentnews.com
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Events Sales Manager: Alyssa Stebbins astebbins@investmentnews.com
Director of Event Operations: Brie Johnson bjohnson@investmentnews.com
Director of Customer Service, Events: Natalie Taylor, ntaylor@investmentnews.com

AUDIENCE AND MARKETING
Director of Audience and Analytics: Bryan Fox, bfox@investmentnews.com
Senior Research Analyst: Devin McGinley dmcginley@investmentnews.com
Email Marketing Specialist: Nicole Chantharaj nchantharaj@investmentnews.com
Audience Data Specialist: Julie Vanderperre jvanderperre@investmentnews.com
Director of Marketing and Custom: Katie Downey, kdowney@investmentnews.com
Marketing Coordinator: Morgan Mallon mmallon@investmentnews.com
Marketing Associate: Alex Rubinetti arubinetti@investmentnews.com
Director of Project Management: Gillian Albert galbert@investmentnews.com
Digital Operations Specialist: Carla Flores cflores@investmentnews.com
Sales Marketing Specialist: Haley Convey, hconvey@investmentnews.com

HR/Office Administrator in NY
Cindy Zapata, czapata@investmentnews.com

INVESTMENTNEWS OFFICES
Headquarters: 685 Third Avenue New York, NY 10017-4024
Bureau office: Washington: 601 13th Street, N.W. Suite 900 South, Washington, DC 20005

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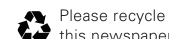

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FINANCIAL ADVICE IN THE 21ST CENTURY

EVOLVING TECHNOLOGY, INCREASING LONGEVITY AND CRYPTOCURRENCIES ALL PLAY A ROLE.

BY JEFF BENJAMIN

WHILE EVEN A CASUAL glimpse into the history of wealth management shows big strides toward democratization and technological evolution, looking at the future of the industry through the eyes of a diverse collection of experts offers the kind of promise and opportunity that should keep advisers on their toes.

In this collection of seven views from across the wealth management industry, you'll recognize optimistic outlooks on the growth of digital currencies and ESG investing. But there are also messages about retirement planning, as people live much longer than expected, and practice management perspectives for a world that is moving quickly beyond historical demographic models.

Technology, in an ever-present way, will become a major part of the evolution of wealth management, and the notion of what a financial adviser adds in terms of value will continue to change.

But ultimately, from every direction and perspective, it keeps coming back to a greater need for financial advice.

jbenjamin@investmentnews.com

Tyrone Ross Jr.

The world is moving toward cryptocurrencies faster than most want to realize, and financial advisers can either get on board or get lost in the dust.

That's the kind of statement many so-called legacy financial planning firms might not want to hear, but Tyrone Ross Jr. insists it is a message that needs to be presented.

"If I'm a young adviser right now, or not, I'm getting a CFP immediately and specializing in any type of digital or cryptocurrency planning," said Ross, CEO of Onramp Invest and founder of 401STC.

"You have every reason to go run and do it now, and specialize in this particular area," he said. "The changes to financial planning will be cataclysmic. There's a lot of inflection points now that spell doom for the legacy wealth management setup."

Looking past the traditional financial adviser population, whose average age is around 59, and a general client base weighted toward the mass affluent, Ross sees the future of financial advice in the younger generations slated to inherit mountains of wealth.

"They are used to a mobile experience that is beautiful, elegant and fast, and away from the adviser," said Ross, who envisions a financial advisory relationship of the future that hands over neither custody of assets nor portfolio discretion, but still needs help.

"Advisers will have to get used to clients having assets away from the adviser," he said. "Clients will tell advisers, 'I have accounts, you're not going to touch it, but I do still need your advice.' And you won't custody the assets or bill on the assets."

One major impact of the emergence of a more digital-savvy and independent-minded client base is a crushing blow to traditional asset-based fees, Ross said.

"AUM fees will be under serious threat because there are 30-year-olds putting together portfolios that will make financial advisers' heads explode," he said. "There will be technology that will allow fee-based pricing, but maybe it will be a monthly retainer or maybe an hourly model. It all depends on how the adviser wants to build it, and he will have to be nimble."

Envisioning a future where cryptocurrencies are a portfolio staple, Ross said there will be opportunities for firms to "just do financial planning for folks that own a lot of crypto."

"I see it coming; it's just a massive wave, and the opportunities will be monumental," he said. "Crypto is creating a lot of wealth, and there's such a lack of knowledge of crypto in general. Those with the expertise will win the day."

Beyond just financial planning expertise, Ross is talking about tech-savvy planning that caters to the emerging market of investors who want everything right now and in the palm of their hands.

"Technology will completely disrupt our space, dashboards will be rendered obsolete, and billing will be disrupted because technology will allow billing by the day or hour," he said.

Ross cites the fact that half of all the new accounts opened on the Robinhood app were opened within the last five years.

"That is telling you where we're going," he said.

Regarding the smaller size of the average Robinhood account, Ross said, "Those are the same folks inheriting all the money, and 60% of Robinhood accounts trade crypto."

"It won't only be advice on crypto, but crypto will drive the change," he said.

Ric Edelman

Traditional financial planning models are far too short-sighted to adequately serve clients with any future beyond the next decade, according to Ric Edelman, founder of Edelman Financial Engines and the Digital Assets Council for Financial Professionals.

"Advice in the future is going to be radically different than the advice that has been provided by financial planners over the past several decades, and the reason is longevity, which is changing everything," he said.

A prolific writer and prognosticator who has authored 11 books, Edelman's outlook follows a theme laid out in his 2017 book, "The Truth About Your Future: The money guide you need now, later, and much later" (Simon & Schuster).

While Edelman was an early and eager proponent of cryptocurrencies and financial planning strategies designed around frontiers that most advisers still aren't talking about, much of his big picture perspective begins with the idea of people living longer.

"If you're telling clients their financial future is secure because you're assuming a life expectancy of 80, you may be giving clients false hope," he said. "Instead of assuming your clients will retire in their 60s and die in their 80s, it is far more likely clients will live to 100 or beyond, and I don't know of any planners modeling 100 or 110 life expectancy, but if you do your models will explode."

Citing the exponential growth of technology, including medical advances, Edelman claims anyone who lives to the year 2030 is likely to live to be 100 or more.

"Chances are you'll be healthier at 95 than you were at 55," he said. "Aging itself will be slowed, likely stopped, and possibly reversed."

For financial advisers, this introduces a brand-new twist on the concept of retirement planning. For starters, Edelman sees an evolution beyond the traditional model of "you're born, go to school, go to work, retire and die."

"The old map of life developed 100 years ago will be replaced by a new map where we'll take those extra 20 or 30 years of retirement and splice them throughout our lives," he said. "The future might include school, work, back to school to learn new skills, new work, sabbatical and back to school again."

"And you don't have to work full time all the time, because we will be able to engage in a gig economy where people work on a part-time basis doing things they love whenever they feel like doing them," he added. "In the '60s we called them beach bums; today we call them gig workers."

For financial advisers relying on traditional models for work and retirement, Edelman said the deck is being reshuffled.

From a portfolio management perspective, he advises rethinking risk management.

"Annuities are fine if you need limited income for a finite period of time, but if you're going to keep money growing for the cost of living for decades to come, there's no substitute for equities," he said. "And you need to invest in exponential technologies, including blockchain and digital assets."

