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NOVEMBER 15-19, 2021
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THE WORKPLACE EXODUS HAS EVEN ADVISERS

HITTING THE EXITS

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TopNews

ACCURACY / EXCELLENCE / FAIRNESS / IMPARTIALITY / INDEPENDENCE

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SEC calls out advisers for overcharging clients

BY MARK SCHOEFF JR.

INVESTMENT ADVISERS are charging clients more than they owe as a result of inaccurate fee calculations, the Securities and Exchange Commission said last Wednesday.

The agency released a risk alert that outlined problems in how firms bill clients and disclose their fees. The deficiencies, which often led to clients suffering financial harm, included overbilling of advisory fees, faulty determinations of break points, and incorrect charges to households. Advisers also failed to credit fees due to clients or charge them on a pro rata basis for account opening.

> **KEY POINTS**
> - SEC released a risk alert outlining problems in how firms bill clients and disclose fees.
> - Agency says robo-advisers aren't acting in clients' best interests.

The SEC released a separate risk alert last Tuesday regarding investment advisers who provide digital advisory services, or robo-advisers. In an examination sweep, SEC staff issued deficiency letters to most robo-advisers, citing shortcomings found in compliance programs, portfolio management — including acting in a client's best interests — and performance advertising and marketing.

In the fee risk alert, the SEC said advisers were lax in their internal oversight of the way they charged clients for their services. The findings were based on examinations of 130 investment advisers. The typical adviser in the sweep charged fees based on clients' assets under management.

"Many of the examined advisers did not maintain written policies and procedures addressing advisory fee billing, monitoring of fee calculations and billing, or both," the alert states.

CREATIVE ACCOUNTING

Alan Foxman, managing director at Foreside Financial Group, said advisers are getting more creative in how they are paid, which creates compliance challenges.

"The more complicated you make things, the more detailed and clearer your disclosures need to be so clients can figure out how they're being charged," Foxman said.

The results of the fee sweep indicate that there's miscommunication within firms regarding fees between people who interact with clients and staff who run the financial operations, said Todd Cipperman, principal at Cipperman Compliance Services.

"What the salespeople are saying is one thing, and what's being done in the back office is something else," Cipperman said.

When it comes to robo-advisers, the SEC said that their algorithms were failing to test whether the invest-

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Finra hits Aegis with $2.7M fine for churning

BY BRUCE KELLY

THE FINANCIAL INDUSTRY Regulatory Authority Inc. said last Tuesday it sanctioned Aegis Capital Corp. $2.75 million for churning, or excessive trading in client accounts, from 2014 to 2018.

Aegis Capital, which is based in New York and has 300 retail registered reps, will pay close to $1.7 million in restitution to 68 customers whose accounts were "potentially excessively and unsuitably traded" by the firm's brokers, according to Finra. The firm will also pay a $1.05 million fine for its supervisory violations.

As part of the settlement, Aegis Capital neither admitted nor denied Finra's findings.

"The referenced items occurred many years ago and relate solely to the activity of a discrete number of brokers," an attorney for the firm, Michael Ference, wrote in an email. "Aegis has subsequently invested significant capital to enhance its supervisory and compliance systems which has enabled Aegis to detect, monitor and prevent the referenced activity."

FOUR-YEAR PERIOD

Over the four-year period, Aegis Capital failed to identify trading that was potentially excessive and unsuitable in hundreds of customer accounts, including trading conducted by eight Aegis registered representatives in the firm's Melville and Wall Street branches, according to Finra.

The trading by those eight brokers in the accounts of 31 Aegis

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CI Financial posts record earnings, takes stake in alts platform

BY JEFF BENJAMIN

CI FINANCIAL PAIRED the reporting of record third-quarter financial results last Thursday with the news that it is expanding beyond its pattern of acquiring registered investment advisers by taking a minority stake in alternative investments platform GLASfunds.

The investment in the $1.1 billion Cleveland-based alts platform marks the 26th U.S. acquisition made by the Toronto-based aggregator since it entered the market 24 months ago, and further bulks up its private wealth business.

Just a day earlier, CI had announced its 25th U.S. purchase, adding $7.5 billion Chicago-based Gofen and Glossberg.

CI, which has grown to approximately $95 billion worth of U.S. RIA assets and $271 billion in total assets, reported a 65% increase in assets under management over the 12-month period ending Sept. 30.

ALL-TIME HIGH FOR ASSETS

In U.S. dollars, the company reported adjusted net income of $126.1 million on total revenues of $526.3 million in third quarter. That compares to net income of $106.1 million on total revenues of $405.5 million during the same quarter last year.

"It was another record financial quarter for CI and included a new all-time high for asset levels and the best net flows in our asset management business in over six years, reflecting the successful ongoing transformation of our company," CI Chief Executive Kurt MacAlpine said in a statement.

"In U.S. wealth management, we are seeing many of the country's largest and most successful registered investment advisers choosing to join CI, attracted by the exceptional businesses we have in place and our vision for a national platform," he said.

The third-quarter performance data don't include the completion of one deal since the quarter ended or three announced acquisitions, including GLASfunds, which is different kind of deal for CI.

"THEY LOOKED AT US AS A REALLY GOOD DELIVERY MECHANISM."

MICHAEL MAROON, MANAGING PARTNER, GLASFUNDS

QUALIFIED INVESTORS

The alternative investments platform, launched in 2009, offers access to about 200 different private equity funds, hedge funds and other alternative strategies to investors who qualify as having a net worth of at least $5 million.

"Alternative assets are an increasingly important part of investing today and

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Creative Planning buys Lockton's $110 billion retirement unit

BY EMILE HALLEZ

CREATIVE PLANNING is making a massive leap into the retirement plan business by buying Lockton's $110 billion unit in a deal that includes an equity stake in the acquiring firm.

The companies announced the agreement last Thursday. The business will be renamed Lockton Retirement Services, an Offering of Creative Planning.

The deal greatly expands Creative Planning's presence in the retirement plan business. Currently, the wealth manager has about $14 billion in assets under advisement in that segment, with more than 100 plan clients, primarily midsize retirement plans, Creative Planning CEO Peter Mallouk said.

'TRANSFORMATIONAL'

"Together, we're not just more competitive in the 401(k) space, but now we both have best-in-class solutions for our clients," Mallouk said. "We have so much more talent under our roof — we are very enthusiastic about what this means. It could be transformational for our firm and our clients."

The U.S. retirement business represents only about 3% of Lockton's revenue, according to a spokesperson.

PETER MALLOUK

The broader firm has more than 8,000 employees globally and is a giant in the insurance and benefits market.

Roughly 100 Lockton employees are part of the unit being merged with Creative Planning. Terms of that deal were not disclosed, and the company expects to finalize the merger Jan. 1, Mallouk said. Lockton is located in Kansas City, Missouri.

NEW SEGMENT OF 401(K)S

Once the deal is complete, Creative Planning will advise on roughly $210 billion in assets, according to the firm.

The deal will also put Creative Planning into a new segment of the 401(k) business, the large-plan market, or plans with more than $100 million in assets. Lockton started in the U.S. retirement business in 2000 and has about 1,500 clients.

"Lockton is a force to be reckoned with in that market," Mallouk said. "It opens up this space for us."

The merger reflects the trend of the expansion of wealth management into the retirement plan business.

"This alliance is something only our two firms together could do," Lockton CEO Peter Clune said in the announcement. "Each firm brings a complementary best-in-class service offering to create an end-to-end solution for companies seeking to provide deeper resources to their people.

CONTINUED ON PAGE 22

J.P. Morgan opens remote adviser business

BY BRUCE KELLY

FURTHER BEEFING up its wealth management business, J.P. Morgan at the start of the month made public its plans for a new group of financial advisers whom clients can work with remotely via video, chat or other electronic channels.

The new registered investment adviser unit, J.P. Morgan Personal Advisors, operates under the roof of J.P. Morgan Wealth Management and will launch broadly next year. It's not yet clear how many financial advisers will be working at the new remote business, but the company had said in March it planned to hire more than 100 advisers in the Phoenix area by next year.

CONTINUED ON PAGE 22

Military vets are best served by those who have served

BY JEFF BENJAMIN

MILITARY VETERANS WORKING in wealth management have a ready-made market niche because of the myriad and nuanced issues and benefits that are unique to members of the military and their families.

"Being a veteran became an interesting touch point for me because veterans and their families have opportunities that the rest of the citizens don't have," said Daniel Adams, a wealth adviser at Latitude Wealth Management.

Adams, who was on active duty for 11 years in the Navy before spending 19 years in the Reserve, said it's common for veterans to miss out on benefits and government programs because they simply aren't aware they exist or don't know how to access them.

Common examples include low-interest Veterans Administration home loans and educational benefits that can be transferred to dependents. But Adams said having a financial planner with military experience can give a vet a fighting chance to take advantage of the various twists that can come with serving in the military.

YELLOW RIBBON PROGRAM

For example, he said, a certain portion of combat zone pay can be exempt from federal income taxes, which could be an ideal opportunity for a Roth IRA conversion.

There's also something called the Yellow Ribbon Program that partners with colleges to pay the out-of-pocket difference between what the standard GI Bill covers and the total cost of college tuition.

"I think the military does a pretty good job of directing you into your benefits while you're in the military, but once you're out a while it can be difficult to figure out," Adams said. "You have to do a little digging."

