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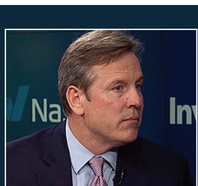

SCAN THIS QR CODE TO HEAR WHY GEN XERS ARE IN FOR A RUDE RETIREMENT AWAKENING.

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Galvin launches investigation into brokers' use of AI

BY RYAN W. NEAL

THE STATE OF MASSACHUSETTS is concerned about what it calls a growing and potentially unchecked use of artificial intelligence in the securities industry.

Last Wednesday, Secretary of the Commonwealth William Galvin announced that his securities division would launch an investigation into how firms are using AI to engage with Massachusetts investors. The office has sent letters to six companies — JPMorgan Chase, Morgan Stanley, Tradier Brokerage, US Tiger Securities (the U.S. broker-dealer division of Tiger Brokers), Savvy Advisors and Hearsay Systems — seeking information on how they are using AI in their business activities. ETrade, which is owned by Morgan Stanley, also received a letter.

Of particular concern is the supervision firms have in place over AI engines to ensure the technology is not putting the firm's interests ahead of clients' interests, Galvin said in a statement.

"If deployed without the guardrails necessary to ensure proper disclosure and consideration of conflicts, I am concerned that this technology could result in harm to investors," he said.

Galvin is correct to be investigating firms' use of AI, as the technology remains largely untested and unproven, said Ric Edelman, founder of the Digital Assets Council of Financial Professionals. There are many instances of AI generating false, yet convincing, information, and tools like ChatGPT make it too easy for advisors to create client-facing content that hasn't been approved by compliance.

"State and federal securities regulators need to insure that advisors and their firms are using the technology appropriately and responsibly, and maintain complete records of their usage," Edelman said in an email. "Done correctly, generative AI can and will be a tremendous productivity tool that improves client service. But without necessary guardrails, investor safety is at risk."

Some firms have been cautious in their deployment of AI to avoid these concerns. For example, Morgan Stanley, while ahead of many firms in its development of AI, has made the technology available to Morgan Stanley employees only to find information from the firm's own content library, as *InvestmentNews* previously reported. The company has not introduced a product for retail investors or clients of

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Advisors take U.S. debt downgrade in stride

BY MARK SCHOEFF JR.

FINANCIAL ADVISORS weren't expecting a credit rating agency to downgrade U.S. debt two months after the country avoided a default, but they're taking the move in stride.

Last Tuesday, Fitch Ratings demoted U.S. bonds from AAA to AA+, citing "expected fiscal deterioration" in coming years, the country's "growing … debt burden" and the "erosion of governance."

The last point relates to Congress and the White House agreeing at the last moment to raise the debt ceiling earlier this summer. Advisors weren't worried then that the country would spurn its debt. Nor were they shaken up by Fitch's decision, which came weeks after a potentially catastrophic default was averted.

"The timing is surprising, but it's not totally unexpected," Francisco Ayala, an advisor at The Coleridge Group, said of the downgrade. He noted that Fitch has had a negative rating watch on the United States for a while.

"This has more to do with politics than the economic stability of the U.S.," Ayala added.

Lisa Kirchenbauer, founding partner and senior advisor at Omega Wealth Management, was also caught off guard by the Fitch announcement.

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More turnover at top of Wells Fargo brokerage group

BY BRUCE KELLY

LAST YEAR, two former heads of Wells Fargo Advisors left the firm. The exodus of senior wealth management executives with decades of experience at Wells Fargo and its numerous predecessor firms continues in 2023, with John Peluso, the head of its brokerage clearing operations, First Clearing, retiring at the end of September.

A senior managing director, Peluso had been at the firm and its various predecessors for 35 years.

He's not alone. Warren Terry, managing director and head of the client relationship group branch infrastructure, had his final day at the firm in late July, according to his BrokerCheck profile. Terry had worked at the firm since 2005.

And Rich Getzoff, head of the branch network since 2019, left the firm in June. He had worked at Wells Fargo and a predecessor, Prudential Securities, since 1998.

The changes at the top of Wells Fargo Advisors, with 12,000 financial advisors, and FiNet appear to be in the same vein as last year. That's when David Kowach, who headed Wells Fargo Advisors until 2019, and Jim Hays, who replaced Kowach, both said they were retiring.

Wells Fargo Advisors has seen thousands of financial advisors leave the firm to join competitors or retire since 2016. That's when the parent bank, Wells Fargo & Co., first reported a wave of credit card and bank scandals that harmed the bank's reputation and led to difficult conversations with some financial advisors' clients.

In 2019, the bank hired Charlie Scharf, former CEO of Bank of New York Mellon Corp., to be its president and CEO.

"FiNet is changing up management on Peluso's retirement announcement

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Envestnet Q2 revenue falls short of expectations

BY RYAN W. NEAL

HEADWINDS ACROSS the wealth management industry and specific challenges in Envestnet's data and analytics business contributed to another slide in quarterly earnings for the largest provider of financial advisor technology and outsourced investment management.

Envestnet brought in $312.4 million in total revenue during the three months that ended June 30, a 2% drop from the same period in 2022. The company's second-quarter revenue came in just short of Wall Street's expectations of $315.1 million, according to analysts surveyed by Zacks Investment Research. Over the first half of 2023, Envestnet's total revenue has fallen 5% year over year.

The company did meet Wall Street's expectations for earnings per share at $0.46. However, this was down 6% from the $0.49 EPS recorded in Q2 of last year.

Asset flows into investments remain low as advisors remain cautious about the market and look for higher yields in fixed income and cash, said Envestnet CEO Bill Crager. Until Envestnet formally enters the custodian business, which it plans on doing through a partnership with FNZ, it cannot capitalize on that trend.

"We're a wealth management, investment-oriented business," Crager told *InvestmentNews.*

The company has also been challenged by a slowdown in its non-wealth-management business. Revenue from Envestnet Data & Analytics has slowed, particularly in its research division, due to increased competition and a decline in the quality of the data set, Crager said. He expects the business to stabilize in the second half of the year.

"ANYONE THAT'S GOING TO GO DO A DEAL IS GOING TO PAY A LOT."

BILL CRAGER, CEO, ENVESTNET

PROGRESS

However, the company is growing in several key areas despite low net asset flows across the wealth management industry, Crager added. During the second quarter, net flows represented an annualized growth rate of 5%, which outperforms the average growth

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Another rebrand: CI Private Wealth is now Corient

BY BRUCE KELLY

THE SUMMER of wealth management name changes rolls on as CI Private Wealth, one of the fastest-growing registered investment advisors ever to compete in the financial advice industry, said last Tuesday it was rebranding as Corient, a combination, according to the company, of the phrase "client oriented."

Picking a new name for a well-known, established firm seems to be in vogue this year.

In May, Riskalyze announced that its new name was Nitrogen to reflect the company's evolution from measuring client risk tolerance toward offering a broader suite of wealth management fintech.

And in June, Advisor Group, the giant network of 11,000 brokers and financial advisors, with $500 billion in client assets and eight distinct firms, said it would operate under one brand and service platform: Osaic.

Canada-based CI Financial is a relative newcomer to the U.S. wealth management and RIA market, first entering the industry in 2020. Since then, it's been on an acquisition binge that has startled some RIA veterans. CI's wealth management business in the United States has $147 billion in assets under management.

And the company has been experiencing some changes. When CI Financial announced the sale of a 20% private ownership stake in CI Private Wealth in May, it also said its planned initial public offering of that business, now Corient, was still in the works but had been postponed.

CI will continue to use the CI Private Wealth brand for its Canadian ultra-high-net-worth wealth management business, the company said in a statement.

MIXED REACTIONS

Reaction from branding and marketing executives to CI's name change to Corient was mixed.

"It's a weird little portmanteau," said Johnny Sandquist, founder and CEO of Three Crowns Copywriting and Marketing. "Corient. I understand the thought behind it.

"It probably sounds great in the

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Roth IRAs, 401(k)s for all? Not so fast, advisors say

BY EMILE HALLEZ

INVESTMENTNEWS columnist Ed Slott got a lot of people thinking about Roth IRA and Roth 401(k) strategies last month — and whether traditional tax-deferred saving should be anyone's go-to in the current tax environment.

In his column July 24, Slott urged advisors to be "sounding the alarm" about growing pretax balances in 401(k) and individual retirement accounts and suggested they "have clients start making Roth IRA and Roth 401(k) contributions instead."

However, advisors took some issue with the idea that tax deferral isn't the way to go for every client.

Not everyone should stop contributing to traditional IRAs and 401(k)s, said Tim Steffen, director of advanced planning at Baird Private Wealth Management.

"I simply don't agree with that," Steffen said. "Not everyone is going to be in a higher [tax] rate than they are right now. If you're somebody who is in your highest earning years right before retirement … it's very possible that you'll have lower rates in retirement."

Income at the beginning of retirement is often low enough to put someone in a lower tax bracket than they were while working, although that changes during retirement, and people tend to go up in tax brackets, Steffen said. Rather than eschewing traditional 401(k)s and IRAs altogether, savers should consider what their average tax rates will be throughout retirement — and that figure, for many, will be lower than their marginal rates today, he said.

HEDGING STRATEGIES

Roth accounts "are a hedge against the uncertainty of what future higher tax rates can do to your standard of living in retirement," Slott wrote. Although tax deductions are lost when using Roth strategies, that's a good thing, he said, as "the tax deduction has no real long-term value."

"Tax deductions aren't worth as much when tax rates are low, as they are now. Smart tax planning means taking income when rates are low and taking tax deductions when rates are high," Slott said.

Many people have lower income in retirement than during their working years, but for most, "lower taxes in retirement are a myth," he wrote. "For those who build the largest IRAs, taxes down the road will generally be higher as a result of deferring withdrawals until they're required. This triggers larger IRA tax bills when minimum distributions become required."

While tax rates are currently low, they will likely be low again even if marginal rates begin to rise in 2026, Steffen said.

"Frankly, no one knows if that will happen. And we will not know for a couple of years," he said. "Even if [a tax increase] does happen, it's pretty unlikely that's the last tax law change we will ever see … We might see a temporary spike in tax rates, but I suspect we will see them fall again in the future, and then go up in the future. That's just how these things work."

The spirit of Slott's column is good, but clients have different circumstances that warrant a variety of approaches, Steffen noted. Those might not be the same for a 25-year-old and a 60-year-old, for someone who needs their money sooner rather than later, or for a client who has a variety of income sources in retirement.

POWER OF TAX DEFERRAL

"While I'm an avid fan of Rothification and fully support maximizing these tax-free accounts, I do think that tax-deferred accounts can play a role in retirement portfolios," Joanne Burke, founder of Birch Street Financial Advisors, said in an email. "If a client has a very large tax-deferred balance and is not desiring to take the full tax hit now on Roth conversions but is self-funding a portion or all of their long-term care medical needs, using the tax-deferred accounts can be a good tax strategy. When using the funds to pay for deductible long-term care expenses, you are able to virtually offset a significant portion of the taxable IRA distribution with the medical expense deduction."