Edelman, who sits on the advisory boards of the Milken Institute's Center for the Future of Aging and the Stanford Center on Longevity, pulls no punches when it comes to pushing the cryptocurrency campaign.

"If you haven't been giving digital assets any thought, you're already 10 years late, but it's not too late," he said. "You can begin by having conversations with your clients about this, because people need to be aware of the future."

Michael Kitces

Michael Kitces believes the future of financial advice will be more about financial advice and less about the industry's history of "consultative selling."

"For much of the past 20 years, this business has been focused on managing portfolios and then giving all the advice we can give to keep the business, but we're reaching the point where financial advice is about giving advice," said Kitces, co-founder of the XY Planning Network and head of planning strategy at Buckingham Wealth Partners.

He sees the transition that's "happening in slow motion" and driven by technology "making products and implementation more accessible at a lower cost."

"It will become about the entire balance sheet: the assets beyond the portfolio and the liability side to include things like mortgages and student loans," he said.

Leveraging technology and moving beyond basic portfolio management will inevitably move financial advice down market to demographic groups that didn't always appeal to asset-based financial planning business models.

"Financial planning and the nature of seeking advice do come from situations where we have some kind of complexity, and advisers certainly live in a realm of complexity," Kitces said. "But the traditional lens of what constitutes a complex client will break because we have only viewed client complexity through an AUM lens."

Kitces challenges the traditional industry view that "people with less than $100,000 aren't financially complex."

"Nobody in their 30s and 40s says their life is not financially complex," he added. "These people are dealing with graduating from school, getting married, their first home, first job, getting divorced, second marriage, second job. There are so many things that happen to people in their 30s and 40s that have nothing to do with their investible assets."

Kitces doesn't believe the asset-based model will go away, but he does think advisers should be open to other options in order to expand and survive in wealth management.

"Not that there's anything wrong with the AUM model for people that have piles of assets to manage, but AUM only works on delegators that want to be served," he said. "And we've only ever served one type of client for the past 20 years."

The challenge in moving away from asset-based pricing, Kitces said, is developing expertise and building scale, which is where technology comes in.

"Scaling an advice business is very different than how you scale an AUM business because the fee structure is different and the service is different," he said. "Starting with the traditional model of financial advisers is if they can fog a mirror, they're a prospect. But when you start working in fee for service realm, you are charging for service and expertise."

Lule Demmissie

After spending the bulk of her career in traditional wealth management, Lule Demmissie says she "leapt into a startup that is swimming in territories where they are blurring an understanding of where the future will be."

Taking over as the U.S. chief executive of Israel-based fintech platform eToro in September has placed Demmissie on the front lines of the wealth management revolution and evolution.

"Every part of our lives have been disintermediated, so there's no reason we should think financial services will not be disintermediated," she said. "The world is flatter now and people get information more quickly because you don't need to go to the corner office for information anymore when there are people on social media sharing tips and techniques."

As part of the fast-paced digital movement toward innovation, Demmissie sees broader access to products, services and people that could flip traditional financial planning on its head.

"We've become a world that embraces a wide spectrum of individuals with an awareness of wanting to do good with capital," she said.

Demmissie describes the current financial planning model as, "'You don't know, so let me teach you.' It's a parental model, but that will change because the consumer is coming with all this information."

A big part of the evolution, she said, will be moving away from business models based on portfolio management.

"Advisers will recognize it's not just about portfolios; it's about helping people managing the psychological side of money," she said. "Advisers just doing portfolio management will be the first ones to get dated."

As Demmissie sees it, a key element to the evolution is not just more diversity in the wealth management ranks, but how that diversity happens."

"It will take a while, and the advisory base would not be accused of being diverse, but wherever you have diversity you have vibrance of innovation," she said.

In essence, Demmissie expects diversity to drive the changes in wealth management, and that could mean brand-new models showing up to compete with legacy planning models.

"First you have to adjust your model because just having diversity in an old model will not work," she said. "Diversity and demographic changes will happen. The question is, will the wealth management industry become part of those changes, or does the industry on the outskirts gobble it up?"

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**Improving Client Experience: Customizing with Direct Indexing,* Cerulli Associates research paper (sponsored by Parametric), August 2021.

Dani Fava

Aided by a global pandemic that forced the world to embrace new ways of doing business, wealth management is quickly moving beyond the traditional office meetings. But the future will be all about decentralized investing, portfolio management, and even the way wealth is accumulated.

"Instead of a typical career path, we will see more gig workers, entrepreneurs and side hustles, because the days of a single paycheck with predictable wages are gone or becoming fewer," said Dani Fava, head of strategic development at Envestnet.

As wealth accumulation evolves, Fava said wealth management will need to evolve as well or be left behind.

From fintech innovation to cryptocurrency investing and broader access to things like private equity, Fava said a financial adviser's biggest value-add will be "putting that picture together and bringing it all into one place."

As investment strategies evolve and the financial adviser becomes more of a quarterback, Fava said the notion of sustainable investing will blend into everything to the point where ESG will no longer exist as a separate investing category.

"Investment management is going further and further toward ESG because the societal issues we face, people will realize if they put their money purposefully into issues they want to solve, there will be a tipping point," she said. "And personalization will merge with ESG as well, because ESG is directing investments toward something that someone cares about."

Fava also expects major disruption in client prospecting and hiring.

"I think this next generation of wealth accumulators will find financial advice and planners in different places; they're not going to traditional financial institutions, they're going to TikTok," she said. "Firms will compete by hiring those people. Add young influencer talent and financial coaches, then a client eventually graduates to a traditional financial advice model."

Fava's other forecast, which she describes as "far out," is a trend toward consumer companies replacing traditional financial services brands. "If you look at the top 20 best-known brands in this country, none are financial services," she said. "Combine that with 73% of consumer brands planning to launch embedded financial services in the next three years."

The wealth management gold mine that private equity zeroed in on a few years ago is ripe for disruption, and Fava believes the consumer sector already has the relationships on which to build.

"Consumer brands are entering the space by teaching consumers how to make, save and invest money because they know if you learn how to do that on their app, you will know them as a financial services firm," she said. "That's incredibly smart."

Alyssa Riedel

The future of financial advice is down market, according to Alyssa Riedel, co-founder of RDCL, a social science-based research firm focused on wealth management.

The primary factor driving the kind of disruption that will push the focus toward a broader retail market is the smartphone, she said.

"When I close my eyes and think about 20 years from now, I think we will see financial advice move down market quite a bit," Riedel said. "In 10 years or less, financial advice will be accessible to everyone, and the biggest reason is the smartphone."

According to Riedel, 85% of Americans now have a smartphone, which is up from 35% in 2011, reflecting a seismic shift that occurred subtly.

"The phone and our relationship with technology is making things super-accessible," she said. "You're seeing communities built; it's a hive-mind community happening. I haven't seen anyone apply that in our space yet, but I think they will."

From Riedel's perspective, the technologies and apps that become more accessible through wider use of smartphones will make "financial advice become so much more germane to everyday life."

The success will be based on the same kinds of addictive ingredients that make other apps so popular. She draws parallels between exercise and diet apps that help motivate and track activities but said the down-market part will come from a more diverse industry.