Adams is currently working with the family to help secure the benefits of a disabled veteran who recently died.

"Navigating that process would be really challenging and time-consuming if you didn't get the help of somebody that knew their way around the system," he said.

NOT THE TYPICAL TARGET

While active-duty members of the military might not fit the typical target market for financial advisers in terms of income and net worth, their constant and evolving needs stand out as an area that is typically best met by those who have served.

> **"BEING A VETERAN BECAME AN INTERESTING TOUCH POINT."**
>
> DANIEL ADAMS, WEALTH ADVISER, LATITUDE WEALTH MANAGEMENT

"We're known as being veteran-friendly and [military clients] are usually referred to me to work with," said Nathan Smith, a wealth manager at Stivers Financial Services.

Smith, who served in the Kentucky National Guard, came to realize the need for financial planning through his participation in local veteran groups.

"I wasn't really seeking out veterans as clients, but it came to my attention

CONTINUED ON PAGE 23

State regulators' Reg BI assessment is being disputed

BY MARK SCHOEFF JR.

WHEN A REGISTERED representative recommends that a client buy a certain mutual fund, she used to just have to make sure that the fund fit the customer's investment objectives. That's what occurred under the suitability standard.

Since the implementation of the new broker standard, Regulation Best Interest, in June 2020, the rep must now look at how her fund recommendation compares with other reasonably available alternatives on cost, return, risk and other criteria. There could be dozens of other similar investments for the evaluation.

> **11%**
> RISE IN SALES OF COMPLEX PRODUCTS AFTER REG BI

"That's a big leap from the suitability standard," said Mark Quinn, director of regulatory affairs at Cetera Financial Group. "It requires a lot of time on the part of both the advisers who are making recommendations to clients and supervisors who are doing oversight. Having to document this process every time you do it is quite a lot of work."

That's why he has a problem with a report released earlier this month by state securities regulators that found most brokerages continue to have conflicts of interest related to sales of complex products and compensation related to those investments.

"To say that Reg BI has not added additional protection for investors … is naïve at best," Quinn said. "It really fails to recognize the huge efforts the industry has made to comply with Reg BI."

The state regulators' report was the second phase of a Reg BI study conducted by the North American Securities Administrators Association. It assessed Reg BI compliance among 225 firms that the organization began tracking in the first phase of the report, which came out in 2020.

Ohio Securities Commissioner Andrea Seidt said the progress reported was mostly disappointing.

"We're happy to see some movement but it is still far short of what we were expecting on the state front in terms of firms upping their due diligence in order to better match their customers with products," Seidt, chair of NASAA Reg BI implementation committee, said in an interview. Brokerages also fell "far short on eliminating and mitigating conflicts of interest, especially when you compare where [they] are now with fiduciary firms."

Reg BI was designed to strengthen the broker standard of conduct so that it was similar to the fiduciary duty that investment advisers owe to their clients.

PARTICULAR PROBLEMS

The NASAA study found particular problems with the sales of complex products, which it said had increased by 11% after Reg BI took effect. In addition, the study said 65% of brokerage firms didn't discuss lower-cost or lower-risk

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Opinion

_IN_ THEIR OWN WORDS ...

from the web and print pages of *InvestmentNews*

“Canadian-U.S. financial advisers don’t grow on trees.”

Jeff Sheldon, CEO, Cardinal Point Wealth Management

“Being an entrepreneur, your highs are higher and your lows are lower.”

Brittany Wolff, CEO, Wolff Financial

“We must reckon with the scale, immediacy and inequity of the climate crisis right now.”

Nigel Topping, climate action champion at COP26

Future challenges for the advice business

Baseball legend and occasional philosopher Yogi Berra once observed that it’s tough to make predictions, especially about the future. Despite the difficulty of the assignment, *InvestmentNews*’ Jeff Benjamin recently asked seven industry notables to offer their views on what the financial advice business will look like in coming years. Their insights point to four key directions the industry is likely to take over the next few years — and the challenges those possible routes pose.

A shift in fees. The industry’s decades-long move to fee-based revenue is unlikely to reverse. But assets aren’t the only basis for fees. As blogger extraordinaire Michael Kitces observed, the AUM model works for people with piles of money to manage who prefer to delegate to a professional. For those with lesser assets and for “validators” who do most of the planning and investing work themselves but want a professional opinion from time to time, the AUM model isn’t a great fit. For them, time-based fees make more sense. Market researcher Alyssa Riedel noted that the ubiquity of smartphones, which provides wider access to information, implies that the future of advice is “down market” as a broader segment of the population now can easily seek information and advice about managing money.

The challenge: To serve a broader market, advisers will have to experiment with a range of revenue models and use technology creatively to deliver advice.

Growth of cryptocurrencies. Adviser-entrepreneurs Ric Edelman and Tyrone Ross Jr. both envision a future in which cryptocurrencies are portfolio staples and implore advisers to get on board now. While uncertainty about the investment merits of cryptocurrencies makes sense given their volatility and their “Wild West” character, in the words of Securities and Exchange Commission Chairman Gary Gensler, they also are, in Gensler’s words, “a store of value that people wish to invest in as some would invest in gold.”

TO SERVE A BROADER MARKET, ADVISERS WILL HAVE TO EXPERIMENT WITH A RANGE OF REVENUE MODELS.

The challenge: Becoming sufficiently knowledgeable about cryptocurrencies to properly advise clients.

Meeting longevity’s demands. Typical advice clients are healthier, wealthier and more educated than average, meaning they also are much more likely to live longer than average. Ric Edelman says greater longevity means rethinking risk management and asset allocation, as well as assumptions about work and retirement.

The challenge: Developing the skills necessary to manage portfolios for longer than anticipated and to advise people on the financial aspects of living a life far longer than they currently assume.

More knowledgeable customers. Several futurecasters envision many clients becoming as knowledgeable about investing as advisers, and many getting advice from nontraditional sources. Fintech CEO Lule Demmissie says advisers increasingly will have to help those clients manage the psychological side of money, not just investing, while Fidelity’s Mike Durbin sees advisers having to select investments that match client values. Envestnet executive Dani Fava sees the consumer sector making inroads by teaching people how to save and invest.

The challenge: Creating scalable practices and businesses when clients will demand more personalized service and products, while being able to access advice from many sources.

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Adobe	ADBE	2.84%
Mastercard A	MA	2.68%
Salesforce.com	CRM	2.67%
PayPal	PYPL	2.50%
Cisco	CSCO	2.16%
Accenture A	ACN'	2.08%

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STATE STREET GLOBAL ADVISORS.

EXIT

THE 'GREAT RESIGNATION' IS FOR ADVISERS, TOO

AMID THE MASSIVE PANDEMIC EXODUS, ADVISERS HAVE BEEN GUIDING CLIENTS THROUGH CAREER CHANGES OR EARLY EXITS FROM THE WORKFORCE. BUT SOME ADVISERS HAVE ALSO BEEN STRIKING OUT ON THEIR OWN. BY EMILE HALLEZ

Financial planner Mike Powers had been working for a decade, with stints at two different RIAs, when the pandemic hit and he suddenly saw the possibilities of having a more flexible work life.

In May, he struck out on his own, a month after leaving his position as vice president at Virginia-based Verus Financial Partners. The decision was driven by the freedom afforded by the remote work arrangement he had had for 18 months. He was spending his time better, personally and professionally.

"I went from seeing my newborn son and 2½-year-old daughter maybe 30 minutes a day to 2½ hours a day," Powers said. "I just thought, 'There's no way I can go back to my old life.'"

Before deciding to quit, "I waited a while to make sure that feeling didn't go away," he said.

Powers is one of many in the financial services business who have participated in the "Great Resignation," leaving traditional jobs with good pay and benefits for less certain independent ventures with the possibility of more freedom.

In August, about 4.3 million U.S. residents quit their jobs, the highest number on record with the Bureau of Labor Statistics. That figure was up from 4 million the prior month, which itself was remarkably high. Earlier in the pandemic, when the labor market was decimated, quit rates were just over half those figures. Prior to Covid-19, the quit rate in January 2020 was about 3.6 million, according to BLS data analyzed by The New York Times.

It's too early to know how many of those exits from the labor market were permanent, as some people retired early and others are finding themselves going back to their previous jobs, according to some reports.

BURNOUT IS HIGH

"We're working through a backlog of resignations," said Anthony Klotz, an organizational psychologist at Texas A&M University. "Burnout is extremely high right now."

Klotz, who coined the catchy Great Resignation term, cited several distinct factors leading up to it, including a catch-up in resignations following a period when they were very low.

"Some people just need a break from this burnout," Klotz said. During the pandemic, many had more of an opportunity than usual to save and are in a comfortable financial position to temporarily take a break, he noted.

Others, especially high-wage earners, had "pandemic epiphanies" and are starting businesses, traveling the world or spending more time with their families, he said. Some are unlikely to go back to traditional employment, and the fact that employers in some cases are offering huge retention bonuses that are being turned down could be an early indication of that, he said.

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The job market affords choices

Data published Nov. 5 by the Bureau of Labor Statistics showed an unemployment rate of 4.6% in October, down 0.2 percentage points from September.

"Job growth was widespread, with notable job gains in leisure and hospitality, in professional and business services, in manufacturing, and in transportation and warehousing," the agency noted. Meanwhile, employment in public education fell.