Further, traditional IRAs can be efficient for charitable giving, as using those assets "saves significantly on taxes because neither the client nor the charity pays income tax on the distribution," Burke said.

Although he doesn't typically disagree with Slott, Wealthspire financial advisor Kevin Brady said that stopping contributions to traditional 401(k)s isn't ideal for everyone.

"For those in a high-tax bracket now (32%, 35%, 37%), the tax savings of pretax contributions are meaningful. This is especially true for those in states that have their own material income tax, like New York, California and others. Even further emphasis if the plan is to move from those states in retirement," Brady said in an email. "We cannot plan effectively based on what we think taxes could be in the future, but what we know them to be today. I'd also add for those retiring in the coming decades, pensions and other forms of income that 'push up' taxable income to higher brackets are less common."

The decision between Roth and

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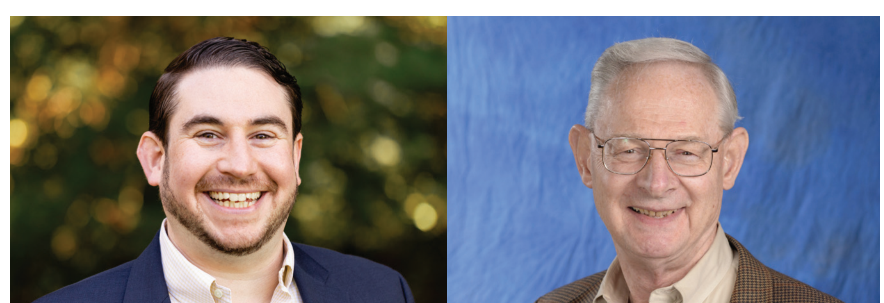
Proposed wealth tax 'sounds lovely' but 'doesn't make any sense'



Jeremy Bohne, left, founder of Paceline Wealth Management, and Dick Power, owner of Power Plans.

BY MARK SCHOEFF JR.

PROGRESSIVE LAWMAKERS want to implement a wealth tax to reduce economic inequality, but financial advisors doubt that levying taxes based on assets would work.

Just before Congress left Washington late last month for its summer recess, several Democratic lawmakers introduced the Oppose Limitless Inequality Growth and Reverse Community Harm (OLIGARCH) Act. The measure would impose tax brackets ranging from 2% to 8% on wealth that is 1,000 to 1 million times the median household wealth. The tax would total from roughly 2% on $100 million up to 8% on $120 billion, assuming median household income is $120,000.

The bill's sponsors — Democratic Reps. Summer Lee of Pennsylvania, Barbara Lee of California, Jamaal Bowman of New York, and Rashida Tlaib of Michigan — said wealth disparity in the U.S. was growing and those with greater means also had much more political influence than people in lower economic strata.

"Inequality in the United States is worse in 2023 than it was during the Gilded Age," Rep. Barbara Lee said in a statement. "It is unacceptable that millions of hardworking people remain impoverished, while the top 0.1% hold over 20% of the nation's wealth. The OLIGARCH Act is the solution we need to close the exorbitant wealth gap in America and create a tax system where everyone pays their fair share."

The bill reignites a debate about taxing wealth rather than income to generate more revenue from individuals and families with massive financial assets. That conversation is also occurring at the state level, where legislators introduced several wealth-tax bills earlier this year.

But financial advisors expressed doubt that the approach is viable.

"It's almost impossible to administer," said Dick Power, owner of Power Plans, an investment advisory firm. "It doesn't make any sense. It sounds lovely. As a practical matter, it's wrong."

One of the challenges is that wealth is determined by many different kinds of assets, which might be difficult to assess and value.

"You can't calculate how much someone is worth," Power said.

Jeremy Bohne, founder of Paceline Wealth Management, cautioned against adopting a fundamentally different approach to taxation — taxing wealth — when the current income tax code is fairly straightforward.

"Enforcing existing tax rules would be

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Opinion

_IN_ THEIR OWN WORDS ...

from the web and print pages of *InvestmentNews*

"We're in many more conversations than deals. It's hard to find a clean franchise."

— Rich Steinmeier, divisional president for business development, LPL Financial

"Investors searching for yield or excessive return are often the ones holding a falling knife."

— Andrew Graham, founder, Jackson Square Capital

Navigating AI's regulatory challenges

The increasing use of artificial intelligence, predictive analytics and other algorithm-based tools in the financial industry has led to some new steps in the ongoing dance of regulators and regulated. As Mark Schoeff Jr. reported in late July, the Securities and Exchange Commission has approved releasing a 243-page proposal for public comment that would require brokerages and investment advisory firms to review their use of these technologies and determine whether the algorithms optimize the interests of the firm or its financial advisors over the interests of investors.

IF THE PROPOSED RULE WERE ADOPTED, FIRMS WOULD HAVE TO "ELIMINATE OR NEUTRALIZE" CONFLICTS.

If the proposed rule were adopted, firms would have to "eliminate or neutralize" conflicts, according to an SEC fact sheet. They also would have to implement related policies, procedures and record keeping. The theme of early comments in the press from brokerage and advisory executives was that the rule would make it harder for individuals to invest.

In a 3-2 vote, Democratic appointees favored the rule and Republican appointees opposed, with Commissioner Hester Peirce saying Regulation Best Interest already requires the financial advice business to address conflicts and that the proposal was "overbearing and would discourage financial advisors from using advanced technology." Chairman Gary Gensler countered, saying the public should know whether algorithms built into predictive analytics optimize for client interests or those of advisors and firms.

In its current state, artificial intelligence is at once a miracle —

pointing to life-saving solutions, for example, by being able to analyze voluminous medical data more efficiently and thoroughly than humans — and a Frankenstein. AI's creators aren't fully sure how it comes up with answers or solutions and are baffled by its "hallucinations," which are totally fictitious fabrications that the algorithms concoct.

Like other technologies in the past, AI is bound to reshape the operations of the financial advice business, as well as those of the securities, investment and banking sectors of the economy. The issue is how to proceed within the framework of businesses that are already heavily regulated.

Perhaps one way to think of the path forward is to remember the reason for regulation in the first place. In the case of the SEC specifically, the reason was to protect the buyers of securities — the investing public — from the potential for deception, and worse, on the part of the creators of those securities (corporate issuers) and their sellers, namely Wall Street.

The widespread use of artificial intelligence only supercharges the potential for possible investor harm. For that reason, the SEC's proposal is a good first step. Now it's time for the industry to weigh in with its comments and join the dance.

Comments? Questions? Send your thoughts to james.burton@keymedia.com.

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575 Fifth Avenue, 14th Floor, New York, NY 10017

KM Business Information US, Inc.
3190 S Vaughn Way Suite 550
Aurora, CO 80014

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ARE AUM FEES HEADING TOWARD EXTINCTION?

THE ASSET-BASED MODEL IS THE DEFAULT SETTING FOR MANY FIRMS, BUT MORE CREATIVE THINKING IS NEEDED TO ATTRACT THE NEXT GENERATION OF CLIENTS

BY JEFF BENJAMIN

ACROSS THE financial planning industry, the multidecade transition away from commissions and toward asset-based fees has made such fees a staple of wealth management that's commonly promoted as putting the advisor on the same side of the table as the client.

The case for charging fees pegged to the size of a client's portfolio has always been easy to make for advisors who are eager to truck out the mathematical reality that asset-based fees rise and fall with the portfolio balance, suggesting the advisor is motivated to increase the size of the portfolio.

"Asset-based fees keep the objectives aligned between client and advisor; clients make more money, the advisor makes more money," said Thomas Balcom, founder of 1650 Wealth Management.

To most clients and advisors, the asset-based fee model has been too good to pass up, which is why more than 90% of registered investment advisors charge asset-based fees, according to the latest *InvestmentNews* Benchmarking Study.

The report shows that among RIAs managing at least $100 million and registered with the Securities and Exchange Commission, 98.7% charge fees based on assets, which can range from 40 basis points to more than 1% depending on account size, relationship and services. While very few advisory firms publish their fees in plain view on their websites and there's a lot of discounting, the most popular starting point for asset-based advice has been 1% ever since the early 1990s.

"While it appears that there is a race to zero, clients are not flinching at paying fees for perceived and actual value," Balcom said. "If you are creating a simple ETF portfolio and charging 100 basis points, clients may balk. However, if you are creating a more bespoke portfolio that contains investments that are not readily available to the public, clients will see the value of paying investment management fees."

Even as the advice industry appears staunchly committed to asset-based fees, there's a lot more going on beneath the surface, as RIAs embrace multiple fee models to attract and retain clients.

According to the *InvestmentNews* report,

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77% of SEC-registered RIAs offer fixed fees, 62% offer hourly fees and 4% charge commissions.

"The economics of the advice industry still revolve around AUM fees, but it's pretty striking that three-quarters of firms are employing fixed fees in addition to AUM fees," said Devin McGinley, director of research at *InvestmentNews*.

ALTERNATIVE FEE MODELS

Having seen asset-based fees barely budge one way or the other off the popularly stated 1% bogey, McGinley isn't convinced the migration into alternative fee models is much more than a ploy to "bring new clients in the door."

"I don't see big changes down the road when it comes to fees," he said, citing as an example of the fee-based momentum the fact that the 25 largest broker-dealer firms have been generating a majority of revenue from asset-based fees instead of commissions since 2020.

But while certain corners of the legacy brokerage industry migrate toward asset-based fees and large swaths of the RIA space continue to embrace asset-based fees like a religion, some folks anticipate a shifting landscape that could drive major change in the way advisors charge clients.

"As advisors look to expand offerings to a younger investor base, we're seeing different fee models," said Anand Sekhar, vice president of practice management consulting at Fidelity Investments.

"Advisors focused on the needs of those younger investors are creating fees that are appropriate for the work," Sekhar said. "Similar to the legal and accounting professions, fees are being aligned so the value for services is commensurate with the value the advisors are providing."

Matthew Matrisian, senior vice president and chief channel officer at AssetMark, believes the macro trends will continue to show a migration to asset-based fees because the shift from commissions is still underway. But he said the next fee transition was already happening.

"If I had to put my money on a fee model, it would be more leveraged toward the flat fee," he said. "The flat-fee model, and potentially some subscription-fee models, is what the next generation of investors are used to. They use the subscription model for everything."

FEE DIVERSITY

Angie Herbers, managing partner at the practice management consulting firm Herbers & Co., said diversity of advisory fees was coming quickly, and advisors should be preparing their practices.

"We're already seeing more firms charging flat, retainer and hourly fees," she said.

Herbers believes the more creative advisory fee models are driven by "lower close ratios," which means advisors are finding it more difficult to get prospective clients to sign on the dotted line.

"Going into Covid, the long bull market drove a lot of growth of net new and current assets," she said. "But during the most recent bear market, consumers just paused. They weren't moving assets [to new advisors] like in the past, they weren't saving as in the past; some were working less. That slowed down growth at advisory firms."