"The way the industry currently looks won't be the same when moving down market," Riedel said. "The income gap and access-to-advice gap is huge. Companies are leaning in to figure out how to close the gaps. But we've found that people generally want advice from somebody that looks like them. So as we attract more diversity, you'll see that gap close."

Mike Durbin

If there was any doubt about fee pressure reaching the financial adviser level, Mike Durbin, head of Fidelity Institutional, is setting the record straight.

Citing the fact that until now, "most of the fee pressure has come through the building blocks advisers are using," one way or another, adviser fees are next to feel the pressure, Durbin said.

"If there's any room for fees to drop, it's probably at that threshold level, and to keep that fee, they have to move up the value stack with things like tax planning, tax advisory and estate planning," he said.

In essence, unless advisers figure out ways to create scale on the value-added side, they are heading toward de facto fee compression.

"If you don't allocate, you're just adding incremental costs, that is a form of fee pressure," Durbin said, with a nod toward outsourcing wherever possible.

And therein lies the rub, because at the same time advisers are trying to create scale in services that go beyond basic portfolio management, they will need to satisfy the growing demand for personalization.

"Consumers are demanding more personalization," Durbin said. "They want portfolios and solutions that are personalized around what they hold important, including values-based investing. The consumer will be the catalyst for increased need for personalization."

Durbin envisions a point at which advisers outsource general portfolio management, and the personalization is done by the adviser.

"If an adviser will be able to credibly personalize, they will have to be good at portfolio construction," he said. "The adviser is building the portfolio consistent with tax planning goals, ESG, venture capital and illiquids. Those are the kinds of discussions the adviser needs to have because that's tough to outsource."

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51% PORTION OF WORKING WOMEN WHO SAY THE PANDEMIC NEGATIVELY AFFECTED THEIR FINANCES.
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Biggest gaps in Medicare: Dental, vision and hearing coverage

One of the biggest differences between retirees and pre-retirees is their knowledge about what Medicare covers — and more importantly, what it doesn't. Many newly minted retirees are shocked to learn that traditional Medicare doesn't cover dental, hearing or vision services, despite the fact that the need for that type of care increases with age.

MARY BETH FRANKLIN

ONRETIREMENT

Some beneficiaries in traditional Medicare may have private coverage for these services, but many don't.

All-inclusive Medicare Advantage plans typically include some coverage for dental, hearing and vision services, but the extent of that coverage and the value of these benefits varies.

As a result, Medicare beneficiaries who need dental, vision or hearing care may face out-of-pocket costs that can run into the hundreds and even thousands of dollars for expensive dental treatments, hearing aids or corrective eyewear. Many forgo getting the care they need due to cost. Financial advisers should be aware of how much money their clients need to set aside for medical premiums and uninsured expenses each year as health care costs are often the single largest line items in a retiree's budget.

A recent report from the Kaiser Family Foundation explores the extent and impact of these coverage gaps just as Congress debates whether and how to expand Medicare Part B coverage to include dental, hearing and vision services.

Higher-income beneficiaries, defined as individuals with incomes over $88,000 and married couples with joint incomes over $176,000, pay higher monthly premiums for both Medicare Part B, which covers doctors' fees and outpatient services, and Medicare Part D prescription drug plans than average-income retirees. High-income surcharges, known as income-related monthly adjustment amounts or IRMAA, will be announced in November for coverage beginning Jan. 1.

The KFF report found only 8% of beneficiaries used hearing services, but close to half reported having difficulty hearing. Similarly, 35% report using vision services and more than one-third reported difficulty seeing. Dental services were the most widely used, with 53% of beneficiaries reporting using dental services in the past year.

But high out-of-pocket costs can prevent beneficiaries from obtaining needed care. In 2019, 9.5 million beneficiaries — including 16% of traditional Medicare beneficiaries and 17% of Medicare Advantage enrollees — reported that there was a time in the last year they could not get dental, hearing or vision care,

SPENDING LESS OUT OF POCKET

Among users of these services, beneficiaries enrolled in Medicare Advantage plans spent less out of pocket for dental and vision care than beneficiaries in traditional Medicare in 2018, but there was no difference between the two groups in spending on hearing care. Both groups spent substantially more for dental and hearing services than vision services.

For dental services, average out-of-pocket spending was $766 among beneficiaries in Medicare Advantage and $992 among beneficiaries in traditional Medicare. For vision services, average out-of-pocket spending was $194 among beneficiaries in Medicare Advantage and $242 among beneficiaries in traditional Medicare. Most Medicare Advantage enrollees had coverage for some dental, vision and hearing benefits, but still incurred out-of-pocket costs for these services.

KEY POINTS

- Traditional Medicare doesn't cover dental, hearing or vision services.
- Many retirees forgo getting care that they need due to the cost.

Lower average out-of-pocket spending among Medicare Advantage enrollees for dental and vision care is likely the result of several factors, the KFF report said. Most Medicare Advantage enrollees have coverage for dental, hearing, and vision services through their plan, which helps to improve the affordability of these services. Lower out-of-pocket spending among Medicare Advantage enrollees may also be related to lower overall income levels among these beneficiaries.

PROGRAM IMPROVEMENTS

Previous KFF analysis showed that average out-of-pocket spending on dental care rises with income because higher-income beneficiaries are better able to afford such expenses, not because they have greater dental needs. It is possible that some traditional Medicare beneficiaries used more, or more expensive, types of dental and vision care than those in Medicare Advantage, contributing to their higher average out-of-pocket costs for these services, the report said.

Lawmakers are considering adding dental, hearing, and vision benefits to Medicare as part of the budget reconciliation bill — a change that would be the largest expansion of Medicare benefits since the Part D drug benefit was launched in 2006. These program improvements would lead to higher federal spending of $358 billion over 10 years, according to the Congressional Budget Office, and likely to eventually lead to even higher premiums for upper-income retirees.

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

Mary Beth Franklin, a certified financial planner, is a contributing editor for InvestmentNews.
mbfranklin@investmentnews.com

INmail

BY MARY BETH FRANKLIN

How to delay collecting benefits until age 70

LM: How does an individual who has already reached full retirement age delay collecting Social Security until age 70 to receive the maximum benefit? Do I need to file a claim now and then suspend it or can I just wait to file a claim at 70?

MBF: Thanks for your excellent question! You don't need to do anything. Delayed retirement credits worth 0.66% per year for every month you postpone collecting them beyond full retirement age up to age 70 will automatically accrue.

So if your full retirement age is 66 and you delay claiming benefits until 70, your benefits will be 32% larger than your full retirement age amount thanks to four years of delayed retirement credits worth 8% per year. If your full retirement age is 67, your maximum delayed retirement credits would be worth 24% as there are only three years between your full retirement age of 67 and age 70.

But don't wait beyond age 70 to claim Social Security as the delayed retirement credits stop at that point.

If you wait until 70 to claim benefits, you'll receive the full increase all at once, plus any annual cost-of-living adjustments that were awarded from the time you first became eligible for benefits beginning at age 62 up until the time you claim them.

However, if you claim benefits before you turn 70, some of your delayed retirement credits won't be applied until the January after you start receiving benefits.

For example, say you reach your full retirement age of 67 in June 2027, and you plan to wait until your 69th birthday in June 2029 to file for your retirement benefits. Your initial benefit amount will be 12% higher than your full retirement age amount, reflecting 18 months of delayed retirement credits earned from your full retirement age in June 2027 through December 2028. In January of the following calendar year, your benefit will increase by another 4% to reflect the six months of credits you earned in the year you turned 69 before claiming benefits in June.