More than a quarter of U.S. workers are considering leaving their jobs, according to results published Nov. 9 of a survey conducted in August and September on behalf of Principal Financial Group.

Twelve percent of people said they were actively looking to change jobs, and 11% said they had plans to retire or exit the workforce. But another 11% said they were on the fence about their current jobs, according to that firm.

That trend has more than 80% of employers worried about retaining employees or finding new ones, the survey found.

More companies have been paying more attention to perks that could attract applicants and encourage existing workers to stay.

Fidelity Investments has been fielding questions from clients about adding equity or stock to their benefits packages, and there is generally a focus on retaining workers with compensation, a company spokesman said in an email.

It is all but a given that flexible hours and remote work must be considered, according to Fidelity.

"We are seeing more employers adding or enhancing benefits like student debt, emergency savings support, workplace giving programs, parental leave, fertility and family building benefits, and wellness/lifestyle spending accounts — all of which help align to underserved community needs and values," the company stated.

Employers are also spending more time on employee well-being, and some are adding benefits to help with childcare or elder care, according to Fidelity.

— Emile Hallez

CONTINUED FROM PAGE 9

The era of remote work is affecting people differently. Those who are thriving in it but are now being asked to return to offices are probably more inclined to quit, Klotz said. The same will be the case for people who have been miserable away from their offices and now have no choice but to work remotely.

Early retirement, or at least minimizing work, is something a lot of people are considering. People cut back on some aspects of their lives during the pandemic, and they have realized that reducing expenses can put retirement — albeit a financially simpler one — within reach.

"Everybody started saving money. A lot of what we did, from a social standpoint, got stripped away from us," Klotz said. "They lived a simpler, cheaper life, and many people are thinking, 'I'm not going back to my expensive life.'"

FIRSTHAND EXPERIENCE

Leaving employment to hang out a shingle isn't something to be considered lightly, advisers who have made that decision said. Even though flexibility comes with independence, people who go out on their own should expect to put in more hours than they did before.

It's also a big financial change, as income can drop substantially, at least at first. And benefits are perhaps the biggest hurdle, with a lack of insurance, 401(k) matches and other perks keeping some prospective entrepreneurs from taking the plunge.

After working at a large brokerage firm for six years, financial adviser Brittany Wolff left her job in March to start her own firm, Wolff Financial.

"I've always thought about the option of going out on my own, but Covid made it seem more possible, because of [the ability to] work from home," Wolff said.

There was also so much uncertainty that stemmed from the pandemic, including work, which made the decision easier, she said. The flexibility and reward of owning a business was a big lure.

Giving up employer-sponsored benefits required careful calculation, as her husband is an independent worker who had also relied on the insurance from her former employer. That, along with working more, was the price of starting her own business.

"If you start a small business, you're wearing all the hats," Wolff said. "Being an entrepreneur, your highs are higher and your lows are lower."

Leland Gross, who recently founded PeaceLink Financial Planning, described a similar experience. Being able to operate "under freer terms" was a deciding factor.

"I had thought about resigning for a while. When the pandemic happened and we went to remote work, things became more restrictive," Gross said. At the same time, "we were told to do more."

His job included good compensation and benefits, and "the work-from-home life provided enough freedom for me to begin building what I wanted to do," he said. "It gave me the freedom to execute on it."

> **"SOME PEOPLE JUST NEED A BREAK FROM THIS BURNOUT."**
>
> ANTHONY KLOTZ, ORGANIZATIONAL PSYCHOLOGIST, TEXAS A&M UNIVERSITY

His wife was a contract worker, so the benefits question weighed heavily in the decision.

They came to the realization that their income was going to drop, but "with the current ACA market subsidies, we were actually able to find insurance that was relatively affordable for us and our child."

The process has helped inform his discussions with clients who are in the same boat, he said.

"I tell all my clients, 'Don't rush to leave your employer,'" Gross said.

People tend to focus on income replacement when starting their own businesses but neglect to fully consider the costs of health insurance, disability insurance and 401(k) contributions, he said.

SEP or Simple 401(k)s are a good alternative, but "you still need to be making a fair amount of income" to allow for contributions, Gross said.

But small business owners also have something that employees don't, he noted.

"You're building an asset … that one day you can hopefully sell," he said. "But that takes risk."

When adviser Mike Hunsberger this month launched a practice focused on military families, risk was a smaller consideration. He retired from the Air Force after a 25-year career, which left him with a pension and health care, he said.

Prior to retiring, he spent two years planning the transition, taking CFP courses and using resources from the XY Planning Network to prepare his own firm.

"I was looking for flexibility versus being tied down to a full-time, steady job, and I've always enjoyed financial planning and investing," he said.

One adviser whose client base is largely small business owners decided in May to leave a job at Ameriprise after 10 years.

"My fiancé and I are proud members of the Great Resignation and took different paths," Mike Turi, founder of Upbeat Wealth, said in an email.

Two months after he started his own business, his fiancé "left the biggest New Orleans advertising firm to take a remote job with a massive global firm."

Long or odd hours can be expected, he said.

"This can be lonely, and worst of all, you may not receive any sort of recognition 'for staying late at the office,' if working remotely," Turi said.

Keeping a timesheet can help, he said. "Not only does this keep you accountable for how you are spending your time, but it's also extremely valuable when negotiating your next salary."

POWER TO THE WORKERS

"As a financial planner, the Great Resignation has me rethinking lots of the retirement assumptions I've made for my clients," said Michael Jones, who recently founded his own firm, Boulevard Money.

"A client of mine who recently turned 60 is about to leave the job she's had as an editor for 35 years, because she is sure she can replace her income through freelancing until her full retirement age at 67," Jones said in an email. "There's no way she would have taken that risk years ago."

Advisers who are leaving jobs to start their own practices say they know that feeling well.

Powers, who recently founded Manuka Financial, works with retirees but is focusing on clients who want to stop working in the traditional sense before 65.

"This was definitely not the best financial decision I've made, in the short term," Powers said. "I've been fortunate — it's been really busy."

His daily commute is now a walk downstairs to his basement office, a welcome change from pre-Covid times that has freed up time for him to spend with his family, he said.

"I'm having the time of my life."

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Few are prepared for long-term care costs

I've been writing about long-term care issues for about 40 years, and I don't think I've ever written a positive news story on the topic. This one is no exception.

It's frustrating because the possibility of needing care later in life is a real concern for retirees, their families and their financial advisers, particularly as traditional protections such as stand-alone long-term care insurance become a dwindling option for all but the healthiest and wealthiest of clients.

Many retirees worry whether they will be able to get the care they may one day need without exhausting their financial resources and their family caregivers. Fear of dependency makes some retirees reluctant to spend down their 401(k) balances, depriving them of a more comfortable retirement.

MARY BETH FRANKLIN

ONRETIREMENT

The Covid-19 pandemic made a bad situation worse by casting a harsh light on nursing homes and assisted living facilities, as a disproportionate number of the virus's victims were residents of such facilities. But the need for long-term care planning and funding remains.

MEETING THE NEED FOR CARE

A new report from the Center for Retirement Research at Boston College, the second in a three-part series, explores the extent to which retirees' combined financial and nonfinancial resources could meet different levels of need for care. An earlier CRR report concluded that about 20% of retirees will escape the need for long-term care services and 25% are likely to experience the type of severe needs that most people dread.

The latest report estimates that more than one-third of individuals don't have enough resources for even a year of minimal care, and only 21% could cover several years of long-term care needs. The CRR researchers considered informal care from family members as well as paid care in projecting who had the resources to access long-term care if needed.

Not surprisingly, marital status plays an important role is projecting who will get the care they need. The report found that married individuals, those with college educations and whites have more resources for long-term care needs.

Only 5% of Black and Hispanic individuals have the ability to cover severe long-term care, defined as three years or more of intense care, lagging behind 25% of white households. However, a much higher share of Hispanics — nearly two-thirds — end up in the group that cannot cover even a year of care, compared to about half of Blacks and one-third of white retirees.

Households can provide for care needs in two ways. The more common way is unpaid informal care provided by family members. CRR researchers Anek Belbase, Anqi Chen and Alicia Munnell estimate that 60% of total caregiving hours for individuals aged 65 or older is provided by family members, including spouses, children and another relatives. The less common way is paid care, financed either out-of-pocket or through long-term care insurance or Medicaid.

11% PORTION OF THOSE OVER 65 WHO HAVE LONG-TERM CARE COVERAGE

Paid care, either at a long-term care facility or at home, is costly. The national median cost for a private room in a nursing home topped $105,000 per year last year, according to the Genworth 2020 Cost of Care study. That represents a 62% increase in nursing home costs since Genworth first conducted its annual cost survey in 2004. The average cost of an assisted living facility was $51,600 last year, slightly less than home care, which cost nearly $55,000 per year based on 44 hours per week of care.

EXHAUSTING THEIR ASSETS

But few are prepared to cover those costs. Only 11% of adults over 65 have long-term care insurance, according to the CRR report. Medicare covers only post-hospital nursing home care for up to 100 days and generally doesn't cover home care. Medicaid does cover nursing homes, and some states offer home care coverage through their Medicaid programs. But Medicaid requires that people exhaust their assets to qualify for benefits.

Individuals who enter retirement married have the most resources to handle their care needs, and women who enter retirement unmarried have the least, according to the CRR report.