RIA close ratios for prospective clients, which for years had hovered comfortably in the 70% range, have dropped over the past couple of years to around 33%, Herbers said. This has become a wake-up call for firms scrambling to bring in new business.

"In the recent bull market, consumers started shopping for advisors again, but they aren't actually shopping on price, they're shopping on trust," she said. "The fee model of the future will be based on the value advisors bring to the table rather than the value clients bring with their assets."

'OVERALL COMPLEXITY'

In that regard, Carolyn McClanahan, director of financial planning at Life Planning Partners, is ahead of the curve.

"We charge a flat fee based on the overall complexity, and that includes asset management," she said.

When McClanahan came into the business in 2004, she charged an asset-based fee "because that's what everybody did.

"I quickly realized the wealthier clients were subsidizing the less wealthy clients," she said. "I was doing in-depth planning for everybody, and AUM fees didn't cut it."

In 2006, McClanahan developed a formula for charging a flat fee, which she did by "starting backwards and figuring out what I needed to be profitable and run a business.

"I didn't want to charge hourly because clients hear the clock ticking, and I wanted to do comprehensive financial planning," she said. "When I started charging flat fees, my minimum was $2,500 a year. Then I got so busy and had to make a business decision about helping everyone." The minimum has been bumped up twice and now stands at $10,000, and it can be adjusted if complexity changes.

"It's a little bit squishy; I tack on $1,000 pretty much for every complexity," McClanahan said. "A big thing is how organized somebody is. I will take fees off for a super-organized person."

Reflecting on her early days of charging fees based on client assets, she recognizes the appeal.

"It's so popular because it's easy, and advisors don't have to communicate how much money that is; they just say, 'We charge 1%,'" she said. "It doesn't sound like a lot of money, but it is."

> **"EVERY FEE MODEL HAS A POTENTIAL CONFLICT."**
>
> CAROLYN MCCLANAHAN, DIRECTOR OF FINANCIAL PLANNING, LIFE PLANNING PARTNERS

'MIXED MESSAGE'

McClanahan, a longtime critic of asset-based fees, joins other critics in arguing that charging based on assets diminishes the value of financial planning and places too much emphasis on a part of the business that is often described as commoditized.

"People way overcharge for investment management but undercharge for planning," she said. "Asset-based fees kind of give a mixed message that investments are the answer and it's a part of the financial plan."

While proponents of asset-based fees often claim the model reduces potential conflicts of interest because the client and advisor are aligned in their commitment to investment performance, the pitfalls in that argument are many. Among the challenges are whether to charge on cash, advising a client on whether to take money out of an investment account for a large expenditure and allocating to investment strategies that are out of sync with an investor's profile.

"Every fee model has a potential conflict," McClanahan said. "The potential conflict we have is you could be paying us this fee and we're not doing the work, but we get around that by spelling out our planning schedule for our clients. They get reports throughout the year, so they know the value they're getting."

Calculating the value of the services provided is something advisors lean on often when justifying their fees, regardless of the fee model.

"A fee is only questioned when the value is in question," said Patrick Dougherty, president and chief executive at Dougherty Wealth Management. "I charge the upfront fee for the initial plan, then an AUM fee as well as an ongoing planning fee, because planning is continuous and ongoing, and the most important thing I do for the client."

As far as the direction of asset-based fees, Dougherty believes there's more sizzle than steak.

"There's been a lot of talk for the last 20 years about fees going from an asset-based model to an hourly and/or retainer model," he said. "It's mostly been wishful thinking by the big journalists and newsletter types trying to will their predictions to come to fruition. The reality of those of us in the trenches is that clients like the AUM fee model because it removes the conflict of interest and gives the advisor incentive."

DIFFERENT MODELS FOR YOUNGER ADVISORS

However, Dougherty does see the potential of different fee models for advisors just breaking into the business.

"The younger planners are trying the hourly or retainer model because it is easier for the client to buy into," he said. "For the advisor who has the ability to communicate their value to the client, the AUM model is easily understood by the client. I like it because it weeds out the prospect who doesn't like paying for advice."

Bob Veres, publisher of the *Inside Information* newsletter, understands the inertia behind assetbased fees, but he doesn't believe the fee model is where the industry is heading.

"I think AUM fees are not the future; it's basically commission in drag," Veres said, suggesting that asset-based fees make it more difficult for advisors to distinguish themselves as financial planners.

"When people talk about their fees, I ask them what data they have about how much time they're spending on different clients and activities, and do they know what their time is worth," he said. "To me, all this discussion revolves around a lack of data. Charging by AUM is really a lazy way to set your fees. It's time to get less lazy."

On the topic of introducing different fee models for younger clients, or clients who may not have a lot of assets to manage but still need financial planning help, Veres said that was the future in more ways than one.

"Down market means younger clients, so moving down market basically means moving toward the future," he said.

Another reality that's keeping so much of the industry wedded to asset-based fees is the fact that advisory fees stand virtually alone in resisting the fee compression that has hit every other stop in the financial services supply chain.

TIGHTER MARGINS

To that point, many advisors will often retort that they have had to increase services to keep up, thus effectively cutting into their profits.

But Veres believes tighter margins are something advisors of the near future will have to learn to live with.

"It's inevitable that the revenues compared to the service provided are going to go down," he said. "Advisors will make less money. It could be there will be more competition and they will have to provide more services. But right now AUM is a big disconnect, and I don't think the next generation of consumers will stand for that disconnect. The more consumer awareness we get, the more we move away from commissions to fees and from AUM to other revenue models."

That's exactly the kind of outlook Anders Jones has been banking on since he co-founded Facet in 2016 as a subscription-based advisory platform for people with less than $500,000.

For between $2,000 and $6,000 a year, depending on complexity, Facet offers comprehensive financial planning services that can include investment management. So far, the platform has attracted 13,000 households, 80% of which had never worked with a financial advisor.

SUBSCRIPTION MODEL

Jones believes the subscription model that isn't connected to client assets will be the secret to success for venture-backed Facet.

"Step back outside of financial services and you see a trend of transaction-based businesses going to subscription," he said, citing examples such as Netflix and Dollar Shave Club.

"You need to look at the value the advisor is actually providing," Jones added. "If you have $1 million and an advisor says he adds value primarily by beating the market, run in the other direction, because the average advisor is not going to beat the market. The real value a planner adds is the plan."

Perhaps the most unique aspect of the push away from asset-based fees is the opportunity to serve a market previously viewed as unappealing to the financial services industry.

"Our aspiration is to go more and more down-market, because 76% of U.S. households don't have access to affordable and unconflicted financial advice," Jones said. "From that perspective, I think there's still a lot of fee model options. My crazy prediction is that 10 years from now, half the industry will be charging a subscription model."

Industry consultant Herbers sees a similar evolution in the advisory space as RIAs saturate the wealthiest end of the market.

"What I do know is high-net-worth individuals without financial advisors are few and far between at this juncture, and the only way advisors can be profitable with smaller clients is with diversity of fees," she said. "With asset-based fees, there's more incentive to go after the largest accounts, but more diverse fee models expand access to financial advice. You can serve low-net-worth people with under $100,000 very well with different fee models."

jbenjamin@investmentnews.com

If You Owned a U.S. Dollar LIBOR-Based Instrument Between August 2007 and May 2010 A Settlement Totaling $90 Million Could Affect You

There are lawsuits impacting individuals and institutions that entered into over-the-counter financial derivative and non-derivative instruments directly with 17 banks and that received payments tied to U.S. Dollar LIBOR. A Settlement totaling $90 million has been reached with MUFG Bank, Ltd., The Norinchukin Bank, and Société Générale. Earlier settlements totaling $590 million were reached with Barclays, Citibank, Deutsche Bank, and HSBC, bringing the total settlement amount to $680 million. The remaining Non-Settling Defendants include Bank of America, Credit Suisse, HBOS, JPMorgan Chase, Lloyds, Rabobank, Royal Bank of Canada, Royal Bank of Scotland, UBS, and Portigon.

What are the lawsuits about?

The litigation claims that the banks manipulated the U.S. Dollar LIBOR rate during the financial crisis, artificially lowering the rate for their own profit, which resulted in class members receiving lower interest payments for their U.S. Dollar LIBOR-Based Instruments from the banks than they should have. Plaintiffs assert antitrust, breach of contract, and unjust enrichment claims. MUFG Bank, Norinchukin, and Société Générale deny all claims of wrongdoing.

Who is included in the Settlement?

You are included if you (individual or entity) directly purchased certain U.S. Dollar LIBOR-based instruments from Bank of America, Bank of Tokyo-Mitsubishi, Barclays, Citibank, Credit Suisse, Deutsche Bank, HBOS, HSBC, JPMorgan Chase, Lloyds, Norinchukin, Rabobank, Royal Bank of Canada, Royal Bank of Scotland, Société Générale, UBS, and Portigon (or their subsidiaries or affiliates) in the United States; and owned the instruments at any time between August 2007 and May 2010. The instruments in the Settlement Class include certain interest rate swaps, forward rate agreements, asset swaps, collateralized debt obligations, credit default swaps, inflation swaps, total return swaps, options, and bonds/floating rate notes.

What does the Settlement provide?

The Settlement will create a Settlement Fund totaling $90 million that will be used to pay eligible Class Members who submit valid claims, as well as attorneys' fees not to exceed one third of the gross settlement, expenses not to exceed $5,500,000, and service awards to the Class Representatives not to exceed $100,000 per Representative. Additionally, MUFG Bank, Norinchukin, and Société Générale will provide certain cooperation to the Plaintiffs in their ongoing litigation against the Non-Settling Defendants.

How can I get a payment?

You can submit a Proof of Claim online or by mail. The deadline to submit a Proof of Claim is **December 15, 2023**. You do not need to submit a Proof of Claim to share in the Settlement if you previously submitted a valid Proof of Claim in the prior settlements and do not seek to modify or supplement your Proof of Claim. You are entitled to receive a payment if you have a qualifying transaction with **any** of the following banks: Bank of America, Bank of Tokyo-Mitsubishi, Barclays, Citibank, Credit Suisse, Deutsche Bank, HBOS, HSBC, JPMorgan Chase, Lloyds, Norinchukin, Rabobank, Royal Bank of Canada, Royal Bank of Scotland, Société Générale, UBS, or Portigon (or their subsidiaries or affiliates). You do not need to have transacted with MUFG Bank, Norinchukin, or Société Générale specifically. At this time, it is unknown how much each Class Member who submits a valid claim will receive. Visit www.USDollarLiborSettlement.com for more information on submitting a Proof of Claim.

What are my rights?