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RETIREMENT INCOME SUMMIT

The market keeps rising, but the ride could get bumpy: Bob Doll

BY MARK SCHOEFF JR.

PRICE-EARNINGS RATIOS have rarely been stronger and company profit margins have never been higher, but the stock market still has room to climb, a popular market analyst said last Monday.

"The path of least resistance continues to be up, but the easy money has been made," Bob Doll, chief investment officer at Crossmark Global Investments, told the audience at the InvestmentNews Retirement Income Summit in Naples, Florida. "Returns are likely to be bumpier."

The factors catalyzing market expansion include above-trend economic and earnings growth, a "pedal to the metal" approach to fiscal policy in Congress and an accommodative monetary policy by the Federal Reserve that have kept interest rates low. When it comes to investing in the financial markets, Doll referred to the acronym TINA — there is no alternative.

But the market ride could hit some turbulence thanks to inflation. For the past few months, many economists, politicians and other observers have stressed that inflation will be "transitory." But Doll pointed out that fuel and grocery prices are rising, as are wages, constituting an increase in core inflation.

"This is my biggest concern," said Doll, a former strategist at Nuveen who is best known for his annual 10 predictions for the financial markets and the economy. "I can't say it enough. Inflation is the key issue."

'CREEPING CONCERNS'

Other "creeping concerns" that Doll outlined include the Fed becoming more bearish as it tries to contain inflation; the "fiscal circus" in Washington as Democrats try to pass the now $1.75 trillion tax and spending package, the Build Back Better Act; and the fact that earnings growth, although high, is slowing.

Doll stressed that for the fourth quarter, stocks are a better investment than cash, which is better than bonds. He also said that value stocks should outperform growth stocks and cyclicals should beat "defensives."

Politics also could affect the fourth-quarter markets. Two weeks ago, the White House released a framework for Build Back Better that jettisoned individual and capital gains tax increases for high earners, as well as many previous provisions to generate tax revenue by clamping down on so-called mega individual retirement accounts and restricting Roth conversions.

Instead, the White House framework includes a 15% minimum corporate tax and income tax surcharges on annual income in excess of $10 million.

"The tax impact of Build Back Better is pretty small for most companies," Doll said in an interview on the sidelines of the conference. "That's why the markets have breathed a sigh of relief."

Congressional Democrats have been trying to reach an agreement between their progressive and moderate members on the measure, which incorporates an array of social and climate spending, as well as tax increases to pay for them. All 50 Democrats must support the measure in order for it to pass the evenly divided Senate, while the party only has a three-seat margin in the House.

"I've never seen a party with so many disparate factions," Doll said, while noting that Republicans are sitting on the sidelines opposed to the bill.

mschoeff@investmentnews.com

BOB DOLL

Wait-and-see is better than overreacting to tax changes

BY MARK SCHOEFF JR.

EVER SINCE PRESIDENT Joe Biden won the White House and Democrats gained control of Congress about a year ago, financial advisers have braced for an array of potential tax increases that could affect their wealthy clients.

Now Congress is attempting to advance a version of the Build Back Better Act, the hefty spending-and-tax package that incorporates the Biden administration's economic agenda, whose primary revenue proposal affecting individual rates would impose an income tax surcharge on earnings over $10 million.

Most of the possible tax hikes that had been discussed in one form or another over the last few months have fallen by the wayside. They include ending the step-up-in-basis on inherited assets and taxing unrealized capital gains upon death, raising the capital gains tax rate to the top individual rate for high earners, imposing required minimum distributions on mega individual retirement accounts, curbing Roth conversions for the wealthy and ending "back-door" Roth conversions for all income levels.

TAX WHIRLWIND

The tax whirlwind has calmed down to a breeze that's probably not going to affect directly most of an adviser's clients. It looks as if sitting tight, rather than making immediate portfolio and tax planning changes, was the right approach.

"Don't jump to conclusions," Tim Steffen, director of tax planning and private wealth management at Robert W. Baird & Co., told the audience last Monday at the InvestmentNews Retirement Income Summit in Naples, Florida. "All these people who rushed to implement all these strategies over the last couple weeks are probably kicking themselves right now. Don't do anything you can't undo."

Regardless of what is happening — or suddenly not happening — in Washington, the focus should always be on the client, advisers said.

"It all boils down to what was your plan, goals and objectives," said David Kover, managing partner at Vertical Financial Group. "We want to be proactive, but we don't want to be reactive."

When the House Ways and Means Committee targeted Roth conversions in its contribution to the Build Back Better bill, it sent up a red flag for advisers. But the decision on doing a Roth conversion should be made based on individual portfolios rather than a pending threat from Washington.

"Try to figure out for each client what works for them," said Thomas Balcom, founder of 1650 Wealth Management. "Every client is unique."

FINANCES FIRST

Julie Hall, an adviser at Vision Capital Partners, looks first to a client's financial situation rather than to Washington before recommending Roth conversions.

"We analyze, analyze and analyze," Hall said. "What are their goals and what's their endgame?"

For the upcoming tax year, she's concentrating on the current tax code. For instance, the multiple tax advantages of health savings accounts remain in place and haven't been part of the tax policy flurry of the last few months.

"Focus on what we can control," Hall said. "Make decisions on what we know today."

There's always the possibility that the tax proposals floated this year to pay for the spending in the Build Back Better bill could reappear. But it may be difficult to get the proposals that are no longer on the table, such as ending step-up-in-basis, back into the discussion.

"If it was ever going to happen, it was going to in this bill because there's been so much attention paid to it, and it still couldn't be passed," Steffen said. "It's a great talking point, but logistically, I don't know if it will ever happen."

The tax reform atmosphere could change again after the midterm elections a year from now, when Democrats will be defending their razor-thin majorities in the House and Senate.

"Our job as advisers is to adjust to whatever laws are passed," Balcom said.

One constant about tax policy is it's not immutable.

"There is no such thing as permanent tax law," Steffen said. "Things change all the time."

mschoeff@investmentnews.com

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AdvisersontheMove THIRD-QUARTER RECAP

Adviser recruitment stays cold while breakaway RIAs heat up

BY DEVIN MCGINLEY

ADVISORY INDUSTRY recruiting activity has still only partially rebounded from its pandemic standstill, according to an analysis of the latest Advisers on the Move data.

Total moves of experienced advisers were up 10% year over year through the first three quarters of 2021, according to the data. But the roughly 12,600 moves tracked through September remain 10% below their pre-pandemic level.

That includes recruitment of advisers already working in the industry and excludes transitions between related firms or those arising from a merger or acquisition.

The logistics of networking and actually transitioning offices were complicated by social distancing, and the pace of industry recruiting activity appears to be following the only partial return of live events and in-person work. According to a midyear survey by InvestmentNews Research, 41% of offices with multiple employees planned to continue at least partially remote operations indefinitely.

Still, the prevailing trend of advisers going independent has only gathered steam.

The RIA channel gained 1,274 advisers from other channels on net through September, up 43% year over year and 31% over 2019. Net gains for independent broker-dealers were up 15% year over year but lagged their pre-Covid level.