"This finding is not surprising since married individuals tend to be wealthier and have a spouse to rely on for care," the report said.

I guess those marriage vows of "until death do us part" really do mean something. But even married women aren't guaranteed to receive the care they need, as I noted in an earlier column. When their husbands need long-term care, wives often are there to provide it. But because women tend to outlive men by about five years on average, there may be no one to provide care for them when they need it.

Almost 70% of women aged 75 or older are widowed, divorced or never married, compared to about 30% of older men who live alone, according to the AARP Public Policy Institute. More than 70% of nursing home residents are women. Their average age at admission was 80.

The big question is whether the people who will need help are the same ones who have the resources. And that's anyone's guess.

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

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BY MARY BETH FRANKLIN

Medicare enrollment rules for self-employed

Andrew: I am self-employed and plan to continue working for the next few years after turning 65 in December. I have a fairly expensive individual private health insurance policy covering me and my wife, who is 55. Can I delay enrolling in Medicare until I want to drop my individual policy without penalty? If not, what are the options for covering my wife?

MBF: Although most people who continue to work past age 65 and have employer-based health insurance through their job or their spouse's job can delay enrolling in Medicare penalty-free, the rules are different for self-employed individuals and people who work for small businesses. See https://www.medicare.gov/basics/get-started-with-medicare/medicare-basics/working-past-65 for details.

If you're self-employed or work for a firm with fewer than 20 employees, you should sign up for Medicare when you turn 65 to avoid a monthly late-enrollment penalty. If you don't sign up for Parts A and B at 65, your job-based insurance might not cover the costs of the services you get.

Medicare Part A is premium-free for most people who've paid FICA payroll taxes for at least 10 years. Part B has a standard monthly premium, currently $148.50 per month in 2021, plus additional monthly surcharges for higher-income beneficiaries.

Your initial enrollment period begins three months before your 65th birthday, includes your birthday month, and continues for three months after your birthday. If you don't enroll in Medicare Part B during your initial enrollment period, you'll have to pay a delayed enrollment penalty of an extra 10% of the standard monthly premium for each year you could have signed up for Part B but didn't. Medicare will add this lifelong penalty to your monthly Part B premium.

When you enroll, you can choose original Medicare, which includes Parts A and B. You can also enroll in an optional Part D prescription drug plan and buy a supplemental Medigap policy to cover out-of-pocket costs. Or you can choose an all-inclusive Medicare Advantage plan which tends to have a lower monthly premium but may limit your coverage to in-network providers. Your wife, who's too young for Medicare, will need to buy private health insurance. Check healthcare.gov for policies available in your state.

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Fresh Perspective: In Today's Market Backdrop, Protection Products Deserve a Closer Look

While some Financial Professionals have been slow to embrace annuities, the product deserves a closer look. Retirement strategies have evolved considerably in the past decade, and new iterations of annuities may be uniquely suited to address today's biggest market challenges: inflation, rising taxes and the need for income. In an interview with InvestmentNews Create, Equitable's Stephen Scanlon put these challenges in context, and explained why Financial Professionals should consider the power of partial protection as an asset for pursuing true financial resilience for their clients' portfolio.

STEPHEN SCANLON
Head of Individual Retirement
Equitable

InvestmentNews Create: You've proposed that annuities become more mainstream, and that they should be part of most investors' asset allocation. What are the problems with the traditional 60/40 portfolio?

STEPHEN SCANLON: The 60/40 portfolio isn't suited for some of today's market challenges, which is why at Equitable we believe products offering a level of protection should be in the mix. While past performance never guarantees future results, historically low yields can demonstrate that the upside potential from bonds may be limited. At the same time, one of the biggest economic concerns is inflation. In an inflationary environment, investors often allocate more toward equities in pursuit of potential growth that can outpace it. But after a period of exceptional annualized returns, this also presents additional risk should the market correct near or in the early years of retirement.

The tax outlook presents another challenge for investors. Congress is already looking at raising taxes. And given rising national debt levels, it is likely that if taxes don't increase in the near term, they will have to rise eventually. That environment underscores the value of tax deferred investments.

InvestmentNews Create: Where do annuities fit in?

STEPHEN SCANLON: The annuities market has evolved to address the unique challenges of today's market. Traditional annuity products offer a guaranteed level of income, so clients can count on that stability in retirement. Variable annuities and registered index linked annuities can provide optimal tax deferred growth options. Registered Index Linked Annuities (RILAs) also allow investors to go more heavily into equities – which again, we think is often necessary in an inflationary environment – but to do so with some downside protection.

InvestmentNews Create: What has changed?

STEPHEN SCANLON: The need for protection is greater than ever. Investors want to protect their wealth but not give up some opportunity for capital appreciation. Many Americans face a significant retirement income gap unprepared for living in retirement. To close the gap they need to identify sources of guaranteed income for the rest of their lives so they can maintain the lifestyle they deserve. It does take an investment in the Financial Professional's time to understand each product, and how it addresses a specific client's need. But we believe this commitment is worth the investment given the range of concerns annuities can help address in today's market. The most important change though, is in costs, which have come down considerably. One of Equitable's most innovative variable annuity products for today's market – our new Structured Capital Strategies® Income – can keep clients' costs down with fees as low as 1.50%*. We believe that's a game changing number for a product that allows equity market growth, with partial downside protection, and a guaranteed income stream for life.

*In addition, expenses related to administration, sales and certain risks in the contract are factored into the Performance Cap Rate. As long as your client's money is invested in the Structured Investment Option, they will not be charged additional fees. If your client chooses the optional Highest Anniversary Value (HAV) Death Benefit, or invest their money in a Variable Investment Option, additional fees and charges will apply

InvestmentNews Create: What do you think is Equitable Financial's advantage relative to other annuity providers?

STEPHEN SCANLON: We've been an innovator in the annuity space since the mid-90s. Culturally, it's been an obsession to identify the challenges clients have, and will have, and pinpoint the right product to help address them. Our work in the RILA space is an example. Many providers are just coming out with products. We created the space in 2010, when the financial crisis was still fresh in investors' minds, and as a result, they were looking for ways to access potential growth but mitigate some of the downside risk of another potential market drop. We continue to refine our RILA offerings, as we do all of our offerings, so they can meet clients' changing needs. Newcomers aren't going to have the experience we do creating and evolving these strategies.

Our work with Financial Professionals is also a differentiator. We've learned their language around annuities, instead of expecting them to learn ours. We can discuss where the products fit in the same way they talk to their own clients. We've also developed tools to make that discussion with clients easier. For example, we were first to market with a customer facing app supporting variable annuities –retirementguide.equitable.com.

InvestmentNews Create: Any last thoughts on annuities as investors head into 2022?

STEPHEN SCANLON: I just think if Financial Professionals haven't looked at annuities in a while, it may be worth it to understand what the products look like today. We're heading into an environment with a lot of unknowns when it comes to taxes, inflation, income needs, and of course, the direction of markets. It may be time to think about how you can offer clients equity exposure, with some downside protection, provide guaranteed retirement income, and help them plan for and manage their tax burden. ■

Structured Capital Strategies Income® is a variable and index-linked deferred annuity contract that offers guaranteed lifetime income and an innovative strategy combining structured growth potential, up to a cap, with tax deferral. This product includes a partial protection feature that eliminates a portion of the contract holder's downside risk, while still giving the contract holder the opportunity to invest for growth up to a Performance Cap Rate. This is called the Structured Investment Option (SIO). The SIO permits the contract owner to invest in one or more Segments, each of which provides returns tied to the performance of an index for a set period of 1 or 3 years.

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Help clients win with year-end Roth conversions

As we've seen from recent tax proposals, Congress has retirement accounts in its sights for future tax increases, especially the larger IRAs. We know what the tax rules and tax rates are for 2021, but advisers can also help clients make some defensive moves now, just in case any of these IRA tax proposals resurface in future years.

IRAALERT
ED SLOTT

ROTH CONVERSION BET

Roth conversions are particularly sensitive to potential higher tax rates because the conversion itself, is, in essence, a bet on future tax rates being higher than they are now. Financial and tax advisers are in the best position now to see which clients are in a better position to win that bet over the long haul.

YEAR-END TIMING

Conversions can be done at any time, but you might want to have certain clients accelerate conversions this year to take advantage of historically low current tax rates. Conversions could cost more down the road.

To qualify for a 2021 Roth conversion, the funds must leave the IRA or plan this year, in 2021. It's OK if the funds don't end up in the Roth until early next year, as long as they're converted within 60 days. The better move, to make sure the funds are counted as 2021 conversions, is to do a direct rollover right from the IRA or plan to the Roth IRA.

NO DO-OVERS

Roth conversions are permanent — they cannot be undone. So now, near year-end, is the time to evaluate how much the tax cost will be. The client will need to have the funds available to pay that tax next year, or through estimates or withholding for this year, even if their financial situation changes. They need to know that for sure before they convert anything. It's generally more tax-efficient to pay the tax with outside (non-IRA) funds.

Most clients, or their tax advisers, will have a good estimate of what their 2021 tax bracket and their marginal tax rate will be, since most of their income items will be known by now. Even if this year's tax rate may seem high, let clients know that holding off on conversions could cost them more in future years, based on the handwriting on the wall from Congress.