If you are a member of the Settlement Class and you do not file a timely claim, you will lose your right to receive money or benefits from the $90 million settlement with MUFG Bank, Norinchukin, and Société Générale unless you submitted a valid claim in a prior settlement in the OTC Action. If you would like to retain your right to file your own lawsuit against MUFG Bank, Norinchukin, or Société Générale, you must opt out of the Settlement Class by **September 29, 2023**. If you stay in the Settlement Class, you may object to the Settlement by **September 29, 2023.**

The Court will hold a hearing on **October 17, 2023** to consider whether to approve the Settlement and approve Class Counsel's request of attorneys' fees of up to one-third of the Settlement Fund, plus reimbursement of costs and expenses and service payments to the Class Representatives. You or your own lawyer may appear and speak at the hearing at your own expense. More information about the Settlement is available on the Settlement website, www.USDollarLiborSettlement.com, and in the Long Form Notice accessible on that website, or by calling 1-888-619-8688.

TOP HYBRID RIAs 2023

		TOTAL		DISCRETIONARY		NONDISCRETIONARY		
RANK	FIRM	ASSETS ($M)	ACCOUNTS	ASSETS ($M)	ACCOUNTS	ASSETS ($M)	ACCOUNTS	EMPLOYEES
1	**CI Private Wealth** 2 S. Biscayne Blvd., Suite 3200 Miami, FL 33131	$94,617.0	79,738	$81,941.8	71,765	$12,675.2	7,973	825
2	**Cambridge Investment Research Advisors Inc.** 1776 Pleasant Plain Road Fairfield, IA 52556	$82,427.8	461,370	$71,799.4	417,620	$10,628.4	43,750	3,352
3	**Fort Washington Investment Advisors Inc.** 303 Broadway, Suite 1200 Cincinnati, OH 45202	$71,037.8	1,405	$70,711.2	1,354	$326.6	51	151
4	**Mercer Global Advisors Inc.** 1200 17th St., Suite 500 Denver, CO 80202	$35,141.7	76,213	$34,899.3	76,080	$242.4	133	900
5	**SCS Capital Management** 888 Boylston St., Suite 1010 Boston, MA 02199	$28,982.5	416	$24,814.1	306	$4,168.4	110	130
6	**Private Advisor Group** 65 Madison Ave., Suite 300 Morristown, NJ 07960	$25,630.1	110,495	$25,603.5	110,448	$26.7	47	703
7	**First Manhattan Co.** 399 Park Ave. New York, NY 10022	$23,591.7	5,528	$23,591.7	5,528	-	0	130
8	**Buckingham Strategic Wealth** 8182 Maryland Ave., Suite 500 St Louis, MO 63105	$23,358.1	44,314	$21,683.1	41,743	$1,675.0	2,571	584
9	**Beacon Pointe Advisors** 24 Corporate Plaza, Suite 150 Newport Beach, CA 92660	$23,245.7	42,223	$21,165.3	41,898	$2,080.4	325	420
10	**CWM** 14600 Branch St. Omaha, NE 68154	$19,943.6	96,956	$19,921.7	96,929	$21.9	27	1,111
11	**AE Wealth Management** 2950 SW McClure Road, Suite B Topeka, KS 66614	$19,248.8	160,475	$19,248.8	160,475	-	0	571
12	**The Colony Group** One Boston Place, 11th Floor, 201 Washington St. Boston, MA 02108	$18,829.2	20,099	$16,362.2	17,860	$2,467.0	2,239	360
13	**Veritable** 6022 West Chester Pike Newtown Square, PA 19073	$16,533.2	3,674	$16,337.8	3,259	$195.4	415	88
14	**Wealthspire Advisors** 521 Fifth Ave., 15th Floor New York, NY 10175	$16,318.9	6,622	$16,015.0	6,296	$304.0	326	250
15	**Sanctuary Advisors** 250 W. 96th St., #300 Indianapolis, IN 46260	$16,220.2	38,933	$15,779.2	37,844	$441.0	1,089	536
16	**MAI Capital Management** 6050 Oak Tree Blvd., Suite 500 Cleveland, OH 44131	$15,773.4	23,704	$14,219.0	19,264	$1,554.4	4,440	331
17	**Sequoia Financial Advisors** 3500 Embassy Parkway Akron, OH 44333	$15,567.4	19,755	$12,235.7	19,230	$3,331.7	525	212
18	**Allworth Financial** 340 Palladio Pkwy., Suite 501 Folsom, CA 95630	$14,880.8	49,892	$14,367.4	46,744	$513.4	3,148	343
19	**Baker Street Advisors** 575 Market St., Suite 600 San Francisco, CA 94105	$13,106.0	4,100	$13,106.0	4,100	-	0	56
20	**Madison Investment Advisors** 550 Science Drive Madison, WI 53711	$12,949.9	14,261	$12,949.9	14,261	-	0	96
21	**Steward Partners Investment Advisory** 140 E. 45th St., 36th Floor New York, NY 10017	$12,168.9	27,637	$10,559.9	24,319	$1,609.1	3,318	363
22	**myCIO Wealth Partners** 2929 Walnut St., Suite 1200 Philadelphia, PA 19104	$12,007.4	7,342	$478.7	237	$11,528.6	7,105	59
23	**Signature Estate & Investment Advisors** 2121 Avenue of the Stars, Suite 1600 Los Angeles, CA 90067	$11,665.9	17,180	$1,026.4	2,173	$10,639.5	15,007	98
24	**Mason Investment Advisory Services Inc.** 11921 Freedom Drive, Suite 1000 Reston, VA 20190	$10,094.5	827	$9,839.2	819	$255.3	8	78
25	**Mairs And Power Inc.** 30 E. 7th St., Suite 2500 St. Paul, MN 55101	$9,716.4	1,576	$9,676.7	1,531	$39.7	45	44

RANK	FIRM	TOTAL ASSETS ($M)	TOTAL ACCOUNTS	DISCRETIONARY ASSETS ($M)	DISCRETIONARY ACCOUNTS	NONDISCRETIONARY ASSETS ($M)	NONDISCRETIONARY ACCOUNTS	EMPLOYEES
26	**Williams Jones Wealth Management** 717 Fifth Ave., 11th Floor New York, NY 10022	$9,325.1	4,390	$9,241.4	4,314	$83.6	76	43
27	**GW & Wade** 93 Worcester St., 4th Floor Wellesley, MA 02481	$8,902.7	11,861	$8,891.9	11,824	$10.8	37	87
28	**Ameritas Advisory Services** 5900 O St. Lincoln, NE 68510	$8,534.8	35,218	$3,003.1	12,709	$5,531.7	22,509	592
29	**Freestone Capital Management** 701 5th Ave., 74th Floor Seattle, WA 98104	$8,221.1	5,189	$6,104.4	3,322	$2,116.6	1,867	94
30	**Tocqueville Asset Management** 40 West 57th St., 19th Floor New York, NY 10019	$7,944.1	2,371	$7,889.1	2,309	$55.0	62	75
31	**Brookstone Capital Management** 1745 S. Naperville Road, Suite 200 Wheaton, IL 60189	$7,514.4	56,700	$7,514.4	56,700	-	0	385
32	**Integrated Wealth Concepts** 200 5th Ave., 4th Floor Waltham, MA 02451	$7,466.0	17,089	$7,466.0	17,089	-	0	178
33	**Bleakley Financial Group** 100 Passaic Ave., Suite 300 Fairfield, NJ 07004	$7,454.4	20,633	$7,454.4	20,633	-	0	165
34	**Forvis Wealth Advisors** 910 East St Louis St., Suite 400 Springfield, MO 65806	$7,399.1	11,893	$7,250.8	11,766	$148.3	127	120
35	**Kovitz Investment Group Partners** 71 S. Wacker Drive, Suite 1860 Chicago, IL 60606	$7,293.6	6,927	$7,293.6	6,927	-	0	92
36	**Douglas Lane & Associates** One Dag Hammarskjold Plaza, 885 Second Ave., 42nd Floor New York, NY 10017	$7,045.9	5,653	$7,045.9	5,653	-	0	36
37	**Forum Financial Management** 1900 South Highland Ave., Suite 100 Lombard, IL 60148	$7,005.6	19,601	$6,922.9	19,352	$82.7	249	125
38	**Bartlett & Co. Wealth Management** 600 Vine St., Suite 2100 Cincinnati, OH 45202	$6,948.9	5,301	$6,911.2	5,254	$37.7	47	71
39	**B. Riley Wealth Advisors Inc.** 40 S. Main St., Suite 1800 Memphis, TN 38103	$6,884.8	20,323	$5,528.7	16,724	$1,356.1	3,599	503
40	**Welch & Forbes** 45 School St. Boston, MA 02108	$6,810.8	3,277	$6,615.2	3,227	$195.6	50	53
41	**Connectus Wealth** 20 Wight Ave., Suite 155 Hunt Valley, MD 21030	$6,773.8	9,139	$6,677.5	9,073	$96.3	66	74
42	**Coldstream Capital Management Inc.** One - 100th Avenue NE, Suite 102 Bellevue, WA 98004	$6,498.2	2,617	$6,284.2	2,247	$214.0	370	127
43	**U.S. Capital Wealth Advisors** 4444 Westheimer Rd., Suite G500 Houston, TX 77027	$6,495.7	12,119	$4,662.8	7,732	$1,832.9	4,387	122
44	**Riverbridge Partners** 1200 IDS Center, 80 South Eighth St. Minneapolis, MN 55402	$6,279.5	5,263	$6,279.5	5,263	-	0	43
45	**Townsquare Capital** 5314 River Run Drive, Suite 210 Provo, UT 84604	$6,244.4	28,608	$6,244.4	28,608	-	0	89
46	**Summit Financial** 4 Campus Drive Parsippany, NJ 07054	$6,154.1	11,930	$2,501.1	5,664	$3,653.0	6,266	226
47	**Osterweis Capital Management** One Maritime Plaza, Suite 800 San Francisco, CA 94111	$6,029.1	309	$6,015.1	287	$14.1	22	61
48	**Joel Isaacson & Co.** 546 Fifth Ave. New York, NY 10036	$5,911.3	4,793	$3,519.3	2,179	$2,392.0	2,614	49
49	**Valmark Advisers Inc.** 130 Springside Drive, Suite 300 Akron, OH 44333	$5,802.5	16,044	$5,748.9	15,844	$53.6	200	260
50	**Advisory Services Network** 6600 Peachtree Dunwoody Road, Embassy Row 600, Suite 575 Atlanta, GA 30328	$5,772.4	22,847	$5,687.5	22,552	$84.9	295	212

Methodology: *InvestmentNews* qualified 1,578 firms headquartered in the United States based on data reported on Form ADV to the Securities and Exchange Commission. To qualify, firms must have met the following criteria: (1) latest ADV filing date is either on or after July 1, 2022, (2) total AUM is at least $100M, (3) managed assets for U.S. household clients during its most recently completed fiscal year, with at least one advisor per 500 clients, (4) no more than 50% of amount of regulatory assets under management is attributable to pooled investment vehicles (other than investment companies), (5) no more than 25% of amount of regulatory assets under management is attributable to pension and profit-sharing plans (but not the plan participants), (6) no more than 25% of amount of regulatory assets under management is attributable to corporations or other businesses, (7) provides financial planning services, (8) is not actively engaged in business as a broker-dealer (registered or unregistered), and (9) is not actively engaged in business as a registered representative of a broker-dealer.