Wirehouses, which have backed away from the expensive task of recruiting from competitors in recent years, lost 1,749 advisers on net, more than any other comparable period since the 2009 financial crisis.

In the third quarter, LPL Financial, Fidelity Brokerage Services and PNC Investments led in gains, each bringing on more than 100 advisers on net.

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Q3 TOP NET GAINS

	ADVISERS GAINED Q3	ADVISERS GAINED YTD
LPL FINANCIAL	277	813
FIDELITY BROKERAGE SERVICES	149	391
PNC INVESTMENTS	120	125
RAYMOND JAMES & ASSOCIATES INC.	45	171
CHARLES SCHWAB & CO. INC.	45	44
MORGAN STANLEY	43	107
AMERIPRISE FINANCIAL SERVICES	39	76
STIFEL NICOLAUS & CO. INC.	31	46
FISHER INVESTMENTS	25	89
CONFLUENCE FINANCIAL PARTNERS	21	21

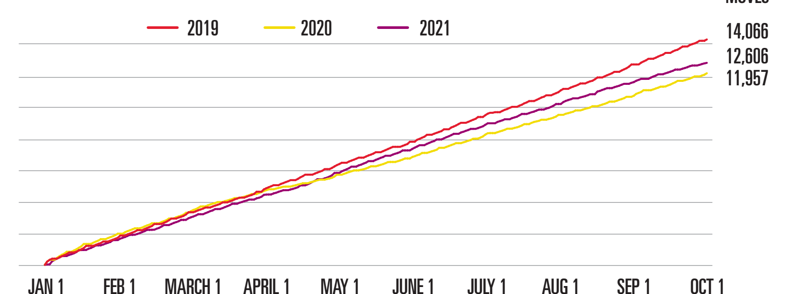
Q3 TOP NET LOSSES

	ADVISERS LOST Q3	ADVISERS LOST YTD
MERRILL LYNCH PIERCE FENNER & SMITH INC.	333	895
WELLS FARGO CLEARING SERVICES	244	898
BBVA SECURITIES INC.	126	156
EDWARD JONES	86	328
PNC MANAGED ACCOUNT SOLUTIONS INC.	41	50
EQUITABLE ADVISORS	40	175
MML INVESTORS SERVICES	37	104
NYLIFE SECURITIES	32	92
AVANTAX INVESTMENT SERVICES INC.	32	141
UBS FINANCIAL SERVICES INC.	30	94

Q3 CHANNEL NET CHANGES

	ADVISERS GAINED Q3	ADVISERS GAINED YTD
RIA	392	1,274
INDEPENDENT BROKER-DEALER	291	1,056
DISCOUNTER	189	189
REGIONAL BROKER-DEALER	68	219
INSTITUTIONAL	21	94
BANK	-187	-359
INSURANCE BROKER-DEALER	-203	-700
WIREHOUSE	-564	-1,749

WIREHOUSE DEPARTURES YTD



DISCLAIMER AND METHODOLOGY: The *InvestmentNews* Advisers on the Move database is designed to capture all recruiting activity of retail financial advisers/teams of advisers as they move from one firm to another. The activity recorded within the database comes from a number of sources, including *InvestmentNews* and other media reports, press releases, direct submissions that have been reviewed by *InvestmentNews,* and regulatory filings. To qualify as a move, no more than 60 days can have elapsed between the date an adviser/team leaves one firm and the date they join another. Any adviser registration changes that came as a result of merger and acquisition activity are not recorded as moves in the database.

Source: InvestmentNews Research

With the rise of RIAs, recruiters must change their game

As the grip of the Big Four wirehouses — Merrill Lynch, Morgan Stanley, UBS and Wells Fargo Advisors — on their financial advisers has lessened over the past 10 years or so, one of the industry's main arteries for attracting new financial advisers, recruiting, has evolved as well.

Twenty years ago, around the time of the dot.com stock bubble, if a reporter naively asked a third-party recruiter who worked with wirehouses whether an adviser would consider moving to an independent contractor broker-dealer like LPL Financial or Commonwealth, the recruiter would have laughed and said, "Not in a hundred years."

OK, the payout is higher at the independent firm, but where's the lead generation? Where's the brand? Where's the upfront bonus? Where are the stock options? In short, where's the money, either in the adviser's pocket or on the adviser's horizon?

That push-pull structure has all changed. The wirehouses, except for Wells Fargo, made clear a few years ago they were moving away from recruiting, which is expensive, in favor of training, retention and better technology. The recruiting industry scrambled.

NOT SO STRAIGHT-UP

Recruiting is no longer a straight-up proposition of moving a wirehouse adviser from Merrill Lynch to UBS, or vice versa, for example, or an LPL Financial adviser to Commonwealth Financial Network. In that scenario, the adviser gets a big check, and the recruiter a small piece paid over time.

Today's business of recruiting is much more varied, and potentially lucrative, as the advice industry has created the technology to enable an adviser to move more easily in one form or another to a registered investment adviser, increasing his or her overall take-home percentage of every dollar of revenue and also potentially building equity in a business owned by the adviser, not the bank. And the recruiter then gets paid.

ONADVICE

"Ten years ago, we only had independent broker-dealer clients, and now we work with broker-dealers, RIAs and the custodians," said Jodie Papike, president of Cross-Search, a third-party recruiter. "It was nowhere near the options for advisers we have today."

"Broker-dealers are positioning themselves more as RIAs and less as broker-dealers, realizing that is the direction of the industry," said Jon Henschen, another third-party recruiter. "The advent of large RIAs similar to big [offices of supervisory jurisdiction] has been making an increasingly large footprint over the last few years."

Wirehouses have always shed experienced advisers, but those advisers used to be much more likely to be recruited by another broker-dealer. RIA moves started really picking up between 2016 and 2017, according to InvestmentNews Research data.

RISE OF THE RIAS

For example, the total number of RIA firms with a fee-only model has risen to 2,663, according to an analysis of the latest data from the Securities and Exchange Commission. That's up from 2,215 firms in 2019, an increase of 20%.

Fee-only firms analyzed by *InvestmentNews* have at least $100 million under management and are based in the United States. In addition, fee-only firms primarily serve individuals with investment management and financial advice, they do not employ representatives of a broker-dealer or insurance company, and they do not charge commissions.

Meanwhile, the number of broker-dealers has been shrinking for more than a decade.

"The pitch has changed," said Casey Knight, executive vice president of ESP Financial Search. "When I call an adviser, now I want to gauge what he thinks about being an independent adviser and what that all could mean, versus saying, 'This is the deal from Wells Fargo.'"

bkelly@investmentnews.com

Ex-Texas adviser gets 3 life sentences for $32 million Ponzi scheme

BY BRUCE KELLY

A ONE-TIME INVESTMENT adviser representative who courted clients with Bible-thumping zeal and loads of Texas charm, William Neil "Doc" Gallagher was sentenced last Monday to three life sentences — plus another 30 years in prison — in Fort Worth, Texas.

The sentences resulted from Gallagher's guilty plea in August to charges stemming from a $32 million Ponzi scheme he ran in Hurst, Texas, that bilked senior citizens out of millions of dollars, according to a statement from the Tarrant County District Attorney's office.

Such severe penalties are unusual in white collar criminal cases but this case centered on elder fraud. The most prominent investment professional to receive such a sentence was Bernie Madoff, who died this year and who was sentenced in 2009 to 150 years in prison.