The ideal Roth conversion planning strategy is to convert when tax rates will be the lowest, which for many may be 2021, compared to what future rates could be. If conversions are deferred, then the IRA continues to grow and the larger that balance, the higher the tax bill will likely be in future years.

Yes, the Roth conversion is a bet, but an educated one you can plan for. However, the larger the IRA balance grows, the greater the odds of winning that tax bet become, since larger IRA balances will mean higher future RMDs and related tax bills, not to mention the stealth-type taxes that result when income and potential future tax rates increase.

THE IDEAL ROTH CONVERSION STRATEGY IS TO CONVERT WHEN TAX RATES WILL BE THE LOWEST.

PRE-RMD CONVERSIONS

Identify clients who aren't yet subject to required minimum distributions. For most clients, these will begin at age 72. Once RMDs begin, they cannot be converted, so it will cost more to convert at that point. The RMD amount must be satisfied first, and then any remaining balance can be converted.

For example, those in their 60s make good conversion candidates since they have a few years to start a plan to do perhaps smaller annual conversions, staying in lower brackets (or marginal rates) before RMDs begin.

PRE-IRMAA CONVERSIONS

Medicare income-related monthly adjustment amount charges, or IRMAAs, for Parts B and D are tricky to estimate, for two reasons.

One is that these charges don't appear on tax returns as a tax. They are charged and paid separately, so often they're not considered when reviewing a tax return to project future tax costs.

Second, IRMAA charges have a two-year look-back provision, so a Roth conversion done this year won't trigger those charges until 2023.

Large Roth conversions can be one of the big income items that can cause increases in IRMAA charge. Those increases work on a "cliff" basis, meaning that going just $1 over the income limit can push you into the next bracket, increasing IRMAA charges by hundreds of dollars. What to do now? Advise clients ages 62 and younger to consider Roth conversions. Once they reach age 63, given the two-year look-back provision, IRMAA charges will likely be affected, making the conversion more expensive.

DEATH OF A SPOUSE IN 2021

It's likely that every adviser reading this works with a married couple who saw one spouse die this year. For the surviving spouse, look seriously at a Roth conversion this year. This may be the last year that spouse will be able to take advantage of lower married-filing joint tax return rates. Get the 2021 Roth conversions on the final joint tax return. Next year, the surviving spouse will likely be filing at much higher single tax rates, making future IRA distributions more costly.

Help your clients win the big Roth conversion tax bet by tilting the odds in their favor. Match these timely year-end Roth conversion strategies to your clients who can benefit most, both now and in future years.

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

Location counts for senior employment

BY EMILE HALLEZ

PEOPLE WHO ARE financially unprepared for retirement often work past age 65 — but depending on where someone lives, that option isn't always available, new research suggests.

There are differences of as much as 20 percentage points in the employment rates of people ages 60 to 69 across different metropolitan areas, according to a National Bureau of Economic Research paper.

"Low-employment areas are systematically different, with a less educated and more diverse population, more low-wage jobs and import competition from China, poorer health outcomes and health care access, lower government spending and more income inequality," wrote author Courtney Coile, professor of economics at Wellesley College. "Although these correlations are not necessarily causal, these factors collectively can explain about four-fifths of the geographic variation in employment at older ages."

COMMUTING ZONES

The paper looks at "commuting zones," of which there are 741 across the country, compared with more than 3,000 counties, according to the paper.

Several regions have higher employment levels of older workers, Coile noted, "particularly the Midwest down to Texas, the northeast and southeast coast, and the northern Rocky Mountains."

For people who have saved too little for retirement, especially the economically vulnerable, that can matter.

"Several studies suggest that working longer is the best means of raising one's standard of living in retirement," the author wrote. "People for whom working longer is not feasible or desirable may face an increased risk of financial insecurity and poverty in old age."

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Canadian adviser maps out cross-border client strategy

Jeff Sheldon launched his advisory firm, Cardinal Point Wealth Management, 12 years ago after witnessing the tax and estate planning challenges facing Canadian retirees who live part of the year in the United States.

NICHEADVISER
JEFF BENJAMIN

"I was seeing firms that I worked for turning away business because they didn't have the infrastructure, knowledge or platform to serve cross-border clients," he said of his experience working for Canadian wealth management companies prior to launching his own firm.

"We would lose business because the clients would move or we'd have to turn away business because it wasn't in the client's best interests to advise them because we only knew the Canadian side," he added.

But Sheldon, who maintains dual citizenship through his American mother and Canadian father, said the cross-border realities have been present throughout most of his life. Thus, developing a cross-border niche was a logical, if challenging, move.

"It seemed like a niche I understood, and then I looked at the landscape and saw there were no firms doing this on a holistic basis that were built and founded to serve clients with assets in both countries," he said.

Sheldon, 42, was born and raised in Canada, and now works from an office in Boca Raton, Florida, one of Cardinal Point's three U.S. offices.

Cardinal Point, which is being acquired by Focus Financial Partners, also has two offices in Canada.

While the original focus of the $1.2 billion advisory firm was to serve Canadian snowbirds who own property and spend several months a year in the U.S., Sheldon said most of his new clients these days are younger working people who are being pulled across the border both ways for work.

"It was overwhelming because I had no idea, until we had an operating business, about the sheer number of those people that need our help," he said. "Our business is transformed in that we work with a lot of young professionals. That is the fastest-growing part of our business."

'NO ROAD MAP'

While one can imagine the normal challenges involved in serving clients with incomes and properties in more than one state, Cardinal Point, which has as many Canadian clients as U.S. clients, is dealing with different tax laws, regulatory frameworks, registration requirements, trading systems, statement reporting and even different currencies.

"We're a firm registered in both countries," Sheldon said. "There was no road map for us to follow on how to build a cross-border firm, or on attracting the right type of talent that could advise on tax and estate planning, or portfolio management. There is a very limited scope of professionals that have that skill set because Canadian-U.S. financial advisers don't grow on trees."

ORGANIC GROWTH

Except for two small acquisitions, Cardinal Point has grown mostly organically, which is the path Sheldon plans to follow, especially with the boost of back-office support that will come from Focus when that deal is completed later this year.

In terms of marketing, Cardinal Point relies on a strong web presence that includes blogs about cross-border financial planning and tax management.

"Because many of us have worked in Canada and the U.S., and have built up networks, we are referred business by those in investment advisory, tax, estate planning," Sheldon said.

While Sheldon might not have chosen the easiest niche to manage, he is pleased with the progress.

"Now we've built out a platform that could expand beyond just Canada and the U.S.," he said. "This is our focus now and we're really enjoying it and having success, but it can absolutely be applied to other cross-border scenarios."

jbenjamin@investmentnews.com

NICHE ADVISER

JEFF SHELDON,
Founder and chief executive

NICHE FIRM
Cardinal Point Wealth Management, Ontario, Canada, and Boca Raton, Florida

NICHE
Cross-border financial planning

PRO TIP
"Just because you may focus on a niche, remember that within that niche there are different levels of client complexities, goals and objectives. And it is important to never apply a one-size-fits-most philosophy."

Recruiter hears rumblings over Project Thunder

In late August, Merrill Lynch rolled out Project Thunder, a two-month campaign that appeared to be aimed at staving off increasing adviser attrition and addressing the frustrations of those still at the firm.

GUESTBLOG
MINDY DIAMOND

In a much publicized statement, Andy Sieg, president of Merrill's Wealth Management unit, described Project Thunder's goal as "to make it easy for all Merrill employees to do business, for our advisors and their teams to grow and achieve success, and to deliver for clients through extraordinary service and capabilities."

With its new commitment to listen to its advisers, Merrill introduced changes that include functional updates to the Merrill One advisory platform, a reduction in turnaround time for clients looking to join parent Bank of America's donor-advised funds, the addition of mortgage lending specialists to alleviate bottlenecks, and other procedural updates. Plus, the firm gave brokers greater leeway in sending greeting cards to customers and prospects — likely one of the most commented on aspects of all.

At the same time, Sieg has been reassuring brokers in the field that he'll limit compensation changes for 2022. In fact, in a town hall meeting held last month, it seems like they're keeping their word.

But will the campaign work to halt the tide of attrition? Put another way, is it too little too late?

I've spoken with many Merrill advisers since Project Thunder was announced. The common theme they shared is that despite this effort, leadership is still quite disconnected from their real concerns.

So as the program rolls on — now with monthly changes rather than weekly — here's what I would do to attempt to re-instill loyalty:

1. Stop withholding the first 3% of monthly revenue that advisers generate.

This is perhaps the most contested issue among the field, announced in 2019 to rein in compensation costs that outpaced revenue increases. Certainly, no one likes to have their comp decreased or withheld, and in this case, it simply felt like a move to add to the bank's bottom line.

2. Ease up on the push to cross-sell Bank of America products.

Pressure to "sell" anything runs counter to the notion that advisers know what's best for their clients. Mandates such as this indicate to advisers that the bank wants to control their behavior.

3. More carrots, fewer sticks.

Under the growth grid system introduced in 2018, brokers must add at least three net new households to avoid a 100-basis point reduction in their payout and a percentage point if they do not grow customer assets by 2.5%. Instead of rewarding advisers for doing what's best for clients, this methodology enforces growth for growth's sake and could encourage advisers to act in ways that are not necessarily in clients' best interests.