PLANNING FOR THE POSSIBILITY OF COGNITIVE DECLINE

NEW RESEARCH SHOWS THAT MENTAL DETERIORATION HITS SOME GROUPS OF RETIREES HARDER THAN OTHERS

BY EMILE HALLEZ

Cognitive decline is an unfortunate consequence of aging — one that affects as many as two-thirds of people. But new research suggests it hits several groups hardest: those who are white, male and have college degrees.

Financial professionals say that the results underscore the importance of planning ahead for Alzheimer's and other forms of cognitive decline, regardless of clients' demographics.

"The biggest challenge is that cognitive decline is multifactorial. It's not like you go from being fine to having dementia. Some people have mild cognitive impairment, and they can have that for a long time," said Carolyn McClanahan, director of financial planning at Life Planning Partners.

NEW FINDINGS

The study, "Retirement and cognitive aging in a racially diverse sample of older Americans," was published last month by the American Geriatrics Society. The authors found that among recent retirees, the sharpest declines in cognition were seen in white men and people with higher education. Women generally showed slower rates of cognitive decline, with Black women exhibiting the smallest decreases after retirement.

The academic paper is based on data from more than 2,200 retirees who are part of a wider study on strokes. Tests for cognitive abilities covered verbal fluency, memory and global function.

While cognitive function may decline faster immediately after retirement, especially for some groups, "lifelong structural inequalities including occupational segregation and other social determinants of cognitive health may obscure the role of retirement in cognitive aging," the authors of the study wrote.

PART OF EVERY PLAN

Regardless, helping clients plan for cognitive decline well before it happens is critical, advisors said.

"Chances are, it's going to happen to you. It doesn't matter who you are," said Chris Heye, CEO of Whealthcare Planning. There are genetic and lifestyle contributors to one's risk, but "even if it's not cognitive decline, bad shit happens. You have a heart attack, you have a stroke."

Major medical issues, or even traumatic events like the death of a family member or friend, can end up leading to poor financial decisions, Heye said.

"As you get older these behavioral issues come up. Your memory may still be good … [but] your judgment starts to get a little messed up. Often as we get older, unfortunately for many of us there is a decline in what psychologists call executive function," he said. That can reduce impulse control, and "when that starts to go, that can be very dangerous. That's when you start making the rash financial decisions."

A couple of statistics Heye notes: Half of people develop mild cognitive impairment or dementia by their mid-80s, and 80% have some type of chronic illness by 55.

"You can have the best financial plan created by man, and if something happens cognitively, hundreds of thousands, or millions, can disappear from an account in weeks or months," he said. "If you're not guarding against those decisions, you're never really safe."

ELDER ABUSE

With cognitive decline comes the risk that people are targeted by scammers or fall victim to various forms of elder abuse — even by family members.

However, those who work with a trusted

advisor may be more likely to have taken steps to help avoid financial abuse. According to a 2019 survey by AIG Life & Retirement, 64% of those with advisors have trusted contacts named, and they were also twice as likely as those without advisors to have a durable power of attorney in place. Further, 84% of people said they expect financial professionals to inform them of suspected financial abuse, and 81% indicated they would be comfortable talking with an advisor if they were the target of a scam or abuse, the insurer found.

SELF-AWARENESS

"The notion that cognitive abilities decline with age is relatively well established. However, it's the gap in actual abilities and perceived confidence that probably worries me the most," David Blanchett, head of retirement research for PGIM DC Solutions, said in an email. "For example, if you are aware your abilities are declining, you can (in theory) seek out help. If, though, you aren't aware it's occurring, a potential 'gap' emerges (in actual confidence and ability) that creates a clear danger for retirees."

A paper last year from the National Bureau of Economic Research found that "suboptimal timing of the transfer of control" over assets, particularly due to delays amid unnoticed cognitive decline, poses risks — including the risk of financial fraud — to older adults.

A 2021 paper by Vanguard senior researcher Anna Madamba found the average "welfare cost of a mistimed transfer … is equivalent to 14% of net worth."

> **"IT'S THE GAP IN ACTUAL ABILITIES AND PERCEIVED CONFIDENCE THAT PROBABLY WORRIES ME THE MOST."**
>
> DAVID BLANCHETT, HEAD OF RETIREMENT RESEARCH, PGIM DC SOLUTIONS

FINANCIAL LITERACY

Further, research shows that financial literacy declines with age during retirement, and that's coupled with a rise in overconfidence, according to a 2015 paper from Texas Tech University and the University of Missouri.

On a financial literacy test given to nearly 3,900 respondents, scores showed a steady decline of one percentage point per year after age 60, states that paper, "Old Age and the Decline in Financial Literacy." The test covered basic personal finance as well as investments, credit and insurance.

Researchers found that "the rate of decline in financial literacy is nearly identical among men, stockowners, older and college-educated respondents."

Additionally, older respondents in that study appeared more likely to pay high mortgage interest rates and were less likely to shop around for the best credit card rebates.

Hiring a financial advisor can help mitigate the impact of cognitive decline, though clients should be aware of whether advisors are acting in a fiduciary capacity, Blanchett noted.

Since people often are unaware that they are in cognitive decline, it can be useful to set up regular screenings and plans around changes they experience, he said.

Allocating assets to retirement-income options that require little engagement from the owner could be a helpful option, Blanchett said.

"While this would include things like generating more guaranteed retirement income through delayed claiming of Social Security benefits, it could also be through allocating to annuities that generate income at older ages," he said. "This can be done proactively (e.g., through purchasing a deferred income annuity at retirement) or reactively as things change through some type of product that provides immediate income (e.g., buying an immediate income annuity once cognitive scores start to slip)."

PLANNING AND ACTION

Heye recommends having a team in place, including an advisor, multiple family members and medical professionals. Putting a plan and a power of attorney in place well ahead of time can help avoid some of the strife among family members who have different ideas about how to best care for a parent, he noted.

If the client is adamant about staying active with their investments, setting aside something like 5% of their assets in a trading account can be a solution, he said.

"Don't try to do this all on your own," Heye said.

Two or three years before a client plans to leave the workforce, McClanahan said they start to plan how they will fill their days. A lack of activity can be mentally devastating.

"Work brings a lot to the table in terms of people being cognitively healthy," she said. "A sense of purpose is important for people to maintain good mental engagement."

Still, even taking the right steps to reduce the risk of dementia or other cognitive decline is hardly a guarantee that people won't develop it, she noted.

"When people are in their late 50s or early 60s, we take them across the four big things of aging," McClanahan said, which include when to get help with health care decisions and financial decisions, and knowing when to move to a safer place and when to quit driving.

The firm also has "incapacity letters" clients can sign ahead of time, directing advisors to speak with surrogates if red flags appear in their mental health, she said. However, McClanahan's never had to enforce a letter, as clients have been happy to direct the conversations to their children or other representatives.

"A lot of people don't like to talk about it [ahead of time]," she said. "But when the poop hits the fan, everybody's glad you took the time to set the stage."

ehallez@investmentnews.com

Analysis&Commentary

RETIREMENT PLANNING

Getting Medicare premiums refunded after death

Just when you think Medicare couldn't get more complicated, it does. But in this case, the complication is a nice surprise. Did you know that when a Medicare beneficiary dies, their estate or family may be entitled to a refund?

MARY BETH FRANKLIN

ONRETIREMENT

First, a little background about Medicare premium payments.

When someone enrolls in Medicare, usually when they first become eligible at age 65, they pay monthly premiums for Medicare Part B, which pays for doctors' fees and outpatient services. If the individual is receiving Social Security benefits, the Medicare Part B premiums are deducted directly from their monthly Social Security benefit.

If the Medicare participant hasn't yet claimed Social Security, they must pay the Medicare premiums directly to the Centers for Medicare & Medicaid Services on a quarterly basis in advance.

Most Medicare enrollees pay $164.90 per month for Medicare Part B in 2023, but some people pay much more based on their income.

Higher-income enrollees, defined as individuals with income above $97,000 or married couples with joint income above $194,000 (as reported on their 2021 federal tax returns), are subject to monthly surcharges officially known as income-related monthly adjustment amounts or IRMAA. IRMAA surcharges apply to both Medicare Part B and Medicare Part D prescription drug plans and are deducted directly from Social Security benefits.

Now here's where things get really complicated.

Medicare premiums and surcharges are paid in advance, but Social Security benefits are paid in arrears. For example, a Social Security benefit for August is received in September, but the Medicare premium and surcharges deducted from the September payment apply to October. That means that when a person dies, the Social Security benefit payment they received in the month of their death includes a deduction of the Medicare premium for the following month.

KEY POINTS

- When a Medicare beneficiary dies, survivors may be entitled to a refund.
- The family must contact Social Security to request a refund.

"This is clearly an overpayment since the participant will have died before that month," Art Prunier, a retirement income instructor at the American College of Financial Services, wrote to me in an email.

"Therefore, at the time of death, for every Medicare participant who is also receiving Social Security benefits, they will have paid Medicare premium for an extra, unused month of coverage.

"For higher-income Medicare participants who also are subject to IRMAA, one month's premium can add up to a rather nice refund — much larger than the Social Security lump sum death benefit of $255 due to a surviving spouse," he added.

For individuals who pay their Medicare premiums directly to CMS on a quarterly basis, it could mean several months of prepaid, unused Medicare coverage.

The estate of the deceased beneficiary is legally entitled to a refund of that prepaid premium, but it's not automatic.

"The deceased's family or personal representative … must proactively contact their Social Security office and specifically request the refund," Prunier said. Alternatively, they can file SSA Form 1724 and request a refund.

This is just one example of how Medicare is becoming an increasingly important part of retirement income planning and why some financial advisors, like Angela Ford of Compass Financial Resources in Olathe, Kansas, work with third-party experts to help clients make the right Medicare decisions initially and ensure they continue to get the best coverage each year.

Ford uses Medicare BackOffice, a firm that helps her clients decide whether to enroll in original Medicare with a supplemental Medigap policy or an all-inclusive Medicare Advantage plan, and which specific plan best fits their needs. There's no cost to the client or the advisory firm.

Jeff Osterman of LPL Financial in Naperville, Illinois, also uses Medicare BackOffice to find the right solutions for his clients.

"If we're going to do right by our clients when we create strategies for retirement, we can't leave Medicare off the table," Osterman said. "But like most advisors, I don't have the expertise or the capacity within my practice to give specific Medicare advice."

Scott Aschoff, a senior account executive at Medicare BackOffice, said that his company works with advisors

CONTINUED ON PAGE 18

BROKER-DEALERS

The battle against brokers who don't play by the rules

For years, brokers have been walking away from paying harmed clients who sued them and won their claims. It's part of the unrecognized costs to investors of doing business with small, fragile and undercapitalized brokerage firms, many of which sell and deal in expensive, volatile alternative investments.