Gallagher could not be reached for comment. The Tarrant County District Attorney's office confirmed that he is in local jail and will be soon moved back into the Texas prison system.

According to the local district attorney, Gallagher, 80, ran the Gallagher Financial Group, which advertised on Christian radio with the tag line, "See you in church on Sunday." Last year, he pleaded guilty to similar charges in Dallas County and was sentenced to 25 years in prison.

CHARM TO SPARE

Gallagher had charm to spare, according to local news reports.

"If you heard the name Doc Gallagher on the radio or at an event, you probably remembered it," according to a Dallas Morning News article in 2020. "There's a certain cadence to his name."

"If you met Doc Gallagher in person, you certainly remembered that," according to the article. "He was an unforgettable figure, a minor North Texas celebrity with his sparkling silver hair and radio voice to go with his AM radio show. But his unique talent was his ability to pop into your life, become your best friend and, of course, take your money."

One of his books was titled, "Jesus Christ, Money Master," according to the district attorney's office.

During a three-hour court hearing, more than a dozen senior victims testified about losing anywhere from $50,000 to $600,000 that they had invested in the Gallagher Financial Group. They asked Judge Elizabeth Beach to give Gallagher life in prison, according to the district attorney's office.

"Doc Gallagher is one of the worst offenders I have seen," Lori Varnell, chief of the Tarrant County Criminal District Attorney's Elder Financial Fraud team, said in the statement. "He exploited many elder individuals. He worked his way around churches preying on people who believed he was a Christian."

NATURE OF THE CRIME

In an interview, Varnell said the three life sentences were related to the nature of the crime, which was focused on hurting elders or senior citizens, which makes it different from white collar crime.

"Gallagher targeted elderly people, teachers, police officers, single moms, people who really needed this money and can't earn it back," said Varnell. "These people live in fear of tomorrow because they have no other means to live. They invested with him time and time again because they trusted him. He basically pulled a regional Madoff."

According to BrokerCheck and Securities and Exchange Commission records, Gallagher was a registered rep with seven different broker-dealers from 1985 to 2001 and an investment adviser from 2003 to 2009. In 1999, the state of Texas reprimanded him and fined him $25,000 for a variety of shortcomings, including representing to the public that he was an adviser when he was not, according to his BrokerCheck profile.

Gallagher was sentenced to life terms on three charges: securing the execution of a document by deception for an amount greater than $200,000, theft of property more than $300,000 and misapplication of fiduciary property or property of financial institution of more than $300,000.

He was sentenced to another 10 years each on three charges: one charge of forgery against the elderly and two charges of exploitation of the elderly.

bkelly@investmentnews.com

This adviser made a giant leap for Humankind

James Katz traces his financial advisory niche all the way back to middle school when he started reading Isaac Asimov's Foundation series, which explored varying levels of the hard sciences and the laws of mass action to solve problems.

"I was really captured by the idea of using science to save the world," said Katz, 33, founder and chief executive of Humankind Investments.

If Katz, as a knowledge-thirsty middle schooler, didn't imagine one day running an advisory firm dedicated to socially responsible investing, he did stay on the academic path to the point where he earned a doctorate from Stanford University.

"I wanted to have big, practical, positive impact on the world," he said. "But in academia the fights are so fierce because the stakes are so low."

NICHEADVISER
JEFF BENJAMIN

Katz eventually found himself working as a quantitative data equity analyst at The Vanguard Group, where he has fond memories of staying true to his values.

"I was enjoying my time there," he said. "The whole focus on lowering fees for clients really resonated with me."

But the "eureka moment" that led to Katz launching his own firm two years ago came during a company meeting when he asked about Vanguard's proxy voting policies.

He recalls the response along the lines of, "We have a fiduciary responsibility to maximize the long-term value for shareholders."

MOMENT OF CLARITY

Katz was already working on his certified financial analyst designation while still at Vanguard, and he believed there was a market for a dedicated focus on environmental, social and governance investing.

"Two things became clear to me: I thought the socially responsible investing space was going to grow, and people were still struggling to understand what socially responsible investing meant," he said.

If you go back to Katz's middle school introduction that interlaced his values with lots of math and science, it could be argued that Humankind Investments is among the most deliberate niche advisory practices in existence. But, for practical purposes, the two-year-old New York-based registered investment adviser is just getting started.

Even a casual glance at the firm's website sends a clear message that this is a firm staffed with highly educated, quant-focused professionals who place socially responsible investing above all else.

The firm's $190 million under management is split almost evenly between separately managed accounts and the Humankind US Stock ETF (HKND), launched in February.

'VALUE FOR HUMANITY'

While Katz wouldn't be in the wealth management space if he didn't believe in generating positive returns, it is clear he also places a high value on the broader impact his decisions will have. And this is something his clients should be aware of going into a relationship with Humankind Investments.

"We talk about value for humanity and not just value created for investors," he said. "There is the economic value that companies create for their customers, investors, and the community. We end up with a dollar value a company is creating for humanity and that's how we weight companies in our portfolios."

Katz describes his "performance thesis" as "really long term," which should give clients and prospects a clear idea of where he places priorities.

> ## NICHE ADVISER
>
>
>
> **JAMES KATZ,**
> Founder, CEO
>
> **NICHE FIRM**
> Humankind Investments, New York, New York
>
> **NICHE**
> Socially responsible/ESG investing
>
> **PRO TIP**
> "What drew me to my niche is a real passion for social responsibility and trying to make a positive difference. If you're trying to be an entrepreneur and start a company, you must have this passion to get out of bed every day. Pick a niche you're really passionate about."

"If society is really moving in a more socially responsible direction, more people will want to use those companies that are doing the right thing, and the government could also regulate non-socially responsible companies," he said. "Even if your investment returns are good, if you only pay attention to the number at top of your investment portfolio, you're missing out on other numbers important in your life."

Katz uses the analogy of making a $1,000 profit from an investment in a tobacco company, but eventually facing $10,000 worth of medical bills for a family member who develops lung cancer from smoking.

"If everyone got together and invested in a way that's socially responsible, it could benefit their portfolio, but also other parts of their lives," he said. "This kind of impact exists across all these areas of social responsibility."

As one might imagine, Humankind Investments is not rolling out the welcome mat for prospects who are not fully on board with socially responsible investing.

Katz said he might try to convince a potential client to come around to his way of thinking. But if that effort failed, he would not be able to build a portfolio for such a client.

"We only try to buy securities that have a net positive humankind value," he said. "That's our line in the sand."

jbenjamin@investmentnews.com

Pro bono financial planning needs fintech to step up

BY JEFF BENJAMIN

FINTECH COULD BE the leg up that pro bono financial planning needs, according to new research from the Foundation for Financial Planning.

While a 2021 survey by the Certified Financial Planning Board of Standards found that 60% of CFP holders had done some pro bono planning over the past two years, averaging 28 hours per year, those numbers are virtually unchanged from two years earlier.

Jon Dauphine, FFP chief executive, believes the industry can do better and that technology can help make that happen.

The results of five focus groups and a survey of 400 CFP holders over the summer have convinced Dauphine that fintech innovation hasn't been as focused as it could be on pro bono services. Of those advisers doing pro bono work, 45% say they are still using pen and paper for rudimentary household budgets and debt management for their pro bono clients.