4. Stem the acceleration of ever-increasing bureaucracy.

Advisers report that it's significantly more challenging to get things done. Plus, they worry that these inefficiencies are negatively impacting the morale of support staff assigned to deliver an extraordinary client experience. This would also help to reduce the feeling of the "bankification" of the firm.

5. Give advisers more ownership.

While Merrill remains a member of the Protocol for Broker Recruiting for now, it has continued to whittle away at the portability of advisers' books. More stringent requirements for trainees and strict nonsolicit clauses on bank-referred customers and inherited accounts make advisers feel less like the firm is on their side, replacing a culture rooted in an entrepreneurial wealth management mindset with one that manages to the lowest common denominator.

6. Offer more favorable Client Transition Program terms with greater transparency.

Merrill's retire-in-place program can be a compelling option, rewarding advisers for their life's work should they desire to retire from the firm. But advisers and outside attorneys familiar with the agreement report that CTP is far more restrictive than first thought, containing onerous post-employment clauses that further deprive successors of optionality and control.

For example, in a recent podcast interview, Tom Lewis, a certified civil trial attorney at Stevens & Lee who works in this area, noted that, "The other broker-dealers have restrictions [in their agreements], but Merrill has a two-year noncompete. In other words, if the senior adviser is part of a team and the team decides to make a move while the transition payments are still being made by the receiving team, the senior adviser is effectively stuck at Merrill for a period of at least two years."

MERRILL ADVISERS DESIRE GREATER FREEDOM.

To be sure, Merrill is a world-class firm with a strong platform, technology stack and brand respected more than most in the industry.

So for some, the firm's acknowledgment of a problem and its attempt at change may be enough to alleviate concerns.

There are also plenty of loyalists, dyed-in-the-wool Merrill lifers who have built great books over decades at the firm and plan to end their careers there. And there are certainly others who would much prefer the path of least resistance: that is, to stay put and take a "wait and see" approach.

But if moves in recent weeks are any indication of what we can expect, we're likely to see continued attrition.

Merrill advisers desire greater freedom in how they serve clients and grow their businesses, and the firm has a strategic goal to better integrate the brokerage within the much larger bank. No doubt, there's a good business strategy behind its actions, but is there still room for an entrepreneurial-minded adviser within the greater organization?

A storm is indeed brewing. It will be interesting to see which way it turns next.

Mindy Diamond is founder and CEO of Diamond Consultants, a financial recruiting firm.

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52% JUST OVER HALF OF ADVISERS SAID CLIENTS SOMETIMES OR FREQUENTLY RAISED QUESTIONS ABOUT STOCKS THEY SAW ON SOCIAL MEDIA.

SOURCE: CHARLES SCHWAB BEFI BAROMETER 2021 SURVEY

Dirty energy rides performance wave as the flip side of ESG

BY JEFF BENJAMIN

AS ENVIRONMENTALLY conscious investing has gained momentum across the globe, the so-called dirty end of the energy spectrum has been going gangbusters for investors.

The Energy Select Sector SPDR ETF (XLE), which is a proxy for oil companies, is up more than 56% this year after a 32% decline last year. And the First Trust Natural Gas ETF (FCG) is up 110% this year after falling 23% last year.

That kind of outperformance is seen as the rewarding flip side of pressure from institutional investors and proponents of alternative energy that need traditional energy prices to spike to make renewable energy more feasible by comparison.

"Right now, energy is a play on the economy reopening, reflation and inflation; that's the trifecta for 2021 with the expectation of a pause and pullback of the Delta variant," said Paul Schatz, president of Heritage Capital.

"It has been amazing how few people have hopped onboard the energy train, either because of ESG or the strength in the dollar," Schatz said. "For all those investors who do not believe that the dollar and commodities cannot rally together, I present you with today. Those investors are learning an expensive lesson."

Stewart Glickman, energy equity analyst at CFRA, said traditional energy is benefitting from a supply-demand imbalance that is still far from finding equilibrium.

DEMAND RETURNS

The price of West Texas Intermediate crude oil has been hovering around $84 a barrel; it has averaged $68 in 2021, compared to an average price of $39 last year, when shrinking demand pushed many energy companies into survival mode.

"This year, demand for energy is coming back and we don't have enough global supply to meet that demand," Glickman said. "Right now, supply and demand are driving the bus, and my outlook is very bullish."

In terms of oil, Glickman said supply is hamstrung by a combination of OPEC policies and pressure on U.S. producers from institutional investors and environmentalists to cut back production and divert more capital toward dividends, stock buybacks and paying down debt.

"The U.S. producers have been beaten over the head by the ESG crowd and told to produce less oil," Glickman said.

The power of the ESG movement has kept traditional energy out of favor for much of the past five years, he said.

POWERFUL PERFORMANCE

Despite their powerful performance in 2021, fossil fuel companies are sitting on a five-year compound annual growth rate of negative 5%. That compares to a five-year compound annual growth rate of 16% for the S&P 500 Index.

But even with the growing ESG influence, Glickman said it will take years for alternative energy options to develop a functional infrastructure and for electric vehicles to become affordable to a mass market. Thus, the bullish outlook for traditional energy.

"I don't know if we have to see oil at $95 or $100 a barrel, but as long as U.S. producers continue to be reticent about adding more supply and OPEC continues to act like a cartel, I'd say the floor is probably $70," Glickman said. "And as long as we don't have a new Covid variant, and demand continues to gradually rise, we will at some point next year get back to pre-pandemic demand levels."

Dennis Nolte, vice president of Seacoast Investment Services, is among the financial advisers eager to take what the market is offering.

"With inflation trending, not transitory, and folks looking to participate in a way to invest in sectors benefitting from inflation, energy is the first place most of us look," Nolte said. "And it sure seems to be working. Looks like it'll be going higher, too, even when supply chain concerns are relieved. We like the sector."

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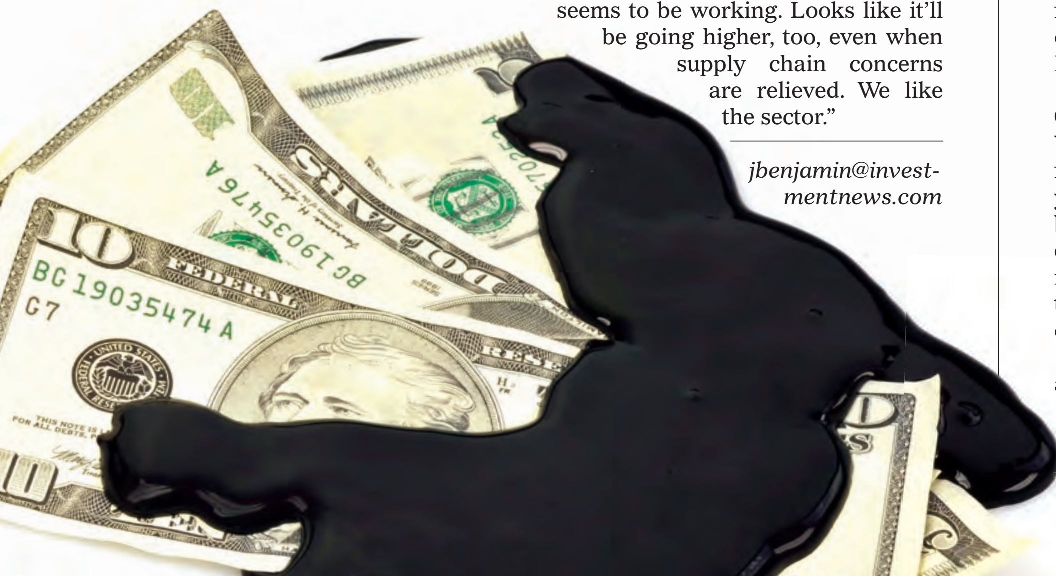

Mutual fund investors brace for hefty capital gains taxes

BY JEFF BENJAMIN

IT'S THAT TIME of year again when clocks are set back an hour, the leaves start to fall, and mutual funds ramp up to distribute those pesky capital gains.

This year, the message is another reminder of the relative tax inefficiency of actively managed mutual funds, especially compared to exchange-traded funds.

As asset management companies start posting the capital gains that will be distributed to fund shareholders over the next several weeks, the good news of strong investment performance is once again being diluted by some hefty capital gains that come from normal portfolio turnover.

"Year to year, the broad theme is the same, but we are seeing some significant payouts, largely from equity growth mutual funds," said Christopher Franz, associate director of equity strategies at Morningstar.

20 MUTUAL FUNDS DISTRIBUTING CAPITAL GAINS OF 30% OR MORE

GAINS PUSHED HIGHER

While the average U.S. equity mutual fund has gained more than 21% this year, the portfolio turnover that can be amplified by management changes and redemptions has pushed many funds' capital gains distributions even higher into the double digits this year.

According to CapGainsValet, there are at least 20 mutual funds distributing capital gains of 30% or more, and more than 85 funds distributing gains of between 20% and 29%.

Examples of funds distributing capital gains of more than 30% include the $436 million DFA Enhanced US Large Company (DFELX), up 25.7% this year, the $643 million Goldman Sachs Small Cap Growth Insights (GCSSX), up 30.6%, and the $756 million Thornburg Small/Mid Cap Growth (TCGRX), up 6.8%.

Some of the funds logging distributions of more than 20% include the $2.8 billion American Century Equity Growth (AEYRX), which was up 26% this year, the $14.9 million Fidelity Flex Small Cap (FCUTX), up 37.2%, and the $9.8 billion T. Rowe Price Science and Technology (TSNIX), up 13.7%.