BRUCE KELLY

ONADVICE

In 2013, in the aftermath of the financial crisis, the amount of unpaid damages in such cases totaled $62.1 million; seven years later, at the end of a historic bull market, this total fell precipitously to $5 million, a sign of improvement but still far from ideal. In 2021, unpaid arbitration awards took a turn for the worse after the market's pandemic collapse and totaled $17 million, according to Finra.

This column has highlighted this painful, embarrassing industry issue for the better part of a decade, and the rule of thumb hasn't changed: Some small broker-dealers pose a risk for clients.

Clients must take their allegations against brokers and financial advisors — related to fraud, churning, lack of suitability, among other complaints — to arbitration under the guidance of the Financial Industry Regulatory Authority Inc.

All investor claims should be paid. If investors play by the rules, the brokerage industry should as well. Finra has been kicking around the idea of creating a fund for investors to cover delinquent firms or advisors, but nothing has come from that effort.

Which brings us to the egregious case of Jamie Worden, who was barred from the securities industry in October 2021. Worden, who faces eight pending investor complaints, according to his BrokerCheck profile, was owner and CEO of Worden Capital Management, which was expelled from the securities industry in 2022.

Worden has "failed to comply with an arbitration award or settlement agreement" seven times, according to his BrokerCheck profile. Translation? He hasn't ponied up the cash that investors won fairly in Finra's arbitration forum, although it appears he reaped the benefits of working in the securities industry.

IF INVESTORS PLAY BY THE RULES, THE BROKERAGE INDUSTRY SHOULD AS WELL.

It gets worse.

According to an attorney who just last month won a $2.3 million arbitration award against Worden and his defunct, eponymous firm, last year the former broker plunked down millions for a mansion near Tampa in Florida.

Shouldn't that cash have been used to pay back investors who had won claims against Worden?

Worden didn't respond to a message sent to him on LinkedIn, and a call to a mobile phone couldn't be completed.

"Worden testified in my case that he hasn't paid any of the awards that have been rendered against him, and the arbitration panel also sanctioned him for lying to them," said Michael Bixby, a plaintiff's attorney. "And he destroyed essentially all of the records his firm had, or failed to preserve, if you want to take his argument."

Bixby's two clients in the matter, Charles Smith and a related limited partnership, filed the statement of claim in January 2022, alleging breach of fiduciary duty, negligence and other issues related to the sale of alternative investment products, including nontraded real estate investment trusts.

Worden represented himself in the claim, according to Finra documents.

"But Worden bought a $4 million mansion in Florida during the pendency of our case, and I suspect he's made pretty substantial efforts to hide any assets from creditors," Bixby said. "The house offends the conscience. It shouldn't be acceptable."

A spokesperson for Finra wrote in an email that the self-regulatory organization "is committed to reducing the amount of unpaid arbitration awards. Since publishing a report in 2018 on unpaid arbitration awards, Finra has taken a number of steps to address this problem, and has proposed several additional measures that would further mitigate, albeit not eliminate, the issue of unpaid arbitration awards."

Proposals are merely wishes yet to be realized. A decade from now, I would wager this column will still be bemoaning the harm that unpaid arbitration awards pose to clients who play by the securities industry rules.

bkelly@investmentnews.com

REGULATION

Pressure to catch more advisors in regulatory net

More than a decade ago, something extraordinary happened at a hearing of the House Financial Services Committee. One witness pretty much torpedoed legislation that had been written by the panel's chair.

MARK SCHOEFF JR.

DCINSIDER

The pending bill would have established a self-regulatory organization to provide oversight of investment advisors. That meant an entity other than the Securities and Exchange Commission would take the lead in regulating advisors. Advisors were up in arms that the bill would allow the Financial Industry Regulatory Authority Inc., the broker-dealer self-regulator, to extend its reach to advisors.

The draft legislation started to falter at a June 6, 2012, hearing of the House committee due to the low-key but passionate testimony of David Tittsworth, then executive director of the Investment Adviser Association.

Tittsworth asserted that most advisory firms were small businesses whose regulatory costs would increase sharply under an SRO's oversight. His arguments persuaded many Republicans on the committee, which never voted on the bill. Tittsworth passed away in early 2020.

Proponents of the bill said an advisor SRO would be able to increase the number of advisors undergoing regulatory exams annually. There were concerns that the SEC was examining only a fraction of the approximately 11,002 SEC-registered advisors at the time.

The same worries were raised this year at a meeting in June of the SEC Investor Advisory Committee. But now the number of advisors has risen sharply — to a record 15,114 in 2022. The SEC was able to examine about 15% of them in the last fiscal year, which equates roughly to an advisor being probed once every seven years.

15%

PROPORTION OF ADVISORS SEC EXAMINED IN LAST FISCAL YEAR

The IAC, which is supposed to represent the voice of retail investors to the SEC, said the agency should increase its advisor examination rate to once every four or five years. But that would require Congress to increase the agency's budget substantially, which is not likely to happen with Democrats controlling the Senate and Republicans in charge of the House.

The IAC made two recommendations at its June 22 meeting. One was that the SEC should request legislation from Congress that would allow it to impose user fees on advisors to fund exams. But again, the prospects for such a bill are limited under the current political makeup of Capitol Hill.

The other recommendation was that the SEC issue a request for public comment on third-party compliance examinations to explore questions about the potential qualifications of outside examiners, the scope and timing of probes, and the types of advisors who would be reviewed.

Third-party examiners aren't exactly the same thing as an advisor SRO, but they're a close cousin. That means that more than 11 years after that seminal House hearing, we're recycling the same ideas for strengthening advisor oversight.

One thing on which everyone can agree is the need for more frequent SEC exams for advisors.

"We keep butting our head against the wall in terms of the SEC having enough resources," Paul Roye, former senior vice president at Fund Business Management Group, said at the IAC meeting. "At some point, there could be a major scandal in the advisors' industry that gets missed because the examination cycle now is every seven years and may grow."

Cien Asoera, an IAC member who's a financial advisor, expressed a similar sentiment.

"I broadly support the need for increased examinations, especially with the unprecedented growth in this space," Asoera said. "We need to be thinking about this now before it gets out of control. Some would argue probably the numbers have gotten that large already."

But there are significant potential

CONTINUED ON PAGE 18

INVESTING

Mixed views on the prospects for investing in gold

Investors and financial advisors waiting for gold to start glittering again may have to wait a little longer.

Gold has been hovering around $2,000 an ounce since the start of 2023, failing to break far above that level in the face of repeated, and ferocious, Fed rate hikes. Also not helping the yellow metal's ascension of late is a

GREGG GREENBERG

ONPLANNING

so-called "summer lull" that's keeping institutional buyers on the sidelines.

Well, more precisely, in the Hamptons or Cape Cod, but still, gold has been stuck, raising the question of what it will it take to unstick it.

"The summer lull shouldn't really be a major feature, but there are still plenty of people, especially in the hedge fund community, who believe that it's going to be major, so they sell in anticipation of it," said George Milling-Stanley, chief gold strategist at State Street Global Advisors.

"I think once that's over, once we move on to Indian wedding season, which typically comes around October and lasts for about six months, then I think that we will be off to the races."

Not all financial advisors see gold as glittering, however. SageView Advisory Group's financial coach, Nicholas Lamb, for one, would rather stick with equities than stock up on the yellow metal.

"While investing in gold appeals to many retail investors, over the long run it tends to underperform a diversified portfolio of stocks," Lamb said. "Since most investors have a long-term perspective, investing in gold directly isn't something we typically recommend."

However, Laurie Humphrey of Granite Financial, which is part of Osaic, said, "Due to its often-volatile nature, gold could be considered, along with other alternative investments, for long-term investment with an allocation of 5% to 10% or less in a portfolio."

"OVER THE LONG RUN, [GOLD] TENDS TO UNDERPERFORM A DIVERSIFIED PORTFOLIO OF STOCKS."

NICHOLAS LAMB, FINANCIAL COACH, SAGEVIEW ADVISORY GROUP

MILLENNIALS' MIDAS TOUCH

As for who is buying the yellow metal, generationally speaking, State Street Global Advisors recently completed a study that showed millennials have overtaken baby boomers in terms of their gold holdings. On average, the millennials surveyed had 18% of their portfolios in gold, compared to boomers and Gen X with 10% each.

Milling-Stanley, a boomer himself, said he was surprised to find that millennials had overtaken his generation, and Gen X as well, when it came to an appreciation for gold. One would have expected millennials to favor a modern store of value like crypto, instead of an ancient one.

"I think that millennials were very interested in cryptos, but that goes back four or five years and certainly goes back prior to last year's disaster for cryptos, when the crypto universe as a whole lost two-thirds of its market capitalization of $3 trillion. It went from $3 trillion down to $1 trillion. That kind of volatility really means that cryptos are not competition for gold as a long-term strategic asset," Milling-Stanley said.

While he doesn't see crypto as competition for gold and its role in a portfolio, he has nothing against digital currencies as speculative assets.

"It can be a punt, it can be a fun punt, but you've got to get your timing right, and you've got to be very, very careful with it," Milling-Stanley said.

ggreenberg@investmentnews.com

MEDICARE

CONTINUED FROM PAGE 16

from about 80 different firms all over the country.

"Even though we are paid as a company by the carriers, our agents are salaried, so there's no incentive for them to recommend a certain plan or carrier but [instead they] maintain the focus on their clients' needs," he said.

"Even when you identify the right plan, there may still be a gap until you determine if that plan fits the client's personal situation," Aschoff said. For example, his agents know which insurers will cover certain medical conditions that most other insurers would deny.

"I think that this is the value we bring."

(Questions about new Social Security rules? Find the answers in Mary Beth Franklin's 2023 ebook at MaximizingSocialSecurityBenefits.com)

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

PRESSURE

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drawbacks to third-party exams. Leslie Van Buskirk, administrator at the Wisconsin Division of Securities, said that when outsiders provide oversight, they sometimes lack the rigor of the government.