"When we asked advisers what they needed in terms of technology to make their pro bono work more effective, 72% said they'd be more likely to use financial planning software if it were simple, free, and relevant to pro bono clients' needs," Dauphine said.

The research found that the most relevant needs of pro bono clients involve creating budgets, building emergency funds, and managing credit card debt. All things that Dauphine said are not the major challenges for most paying clients, which is why he believes fintech is not innovating in those areas.

To be fair, the fintech space isn't completely turning its back on pro bono efforts.

PRO BONO CHALLENGE

In September, Orion started offering free adviser access to its platform for pro bono planning, and eMoney at its annual conference last month announced a pro bono challenge, giving the first 100 advisers to sign up free access to its financial wellness mobile app.

Dauphine is hoping the FFP research will serve as a "road map for how to develop technology solutions that can really lead to more innovation that will drive pro bono engagement."

Specifically, advisers who are actively donating their time and effort to provide financial planning say the focus should be on areas that rarely apply to paying clients, including information on public benefits and calculators designed for lower income households, and systems for gathering basic client information before the first meeting.

The respondents "also felt it would be useful if there was a way to access chunks of educational content to reinforce details for additional learning," Dauphine explained.

"We're trying to say, if you're a fintech or an innovator, we know there is so much technology driving the paid engagements, but in pro bono it's lagging behind," he added. "We're trying to really understand the needs of the pro bono client and the advisers providing pro bono services, and bring that knowledge to the industry."

Dauphine said FFP is working with fintech companies to effect change in the pro bono financial planning sector. Advisers looking for ways to offer pro bono services can register at FFP's probonoplannermatch.org, where they can find areas of need across the country.

jbenjamin@investmentnews.com

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DOL ENFORCEMENT

CONTINUED FROM PAGE 2

was vacated by a federal appeals court in 2018. It remained in place when the Trump administration rewrote the fiduciary rule and continued when the Biden administration allowed the Trump rule to go into effect.

REG BI ALIGNMENT

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

"To do a rollover, everyone needs a prohibited transaction exemption, which has requirements like Reg BI, but it's not exactly the same," Brad Campbell, a partner at Faegre Drinker & Biddle and a former DOL assistant secretary, said at the Oct. 7 *InvestmentNews RIA Summit*. "Even the largest firms, which are spending lots of money to meet the [December] deadline, are scrambling. And smaller RIAs may not realize what they have to get done by then."

When the Trump fiduciary rule goes into force, the Biden DOL will not be done with retirement savings advice policy. In December, the agency is expected to promulgate a proposed rule to expand the definition of fiduciary related to retirement accounts.

mschoeff@investmentnews.com

SUPREME COURT

CONTINUED FROM PAGE 3

over $1 billion in settlements and several hundred million in payouts to plaintiffs' counsel," a brief from Euclid Fiduciary read. "Last year alone, nearly 100 excessive fee suits were filed, marking a 500% increase from the year before. And an estimated 70% of those cases proceed into discovery. It is now routine … to 'target a plan that holds abundant assets,' in the hope of a large settlement."

Euclid, which provides fiduciary liability insurance, like others in the industry has had to jack up rates and adjust coverage limits as the risk of 401(k) fee litigation exploded.

"LAST YEAR ALONE, NEARLY 100 EXCESSIVE FEE SUITS WERE FILED."

EUCLID FIDUCIARY BRIEF

"The chance for a windfall recovery has spawned hundreds of excessive fee lawsuits over the past five years, already resulting in dozens of meritless claims avoiding dismissal and extracting large settlements," the Euclid letter to the court read. "The pleading standard should be clarified and further guidance should be given to better equip the lower courts to weed out these claims."

'PROCESS IS KING'

Numerous other groups have asked the Supreme Court to reaffirm the case for Northwestern University, making it more difficult to bring excessive-fee cases against plan fiduciaries.

The Chamber of Commerce, along with SIFMA and several insurance industry groups, noted that "under ERISA, process is king — ERISA simply requires fiduciaries to use a prudent process for making decisions."

"This court should provide clear instruction to lower courts that circumstantial allegations in ERISA complaints should be evaluated with the same context-sensitive scrutiny as circumstantial allegations in antitrust or discrimination complaints," the groups wrote. "ERISA class-action complaints, however, typically include no allegations about process and focus entirely on outcomes that the plaintiffs claim (with 20/20 hindsight) were suboptimal."

Another group, the American Benefits Council, noted that claims are often made on "an inference of breach from the results achieved by the fiduciaries."

"And courts, recognizing that plan participants lack complete information about the processes applied by their plan fiduciaries, have permitted plaintiffs to proceed on implication — but only if the results cannot be explained by a prudent process," the group stated. "It is not enough to allege that a cheaper or better-performing option was available to the fiduciaries."

The case against Northwestern does not meet that standard, the trade group wrote.

SIDING WITH NORTHWESTERN

One company that has been at the center of numerous cases brought against 403(b) plan sponsors, TIAA, said that "[a]llowing claims like petitioners' to go forward would 'unlock the doors of discovery' to claims that are all too easy to make," and consequently lead to settlements, even in meritless cases.

Other groups, including the Investment Company Institute, the American Council on Education and the Committee on Investment of Employee Benefit Assets, also urged the country's highest court to side with Northwestern.

Yet another group of organizations asked the court to go in the other direction, siding with the plaintiffs and allowing the case to proceed. Denying the claims to go forward would make the pleading standard too difficult for cases with merit, according to the letter from AARP, Better Markets, the Consumer Federation of America, the National Employment Law Project and the Pension Rights Center.

"To state a cause of action based on a breach of fiduciary duty, plaintiffs must plausibly allege that defendants are plan fiduciaries, that defendants breached their fiduciary duties, and that plaintiffs were harmed as a result of the breach," the groups wrote.

ehallez@investmentnews.com

DOL DELAY

CONTINUED FROM PAGE 2

quire advisers to show the reasons why they recommended a rollover and how that is in the client's best interest, was necessary for practical reasons, Reish said. "[F]inancial institutions were having difficulty developing the information and processes for doing that."

What firms should be considering is that the delay only applies to DOL and IRS enforcement, he noted, and not, for example, private litigation that could be brought by retirement plan participants.

Further, the impartial conduct standards necessary for the exemption, which include a best-interest standard, shouldn't be ignored. "That requirement is not extended," Reish said.

PLANNING COMPLIANCE

Financial services firms, particularly larger ones with more resources, have been planning their compliance with the DOL's new requirements for months. Edward Jones, for example, had been planning for different scenarios for the rules going into effect, John Davis, principal of retirement products at the firm, said during a discussion at the recent RPA Convergence Broker-Dealer Roundtable and Think Tank.

"We're prepared to [provide disclosures] because it doesn't really change how we service clients," Davis said. The company had been waiting to provide DOL-compliant disclosures until the deadline given the uncertainty in the regulator's timing and whether it would potentially change the requirements, if the previously unannounced extension had spanned many months, he said.

In a statement provided by a company spokesman, Davis said that "Edward Jones has been well prepared to comply with PTE 2020-02 since it became effective in February and remains ready to meet the DOL's enforcement timeline."

Companies that claim to provide "education only" for rollover recommendations will likely find themselves in the DOL's cross hairs, several attendees at the RPA Convergence event noted.