"Strong markets recovering from 2020 and seeing continued gains in 2021 have set up an environment for high capital gains distributions to likely occur, because actively managed funds are sitting on a lot of winning positions," said Todd Rosenbluth, director of mutual fund and ETF research at CFRA.

For investors and financial advisers, annual capital gains distributions continue to be an unfortunate reality of mutual fund investing. Even if a mutual fund generates an investment loss, the Internal Revenue Service requires funds to distribute 98% of their calendar year income to shareholders, which can mean a tax hit.

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The New Client Conversation: Financial Security and the Keys to Effective Decision-Making

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Learning outcome

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2021 UNITED NATIONS CLIMATE CHANGE CONFERENCE / GLASGOW, SCOTLAND, UNITED KINGDOM / OCTOBER 31 TO NOVEMBER 12, 2021

Climate resilience metrics launched at COP26

BY CHRISTINE DAWSON

A COMMON FRAMEWORK of climate resilience metrics for businesses, investors, cities and regions was launched by the UN-backed Race to Resilience campaign on Adaptation, Loss and Damage Day last Monday at COP26.

The framework allows non-state actors to quantify and verify the benefit of climate resilience actions for people and hectares of natural ecosystems.

It aims to make 4 billion people and more than 100 natural systems — including mangroves, forests and coastal zones — more resilient by 2030.

"After a summer of fire and flood and a code red from climate scientists, we must reckon with the scale, immediacy and inequity of the climate crisis right now," said Nigel Topping, climate action champion at COP26. "We need urgent, innovative breakthroughs on resilience and to address loss and damage.

"The Race to Resilience set out with a necessary goal of building the resilience of 4 billion people to climate hazards by 2030. The metrics framework and analytics underneath them will ensure we are backing the actions we know can increase resilience and help mobilize more resources toward them," Topping said. "This is just the start though. We need greater ambition and action from all actors to help communities adapt and build resilience to climate change."

Sagarika Chatterjee, director of climate change at the Principles for Responsible Investment, said, "We need to focus more on resilience. Four billion people are susceptible to the physical impact of climate change.

JONAS GAHR STORE, NORWAY'S PRIME MINISTER, DURING THE COP26 CLIMATE TALKS IN GLASGOW, U.K

"We need to be taking actions on how we're going to assess the risks of the physical impact and how we're going to protect and help those people so they're not just rebuilding and rebuilding but can withstand the shocks," Chatterjee added.

OCEAN RISK AND RESILIENCE

An investment into the resilience of coastal communities was also announced on Adaptation, Loss and Damage Day, the eighth day of COP26. The U.K.'s Blue Planet Fund and Swiss Re announced they will put over $500,000 (368,042 pounds) into the Ocean Resilience Innovation Challenge, an initiative investing in and supporting locally led projects designed to build resilience in coastal communities adapting to climate change.

The project is run by Ocean Risk and Resilience Action Alliance, which aims to drive $500 million of investment to ocean nature-based solutions, establish at least 50 novel finance products and build the resilience of 250 million climate-vulnerable coastal people by 2030.

FUNDING ADAPTATION

Elsewhere at the conference in Glasgow, contributing governments and fund stakeholders discussed the Adaptation Fund, with the U.S. making its first donation of $50 million.

Since 2010, the fund has had over $850 million allocated for climate adaptation projects in developing countries.

"There has been a shift in thinking under the Biden administration about the criticality of adaptation," said John Kerry, U.S. special envoy for climate.

Qatar also made its first donation of $500,000, and a host of other countries made renewed pledges.

OBAMA CALLS FOR URGENCY

Also last Monday, former U.S. President Barack Obama addressed COP26 delegates in Glasgow. Speaking at the event Partnerships for Island Resilience, he said island states were the "canary in the coal mine" when it came to the climate crisis.

In a later address to the conference, Obama encouraged young people to stay angry about the climate crisis and to channel their frustration into politics and addressing the challenges older generations have created but failed to solve.

He also said it was "discouraging" that Russia and China's leaders were not attending COP26.

"It was particularly discouraging to see the leaders of two of the world's largest emitters, China and Russia, declined to even attend the proceedings, and their plans so far reflect what appears to be a dangerous lack of urgency — a willingness to maintain the status quo, on behalf of those governments," Obama said.

Christine Dawson is a reporter at ESG Clarity, an InvestmentNews *sister publication.*

Countries distance themselves from coal

BY CHRISTINE DAWSON

ENERGY DAY AT COP26 on Nov. 4 saw two major agreements on the phasing out of coal with more than 40 countries committed to moving away from the fossil fuel, while some 20 countries stated that, from 2022, they will no longer fund unabated fossil fuel projects abroad.

Among the states committing to "accelerate a transition away from unabated coal power generation" were the United Kingdom, Canada and Poland, but the heavily coal-reliant India, China, Australia and the United States did not sign the agreement.

The Financial Times reported the time frame for major economies to transition away from coal was originally 2030, but following negotiations, the Global Coal to Clean Power Transition Statement now has the goal as "in the 2030s (or as soon as possible thereafter)."

For the rest of the world the time frame for transitioning away from coal is the "2040s (or as soon as possible thereafter)."

The countries and organizations supporting the statement committed to "rapidly scale up deployment of clean power generation and energy efficiency measures" and to "rapidly scale up technologies and policies in this decade to achieve a transition away from unabated coal power generation."

CUTTING COAL FINANCE

Meanwhile, signatories to the Statement on International Public Support for the Clean Energy Transition were a broad mix of countries, including the U.S. and the U.K. In this statement, they agreed to "end new direct public support for the international unabated fossil fuel energy sector by the end of 2022, except in limited and clearly defined circumstances that are consistent with a 1.5 degrees Celsius warming limit and the goals of the Paris Agreement."

According to a statement from think tank E3G, signatories to the pledge cover around a third of global GDP and put a deadline on public oil and gas finance as well as coal, but the commitment was described as "long overdue." It noted G20 countries invested at least $188 billion into oil, gas and coal projects abroad in the past three years.

"NO INVESTMENT IN NEW OIL AND GAS SUPPLY IS NECESSARY."

LISA FISCHER, PROGRAM LEADER, E3G

"This statement is a powerful signal to policymakers and investors alike that high climate and investment risks are an inherent part of oil and gas finance, and that no investment in new oil and gas supply is necessary," said Lisa Fischer, E3G program leader for climate-neutral energy systems.

"It shows growing confidence that employment and revenue opportunities are strongest in the clean energy sector," Fischer said. "Every cent of public finance in energy overseas should be used to opening these opportunities for nations across the globe."

Christine Dawson is a reporter at ESG Clarity, an InvestmentNews *sister publication.*

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OVERCHARGING

CONTINUED FROM PAGE 2

ment advice they provided matched their clients' investment objectives and was in their best interests. Other problems the SEC highlighted were a lack of written compliance policies and procedures, failure to disclose conflicts of interest, and misleading advertising and marketing.

"The litany of compliance problems the SEC notes in the risk alert runs the gamut of everything [it] can find wrong with an investment adviser," Foxman said. "In the near term, we may see them make examples of the worst offenders to see if the rest of the robo-advisers make a concerted effort to focus on those areas the SEC is concerned about."

The fact that the SEC is on a roll with risk alerts — two in consecutive days — may be an indication that advisers are struggling to comply with rules that can be "dense, complex and esoteric," Cipperman said.

"It really raises the question of whether the rules are effective if people aren't following them on a mass basis," he said. "They need to rethink the rules or their enforcement or both."

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FINRA HITS AEGIS

CONTINUED FROM PAGE 2

customers resulted in an average annualized cost-to-equity ratio, or break-even point, of 71.6%. As a general rule of thumb, Finra and other regulators regard cost-to-equity ratios of 20% or more to be suggestive of excessive trading.

The trading by the eight brokers in the 31 customers' accounts also resulted in an average annualized turnover rate of 34.9, combined customer costs, including commissions, markups or markdowns, margin interest and fees, of more than $2.9 million, and cumulative losses of $4.6 million.

Aegis and its supervisors, Joseph Giordano and Roberto Birardi, failed to take reasonable steps to investigate numerous "red flags" indicative of potentially excessive and unsuitable trading by the firm's brokers, according to Finra.

20%
COST-TO-EQUITY RATIO THRESHOLD FOR CHURNING

The firm failed to act on more than 900 exception reports from its clearing firm that identified potentially unsuitable trading, and more than 50 complaints from customers alleging excessive, unsuitable or unauthorized trading in their accounts, according to Finra.

Giordano and Birardi respectively agreed to a six-month supervisory suspension and $10,000 fine, and a three-month supervisory suspension and $5,000 fine, according to Finra.

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CREATIVE PLANNING

CONTINUED FROM PAGE 3

This approach accelerates the speed to market of our differentiated offering and will fuel growth for each firm, creating immediate value for our mutual clients."

Over the past five years, mergers and acquisitions in the retirement RIA business have been occurring rapidly. Wise Rhino Group, which consults on those deals, estimates that the 15 biggest aggregators have about $2.3 trillion in assets under advisement among 20 million retirement plan participants.

That trend has also been attracting private equity money, including GTCR's 25% stake in Captrust and Aquiline Capital Partners' majority investment in SageView.