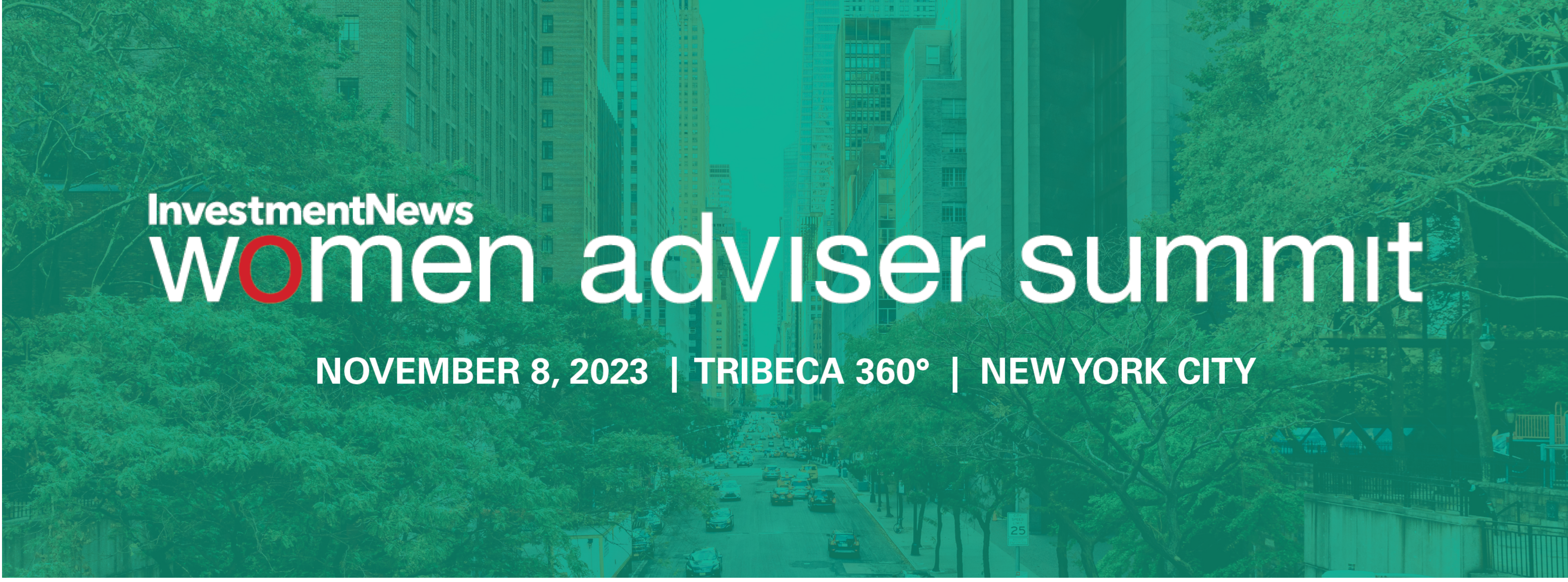
"I strongly object to the idea of delegating an essential government regulatory function to a non-government third party," Buskirk said at the IAC meeting.

Even if the SEC puts out a comment request on third-party exams, it could be years before a rule is proposed. In the meantime, the agency has received budget increases over the last several years, although they may not have been as high as the SEC wanted.

"We encourage the Commission to consider ways in which it can increase the frequency and quality of investment advisor examinations under its current allocation of resources and any future allocated resources," IAA spokesperson Janay Rickwalder said in a June 23 statement.

More than 11 years after Tittsworth launched his effective broadside against an advisor SRO, the organization he once led has suggested the best idea for increasing advisor oversight quickly: The SEC should reexamine its own priorities to ensure that advisor exams can increase beyond the current 15% threshold. If the agency does so, the approximately 65 million clients of advisors will be better protected.

mschoeff@investmentnews.com



SAVE THE DATE

InvestmentNews invites female financial advisors and firm leaders, along with their allies, to join us on November 8th for the annual Women Advisor Summit NYC, an event dedicated to the growth and success of women in financial advice.

To learn more and register, go to:
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Goldman Sachs headquarters in New York City

ACQUISITION

Goldman Sachs attracts Creative Planning to its RIA custody business

BY RYAN W. NEAL

CREATIVE PLANNING is joining Goldman Sachs Advisor Solutions, marking perhaps the largest victory yet for the investment bank's growing custody business.

The Overland Park, Kansas-based registered investment advisor with $210 billion in combined assets under management and advisement announced Monday that its advisors will have access to Goldman's investment products and technology. The firm declined to specify whether it's the largest RIA to join its custodian.

While the deal gives Creative's advisors an additional choice of custodian for new client accounts, the RIA plans to move "multiple billions of dollars" in client assets from existing custodians to Goldman Sachs over the next 18 months, said Jim Williams, chief investment officer at Creative Planning. The firm will continue to work with other large custodians in the industry: Charles Schwab Advisor Services, Fidelity Institutional and BNY Mellon Pershing.

"In general, keeping clients where they are at makes more sense more often than not," Williams told *InvestmentNews*. However, the firm does anticipate accelerating the movement of assets to Goldman Sachs' custodian after building an initial base of clients, he added.

After its significant growth and two big acquisitions in 2023, the deal with Goldman ensures Creative Planning can continue providing the tools and services that clients need, Williams said. Creative Planning is specifically interested in Goldman's ability to provide operational efficiency with digital onboarding and electronic lending.

"I think the advantage that Goldman Sachs has is thinking about today's technology with today's needs in mind," Williams said. "They are starting fresh rather than building on top of a legacy platform."

PRIVATE INVESTMENTS

Goldman also brings a unique skill set for addressing the needs of ultra-high-net-worth investors, especially with its singular access to private investments, Williams added.

The democratization of access to alternative investments over the last decades has caused some commoditization of the products, but Goldman offers particular value in being able to provide liquidity.

Prime Capital Investment Advisors, a $20 billion RIA also located in Overland Park, also cited Goldman's capabilities with nontraditional assets as reason for choosing Goldman Sachs' custodian in May.

"Goldman Sachs has structures in place for clients to borrow against private investments, which is not typically available at most platforms," Williams said. "In a world where alternatives are commoditized, if you can offer something that is unique, it can change the nature of the value proposition."

In 2020, Goldman acquired digital custodian Folio Investing for an undisclosed sum to jump-start its presence in the RIA space.

The company declined to disclose how many assets or accounts it has attracted to its custodian, but it has a "robust pipeline," said Richard Lofgren, a managing director with Goldman Sachs.

"A foundational block of independent [advisors] is predicated around choice," Lofgren said. "We're seeing increased inbound dialogue around the capability, the platform and the choice."

DISRUPTION AMONG CUSTODIANS

While disruption in the existing custodian space, such as the ongoing merger between TD Ameritrade and Charles Schwab, could be driving some of that interest, Goldman focused on proactively growing its business rather than reacting to the rest of the industry, Lofgren added.

While Goldman's recent earnings report indicated a retreat from its ambitions in the retail investment space, the RIA market appears to remain a part of Goldman's plans for growth.

Lofgren declined to comment on Goldman's other business but said the firm was being "very intentional" in where it invested.

"There is definitely a lot of interest for us in the [RIA] space and a recognition that the independent space is continuing to grow," he said. "We want to be in front of that."

rneal@investmentnews.com

COLLECTIBLES

Investing lessons from the Beanie Babies bubble

BY EMILE HALLEZ

FEW THINGS epitomize an economic bubble as well as the Beanie Babies explosion of the 90s, and there are some lessons for collectors who fancy themselves as investors.

On July 29, a film based on the craze debuted in theaters, a week after it appeared on Apple TV+. *The Beanie Bubble*, starring Zach Galifianakis and Elizabeth Banks, comes 30 years after the plastic-bead-filled animals were created.

By creating a sense of exclusivity and restricting the distribution and lifespan of some of its models, the company, Ty Inc., prompted many people to treat the tiny figures as commodities. The company took full advantage of the rise of the internet, which further stoked the fever among collectors.

Some poured thousands of dollars into acquiring Beanie Babies, viewing their caches of the plushies as investments that might fund retirement or college.

That was the case for one man whose son 10 years ago made a short documentary about $100,000 of the family's money being used to buy thousands of the toys, only to have them decline in value and sit in storage bins years later. The purchases had been meant to pay for college for three children.

Of course, few people likely got rich off the craze, with an obvious exception being company owner and CEO Ty Warner, who made billions and went on to add the Four Seasons Hotel New York to his portfolio.

COLLECTORS VERSUS INVESTORS

"It's an awful lot like the tulip craze in Holland," Bart Brewer, an advisor at Global Financial Advisory Services, said of the recent rise in interest in collectibles in general.

Brewer, who has been an avid baseball card collector since he was six, said the same principles drive all collectibles: scarcity, condition and emotional connection.

"The Beanie Babies aren't going to be any different," he said.

Emotional connection and nostalgia for collectibles can be reignited by events — such as a major motion picture about Beanie Babies. While that can lead to changes in the going rates for items, it should be noted that collectibles can be difficult to value and their prices can experience significant volatility.

"They can be an asset class. They're exotics, but you need to be in for the long term — and this isn't like trading stocks. The bid-ask spreads are big," Brewer said. "You want to be in and be prepared to be in for a long period of time. Buy scarcity and buy high-grade."

Assessing authenticity and actual scarcity are important steps. According to a group that tracks the plushies' value, the Beanie Baby Price Guide, there are a range of scams, including counterfeits and eBay listings that misrepresent common items as extremely rare — such as Claude the crab, who is listed on auctions for more than $20,000 while being worth only a few dollars. Other listings for the well-known purple bears dedicated to Princess Diana ask as much as $900,000 for the "rare" item, though there are dozens available for as little as $20.

Unlike the Wild West market for Beanie Babies that existed in the late 90s, very few today have much value. And it isn't usually the rarity of certain Beanie Baby models that causes high demand — it's often manufacturing defects or irregularities in the toys' tags.

That's similar to valuations in the coin-collecting world, where "mint errors are key," Brewer said. In the baseball card realm, a corollary is the Topps 1990 Frank Thomas card that's missing the player's name, he noted.

STRONG IP

What separates valuable collectibles from others is sometimes the strength of the intellectual property behind them — which explains why vintage Nintendo games and Pokemon cards, with massive followings and staying power, can bring high prices, said Rob Petrozzo, co-founder of Rally, a group that provides fractional shares of rare collectibles.

"I definitely lost money on Beanie Babies as a 13-year-old in Brooklyn," Petrozzo said.

"THIS ISN'T LIKE TRADING STOCKS. THE BID-ASK SPREADS ARE BIG."

BART BREWER, ADVISOR, GLOBAL FINANCIAL ADVISORY SERVICES

At the height of the Beanie Baby craze, the items became more of a commodity than an emotionally valued possession, he noted.

Irrational behavior led people to stock up on the toys, and when eBay provided an outlet for them at inflated values, there was a lot of traffic, Petrozzo said. "The prices surged, and everyone tried to get out at the same time, so the prices no longer reflected the fundamentals."

Although Rally does not include Beanie Babies in its fractional ownership model, "we have Beanie Babies that trigger a lot of nostalgia in museum space in New York," he said. "As soon as people walk in, that's a space where they can stop and have a conversation."

Value in collectibles is a matter of true rarity, cultural relevance and a story that withstands time, Petrozzo said. "The moment from which it came will never be recreated but will be talked about for generations to come."

ehallez@investmentnews.com

FINANCIAL LITERACY

Can Jaylen Brown bring Black Wall Street to Boston?

Boston, Massachusetts

BY RYAN W. NEAL

JAYLEN BROWN plans to use the most lucrative contract in National Basketball Association history to attack the wealth gap.

The Boston Celtics awarded the player a $304 million contract on July 26. When asked what he planned to do with the money, Brown said he'd like to invest in bringing a Black Wall Street to Boston to bridge what he called an "unsettling" wealth disparity.