MOST ARE PREPARED

Among about 80 different firms that the Pension Resource Institute works with, none had been banking on a delay from the DOL, even while some were more prepared than others, CEO Jason Roberts said.

"It's a minor delay," he said. "We didn't see anybody taking their foot off the gas."

What's important to note is that the DOL's exemption applies to compensation stemming from advice about various types of plans, such as 401(k)s, individual retirement accounts and health savings accounts, Roberts said. "It's bigger than rollovers."

Of the two areas that are delayed until July 1, firms should plan to update their internal documentation requirements as soon as possible, he said.

The client-disclosure requirement is the component that poses the most practical risk for advisers, Roberts noted. "It's going to get Monday-morning quarterbacked [by clients] every time the market takes a dive."

The delay in that component "is really just one piece — and it's a big piece — but it's the only piece that you get a reprieve all the way until July," he said. "The firms that understand that are not having a touchdown dance right now because of this delay."

ehallez@investment.news.com

DEMOCRATS

CONTINUED FROM PAGE 3

payroll tax to wages above $400,000, according to a summary. The levy is currently capped at $142,800; an annual inflation adjustment would gradually push that $142,800 cap up to $400,000, at which point all wages would be subject to the payroll tax.

Democrats rolled out the bill in a Capitol Hill press conference that included statements of support from more than a dozen lawmakers. The bill has nearly 200 original co-sponsors.

Democrats touted the measure with a sense of urgency — not only in terms of the millions of Americans they said were struggling to get by on Social Security payments below the poverty level but also in terms of a political moment when Democrats control the House, Senate and White House.

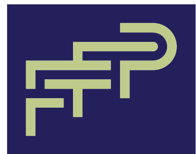
"It's now time to expand benefits [for] everyday, hard-working, decent Americans who work hard and play by the rules and contribute … through the payroll tax to this great program," the bill's author, Rep. John Larson, D-Conn. and chairman of the Ways and Means subcommittee on Social Security, said at the press conference.

Democrats maintain a three-seat majority in the House and the thinnest possible majority in the 50-50 Senate thanks to the tie-breaking vote of Vice President Kamala Harris. But the bill's backers likely will have trouble obtaining Republican support, and the GOP can block legislation through a Senate filibuster.

But at the press conference, Democrats concentrated on their majorities.

"We have this rare moment to accomplish seismic achievements," said Ways and Means Committee Chairman Richard Neal, D-Mass. "This is the time to do it."

mschoeff@investmentnews.com



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TIPS

CONTINUED FROM PAGE 4

yields are barely keeping up with inflation, the TIPS story illustrates the lack of confidence in the message coming out of Washington regarding the inflation threat.

As Morningstar's Lauren Solberg explains, TIPS offer a perspective on inflation expectations through the so-called breakeven rate that compares yields on TIPS with their non-inflation-adjusted counterparts.

BREAKEVEN RATE

Think of the breakeven rate for TIPS as the expected rate of inflation for the period covered by the bonds.

"Currently, the difference between 10-year TIPS and nominal Treasury yields is 2.67%, up from 2% at the start of 2021 and a level last seen in April 2006," Solberg writes in her report. "In fact, the last time that the 10-year breakeven rate rose above 2.5% was during the summer of 2013."

Seems straightforward enough, but as any market watcher will attest, these are unprecedented times and jumping headlong into TIPS might not be the most prudent strategy for everyone.

"There's been a huge investor sentiment shift toward TIPS, which tells me people are worried about inflation, and TIPS are designed to be the tool for inflation when it's anticipated," said JR Rieger, owner of the Rieger Report, which provides bond market commentary.

"THERE'S BEEN A HUGE INVESTOR SENTIMENT SHIFT TOWARD TIPS."

JR RIEGER, THE RIEGER REPORT

SHORT-TERM TIPS

But viewing the Federal Reserve's monetary policy as "manipulated" and acknowledging the unique confluence of events, including supply chain disruptions, worker shortages and the uncertainty created by the pandemic, Rieger said any new allocations to TIPS should be limited to the shorter-term variety.

"Stay with shorter-terms TIPS until we get a clearer inflation picture," he said. "Stay within five years for this period of lack of clarity."

Peter Yi, head of short duration fixed income at Northern Trust Asset Management, recognizes the appeal of TIPS, especially with five-year TIPS offering a breakeven rate close to 3%. But he believes financial advisers should consider whether the current level of inflation can be sustained much beyond next year.

"We're still in the transitory inflation camp, more than structural inflation camp," he said. "I don't think anyone is questioning that prices are higher today, but will they be higher on a relative basis next year? And our view is no, they won't be."

LESS APPEALING

While Yi believes the Federal Reserve is still a couple of years away from raising interest rates, he expects the supply chain disruptions and worker shortages that are in part driving inflation will be ironed out in relatively short order.

"Investors are realizing the absolute inflation rate today is pretty high, but in order for it to be sustainable, inflation has to increase another 4% or 5% next year," he said.

Put that way, TIPS start to look less appealing as a longer-term allocation. That's also why Yi is among those favoring allocations to natural resources, infrastructure and global real estate as a hedge.

"Bottom line is, inflation is a big debate," he said.

jbenjamin@investmentnews.com

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MAKE THE SMARTER MOVE

Head of defunct broker-dealer charged with fraud by feds

BY BRUCE KELLY

THOMAS BRENNER, the former CEO of a broker-dealer that was expelled from the industry in 2017, is facing seven federal fraud charges linked to sales of private placement securities that purportedly financed medical laboratory developments.

According to a statement last Tuesday from the Department of Justice, Brenner, 58, was the president of First American Securities Inc. in Orrville, Ohio.

The Financial Industry Regulatory Authority Inc. expelled First American Securities in 2017 after the broker-dealer failed to pay more than $300,000 in fines and disgorgement of commissions related to the sale of private placements that were "rife" with violations, according to the firm's BrokerCheck report.

SEVEN CHARGES

In March 2015, Brenner and other persons allegedly conspired to recruit Brenner's clients to invest in the private placements, United RL Capital Services, according to the Justice Department. Instead of apportioning the investors' money as promised, Brenner allegedly used the funds for his benefit, including large purchases related to racecars and to pay taxes, according to the indictment.

Brenner's attorney, Carolyn Kucharski, did not return a call last Wednesday to comment.

Brenner faces seven charges: conspiracy to commit mail and wire fraud, conspiracy to commit securities fraud, mail fraud, wire fraud, securities fraud and engaging in a monetary transaction in property derived from criminal activity.

In 2018, the Securities and Exchange Commission brought charges against five men, including Brenner, and three connected entities for allegedly perpetrating a $102 million Ponzi scheme that defrauded more than 600 investors.

bkelly@investmentnews.com

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Finding the right client journey: How technology turns prospects into clients

The client experience is one of the most important aspects of an advisory business and essential to keeping clients happy and engaged. However, wealth management firms consistently rank last in terms of client satisfaction when it comes to technology — like client portals and mobile apps. As clients enjoy seamless experiences with Netflix and Amazon apps, how can advisory firms keep up with the growing expectations for superior tech?

The discussion will focus on:

- How can advisers step up client experiences through technology?
- What areas will have the greatest impacts on client experience?
- Will new client-facing technology really lead to return on investments?

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