It's notable that in 2020, General Atlantic took a minority stake in Creative Planning.

"This trend reflects that these firms clearly understand that the power in financial services will continue to shift toward the firms who control the client relationships — the plan sponsor and the participant," Dick Darian, partner at Wise Rhino, said in an email. "In addition to the emergence of these mega firms, the retirement advisory segment is also shifting toward the need to drive revenue by engaging (advice) and monetizing (wealth advisory) the plan participant. For a number of the insurance brokerage players, these dynamics will certainly test their strategic will around both continuing to grow their retirement stacks and building or buying a competitive wealth business."

"NOW WE BOTH HAVE BEST-IN-CLASS SOLUTIONS FOR OUR CLIENTS."
PETER MALLOUK, CEO, CREATIVE PLANNING

Wise Rhino consulted with Lockton months ago, ahead of a potential deal for its U.S. retirement business, Darian said. An important consideration for the firm was keeping some affiliation with the unit, to help support its larger U.S. benefits and property and casualty business, he said, noting that a majority of the retirement plan clients are also Lockton's insurance customers.

"They can't just sell it and walk away," he said. "We suggested that they keep a stake."

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Robinhood breach exposes data of millions of users

BLOOMBERG NEWS

ROBINHOOD MARKETS INC. said personal information of about 7 million people — or roughly a third of its customers — was compromised in a data breach and that the culprit had demanded payment.

The intruder obtained email addresses of about 5 million people as well as full names for a separate group of about 2 million, Robinhood said last Monday in a statement. For some customers, even more personal data was exposed, including names, birth dates and ZIP codes of about 310 people, and more extensive information belonging to a group of about 10.

The Menlo Park, California-based brokerage said it doesn't believe any Social Security, bank account or debit card numbers were exposed during the incident, which occurred Nov. 3, or that any customers incurred financial losses.

The hacker made threats about what would be done with the compromised information, although it wasn't a ransomware attack, according to a Robinhood spokesperson, who declined to say whether the firm paid the perpetrator.

The attack hinged on a phone call with a customer service representative, whom the intruder used to gain access to support systems, according to the statement. Robinhood said it contained the breach, notified law enforcement and enlisted security firm Mandiant Inc. to investigate the breach.

PREVIOUS INCIDENT

In a separate episode last year, almost 2,000 Robinhood accounts were compromised in a hacking spree. Some complained there was no one available to call. Since then, the company has been working to demonstrate that it's a reliable brokerage for new investors.

CI FINANCIAL

CONTINUED FROM PAGE 3

having an execution platform like GLASfunds is a critical foundational component to our strategy in this space," MacAlpine said. "Making this investment will enable us to deliver a better client experience, which is incredibly important as we work to build the leading high-net-worth and ultra-high-net-worth wealth manager in the U.S."

AKIN TO PE INFUSION

The GLASfund deal marks CI's first U.S. acquisition outside of the traditional financial advisory space. And while it is being promoted as an expansion of CI's private wealth arm, the minority investment is more akin to a private equity infusion for the alts platform.

Michael Maroon, managing partner at GLASfunds, balked at the comparison to a private equity investment and said the partnership will provide CI's advisers access to the platform. But the platform is already available to RIAs generally and will continue to be after the deal closes later this year.

"They looked at us as a really good delivery mechanism," Maroon said. "It's strategic for us in that we get to call on the CIPW family and serve them."

Until now, he added, the platform has relied on "good old-fashioned sales."

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J.P. MORGAN

CONTINUED FROM PAGE 3

J.P. Morgan's remote financial adviser business is opening in an era when clients and advisers have adjusted to remote meetings as a result of the Covid-19 pandemic.

According to the Form ADV filed with the Securities and Exchange Commission on Nov. 1, clients need to have a minimum of $25,000 to invest and an account minimum of $10,000. The investments include multiasset portfolios that use mutual funds and exchange-traded funds based on a client's investment profile.

The company hasn't yet announced its fees for the new program, which is in its pilot stage. J.P. Morgan had hired Boaz Lahovitsky from Vanguard in 2020 to oversee the new program.

A spokesperson noted that J.P. Morgan Wealth Management's platform included full service, with advisers in offices and branches, online investing, J.P. Morgan Self-Directed Investing and J.P. Morgan Automated Investing, and now remote advice with J.P. Morgan Personal Advisors.

Industry publication Financial Advisor IQ reported the launch of J.P. Morgan Personal Advisors earlier this month.

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REG BI

CONTINUED FROM PAGE 4

products with their customers and 40% of firms that recommended leveraged or inverse exchange-traded funds had compensation conflicts.

The Institute for Portfolio Alternatives disputed the NASAA survey's methodology and conclusions.

"The results ignore the numerous beneficial changes firms have made under Reg BI, and those made even before Reg BI, and the ways the law has thoughtfully increased investor protection while preserving investor choice," IPA said in a statement. "The survey is significantly biased against certain products that NASAA has arbitrarily deemed 'costly and risky.'"

'FUNDAMENTAL FLAWS'

The IPA asserted that NASAA ignored concerns it raised with the organization following the first phase of the study and "built the same fundamental flaws" into the second phase.

State regulators responded to industry criticism of NASAA's methodology shortly after brokerage trade associations sent a letter to NASAA leadership in February 2020. Seidt said the organization did not hear any complaints as it was putting together phase II.

Issa Hanna, counsel at Eversheds Sutherland, also criticized NASAA's focus on products.

"NASAA is very suspicious of certain products," Hanna said. "But the theme of Reg BI was not product-oriented."

Instead, Reg BI put an emphasis on acting in a customer's best interest when it comes to opening accounts, such as recommending rollovers from company retirement plans to individual retirement accounts, and requiring brokers to consider available alternatives, Hanna said.

But NASAA officials pointed out the final version of Reg BI used the term "complex products" more than 100 times, making clear the SEC's emphasis on this area.

"THE FOCUS OF THE RULE IS TO GET BROKERS TO DO THE RIGHT THING."

MELANIE SENTER LUBIN, NASAA PRESIDENT

"You can't discuss how products are sold without discussing which products are sold," Melanie Senter Lubin, Maryland Securities Commissioner and NASAA president, said in an interview. "The focus of the rule is to get brokers to do the right thing and act in their clients' best interest. If it involves modifying how they sell these products, so be it."

One area where the brokerage industry and NASAA agree is that the SEC needs to provide more specifics on how to comply with Reg BI.

"We're hopeful that the SEC looks at [the NASAA study] where we've pinpointed issues and says, 'Yes, we can clarify this, we can give more guidance about that,'" Lubin said. "That will help the firms come into better compliance with Reg BI and have Reg BI actually accomplish the purpose it set out to accomplish where the firms are acting in the customer's best interest."

Hanna would welcome such guidance.

"It would be helpful for the industry to know what kind of mitigation techniques are expected with respect to certain types of conflicts before anyone is held accountable," he said.

An SEC spokesperson did not respond to a request for comment.

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VETERANS

CONTINUED FROM PAGE 4

that vets have some awesome benefits and that the Army never taught people how to be financially responsible," he said.

John Verfurth, partner at VWG Wealth Management, served in the Navy for 10 years before entering the financial services industry in 1995. His passion for the past decade has been pro bono efforts to help veterans make the transition to civilian life.

"The hardest part about transitioning is understanding the finances, because in the military you get paid for housing, food, medical care, life insurance, so there's nothing you need to do because it's all covered for you," he said. "But in civilian life none of that is covered, so the household budget is a big issue."

NATURAL MIGRATION

Most of Verfurth's pro bono efforts are channeled through the Dog Tag Fellowship Program, which operates above the Dog Tag Bakery in Georgetown in Washington, D.C.

"We teach veterans inside the fellowship, and we help advise the nonprofit entity," he said.

For a lot of military veterans entering the wealth management space, the years of military service drive a natural migration toward clients affiliated with the military.

That's the case with Daniel Kopp, a former Air Force officer who helped launch the Military Financial Advisors Association last year.

Kopp, who founded Wise Stewardship Financial Planning in 2018 after leaving the Air Force, said the MFAA evolved from a study group for veterans in financial services.

The association is fledgling, with just 11 members so far, and the membership is selective, with the mission of "providing more access to fee-only fiduciary advice to members of the military," Kopp said.

"It's very niche because there's not a lot of people focused on serving the needs of the military," he said. "It's a community, and it's good to be around like-minded people."

That kind of community connection is what Michael Hunsberger is banking on to help launch his brand new advisory firm, Next Mission Financial Planning. Hunsberger launched his firm Nov. 1, the same day he retired after 25 years in the Air Force.

'DO MY OWN THING'

Currently, he has no assets to manage and no clients to serve, but he has completed the course work for the certified financial planner and chartered financial consultant designations.

Hunsberger has also joined the Financial Planning Association and the National Association of Personal Financial Advisors to help in developing his network.

He realizes the start of his work as an adviser might have had more momentum if he joined an existing firm, but that's not where he feels he wants to be.

"Some of what I was looking for was flexibility and the ability to do my own thing," he said. "I looked at my situation and figured my retirement benefits will help provide some cushion while I build a business."

In essence, Hunsberger is living the kind of advice he hopes to impart on other veterans.

"It's important to understand your VA benefits and how the transition to civilian life works," he said. "Think about how you're going to use your last leave before getting out, and then think broader than that you just have to go to work right away."

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