"With the biggest financial deal in NBA history, it makes sense to talk about, one, your investment in community and, two, also, you know, the wealth disparity [in Boston] that no one wants to talk about," Brown said in a press conference discussing his new contract. "I think through my platform, through influential partners, through selected leaders, government officials — a lot who are in this room — that we could come together and create new jobs, new resources, new businesses, new ideas that could highlight minorities but also stimulate the economy and the wealth gap at the same time."

According to a 2022 report from Boston University's Initiative on Cities, U.S.-born Black households in the Boston metropolitan area had median wealth of just $8 in 2014, compared to white households' median wealth of $256,500.

Wealth inequality in Boston is a serious, complex issue with historical and systemic roots, including the legacy of slavery, redlining and lending practices that still can be felt today, said Akeiva Ellis, an ambassador of the Certified Financial Planner Board of Standards operating in the Boston area. Ellis is also co-founder of The Bemused, an online financial education company that works at bridging the racial wealth gap through coaching tailored to young adults.

"It's also interesting to note that racial differences in income and wealth aren't strongly connected, according to the 2015 Federal Reserve of Boston study, contrary to what one might expect," Ellis said in an email. "In fact, the wealth gap widens as income rises for Black families in Boston, partly due to increased demands for family and community support, leaving less for savings and less wealth to pass down to future generations. This begets a chicken-and-egg situation where individuals can't lean on their parents to help with things like paying for college or a down payment on a home, and the cycle continues."

While commending Brown for speaking out on the issues and wanting to use his resources to effect change, Ellis also cautioned that many individuals who experience a sudden increase in wealth can sometimes lose it despite their best and noble intentions. Brown should focus on securing his own long-term financial well-being and legacy before deciding how best to impact the wealth gap issue, Ellis said.

"EDUCATION IS ONE OF THE MOST POWERFUL DEVICES THAT WE HAVE."

JAYLEN BROWN, BOSTON CELTICS

Beyond focusing on Black business ownership and growth, Brown can consider philanthropic and other investing endeavors while supporting initiatives for Black Boston residents to get access to competent, ethical financial advice.

"There are many angles through which a significant impact can be made, from helping individuals obtain the necessary skills to accumulate and grow their assets to promoting access to affordable housing, education, health care and quality financial services," Ellis said. "It's also important to note that the Black community, especially in Boston, is very diverse and has a sizable immigrant population. More and more data is becoming available on the wealth gap drivers within the Black community, so it may also be worth starting or supporting initiatives that impact particular subgroups."

Brown, who has a history of giving back to the Boston community, said his multiyear plan would include a mix of commercial entities, real estate and residential investments. He also emphasized the importance of education in closing the wealth gap.

"I think education is one of the most powerful devices that we have and is one of the ways our social mobility is being controlled at a very early age," Brown told a local CBS morning show. "My goal is to build the next leaders, the next generation of leaders for the world. I feel like with the Bridge Program, that's what I'm doing."

He's also not limiting his thinking to the Boston area. Bridging this gap could improve the entire economy, Brown said, and there is data to back this up. Closing the racial wealth gap could increase the U.S.'s gross domestic product by 4% to 6% by 2028, according to McKinsey & Co.

"I think Boston could be a pilot not just for wealth disparity here in the U.S. but also for around the world," Brown said during the press conference.

While a lot of athletes do excellent work in their communities, it's refreshing to hear someone talk about making long-term improvements, said Jack Heintzelman, a financial planner at Boston Wealth Strategies and a Boston Celtics fan.

"Rather than a fund, Brown is talking about how can we invest in the education and the results that will come from that over time," Heintzelman said. "It impacts not only the individual but their friends, family and future generations."

Massachusetts is not one of the 17 states that require financial literacy education, and Brown's investment in education could produce "amazing" dividends over time, he said.

"That fact that an athlete is talking about it, I think that's pretty cool," Heintzelman added. "The importance of education and building the right habits when you're younger can really transform a community like here in Boston."

rneal@investmentnews.com

GALVIN LAUNCHES

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financial advisors.

"We recognize the transformative potential of AI in finance and are committed to ensuring its responsible use in alignment with our core values, and we will continue to conduct regular audits to ensure that our AI systems are transparent, explainable and auditable to facilitate accountability," Sal Cucchiara, chief information officer for wealth management and investment management at Morgan Stanley, told *InvestmentNews* in July.

The company declined to comment on the letter it received from Galvin.

RECOMMENDATIONS FOR INVESTORS

However, other firms have made plans to use AI to power recommendations for retail investors. In May, JPMorgan applied for a trademark for a product called Index GPT, which employs "cloud computing software using artificial intelligence" for "analyzing and selecting securities tailored to customer needs."

JP Morgan did not respond to a request for comment, nor did Tradier or Hearsay. A spokesperson for Savvy said the firm could not comment because it hasn't received the letter yet.

Galvin's investigation comes a week after the Securities and Exchange Commission proposed new rules requiring broker-dealers to eliminate possible conflicts of interest from AI technology.

While intelligent regulation of AI would benefit the wealth management industry, the state of Massachusetts's investigation in addition to the SEC's highlights an overly complex and fragmented regulatory landscape, said Brad Genser, co-founder and chief technology officer of Farther, a digital registered investment advisor.

"A hodgepodge of investigations and regulations could inadvertently hinder the delivery of AI benefits to clients and pose challenges for businesses to adapt swiftly to evolving market needs," Genser said in a statement. "I believe collaboration between our industry and regulatory authorities is critical to effectively strike the right balance between investor protection and innovation."

rneal@investmentnews.com

DEBT DOWNGRADE

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"My initial reaction last night was, 'Wow, this is a little late,'" Kirchenbauer said. "I don't think it's worth panicking about."

Jeff Farrar, founding partner at Procyon Partners, also was sanguine, noting that Fitch is the second credit agency to downgrade U.S. debt.

"S&P did it [more than] 10 years ago, and we'r still stumbling on. Nothing's gotten better," Farrar said. "It's not great, but it doesn't mean the world is going to end tomorrow."

The problems that Fitch cited regarding the brittle politics in Washington were hardly a revelation, advisors said.

"It's not telling us anything we don't already know about our government," said Steve Ankerstar, CEO of Ankerstar Wealth. "If the U.S. was any other country — or company — they would have already downgraded."

The relatively muted market reaction — with the Dow falling about three-quarters of a percentage point as of early Wednesday afternoon — was a good sign.

"The overall strength of the economy is why [the sell-off] is not worse," Ankerstar said. "But [Fitch does] make valid points about the long-term fiscal deterioration of the U.S. government."

The downgrade is not causing advisors to reevaluate client portfolios.

"There has been corporate news that has impacted the Dow more than this downgrade," Ayala said. "Investors are just looking past the noise."

Kirchenbauer is focused on the Federal Reserve's next move on interest rates, corporate earnings and the ever-looming potential recession. "The fact that markets are up this much always makes me incredibly nervous," she said.

Assessing the chance of a second-half economic slowdown is a higher priority than the downgrade.

"If the economy stays strong, we're going to remain long," Ankerstar said.

But there was one reaction to the downgrade that has investment implications for Ayala's clients. Yields on 10-year Treasury bonds increased to about 4%.

"We're taking this as an opportunity to go farther out on the yield curve to capture safe and high yield," he said.

mschoeff@investmentnews.com

WELLS FARGO

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to focus on the RIA channel more aggressively," said one well-placed industry source, who spoke confidentially to *InvestmentNews* about the changes in management at the giant bank. FiNet stands for Wells Fargo Advisors Financial Network, the independent broker and registered investment advisor platform for advisors.

"These were all wonderful people advisors enjoyed working with," the source said. "But over the past decade they failed to bring Wells Fargo Advisors forward with technology and processes. New leadership has been making big strides."

Wells Fargo & Co., the giant bank, has been overhauling its wealth management business for the past few years, consistently plucking talent from JPMorgan Chase & Co.

HIRING FROM JPMORGAN

In 2020, Wells Fargo hired Barry Sommers from JPMorgan to lead its Wealth and Investment Management group, known internally as WIM. Then it hired Sol Gindi, also from JPMorgan, as chief financial officer of WIM; two years later, Gindi was promoted to head of Wells Fargo Advisors, which operates under the broad WIM umbrella at the bank.

In June, the bank said it had hired Barry Simmons, another JPMorgan senior executive, to be the new head of national sales at Wells Fargo Advisors.

A Wells Fargo spokesperson confirmed that Peluso would be retiring, and that Terry and Getzoff had left the firm.

"After 35 years of service, John Peluso plans to retire at the end of September," the spokesperson wrote in an email. "Al Caiazzo will assume the role as President of First Clearing and will report to John Tyers. He joined First Clearing in 2004.

"Kim Ta now leads the Client Relationship Group Branch Administration team, reporting to Sol Gindi," the spokesperson wrote. "She has been with the firm for 23 years and most recently led recruiting."

bkelly@investmentnews.com

ENVESTNET

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of other publicly traded wealth management firms.

"For example, long-term mutual fund and ETF flows across the industry were essentially flat once again in Q2, and multiple wealth firms reported seeing low investor buying activity given the debt ceiling overhang and other factors, a trend that seemed most pronounced among high-net-worth investors," Crager said Thursday during a call to discuss Envestnet's quarterly earnings.

Envestnet's total platform assets increased 8.66% percent YOY to $5.4 trillion, while assets under management increased 18% to $363 billion. Total accounts also increased 4.5% to 18.7 million during the same period.

This is the result of the progress Envestnet has made in bringing together the various parts of the financial wellness ecosystem it has acquired, Crager said.

"We have intentionally invested and today we are seeing the benefit of the integrated ecosystem," he said. "This is the future of our business, it has deepened our competitive advantage, deepened our relationships with our clients and partners and the investments are scaling our bottom line."

DEAL SLOWDOWN

Envestnet likely won't be making the kind of blockbuster acquisitions it was known for making in the previous decade as it exits the investment cycle, he added. The company is well-positioned to make a deal if a good one presented itself, but the market isn't favorable for M&A, Crager said.

"Borrowing rates are super high. Anyone that's going to go do a deal is going to pay a lot," Crager said.

Envestnet instead is focused on managing expenses as its investments take root. On-shore head count is 5% less than last year after a corporate restructuring, while the amount it spends on real estate is down 27% after closing offices in several large cities. Envestnet shuttered its Chicago office in 2022 after relocating its headquarters to Berwyn, Pennsylvania, and closed the Tamarac office in Chicago.

Envestnet also cut marketing expenses by 33% by using data and analytics to target its efforts more effectively, Crager said. Total adjusted expenses are down 3% in the first half of 2023, with 7% YOY reductions targeted in the second half. The company expects full-year expenses, excluding the cost of revenue, to be down 5% YOY.

rneal@investmentnews.com

CORIENT

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boardroom and the firm needs to get executive leadership behind it. But it may be a bit confusing externally.

"Firms rebrand when they realize the message they want to get across is not getting received," Sandquist said. "You saw that with Riskalyze. It's hard to get a new message across about a company with an old name. The rebrand is a chance to reset and change the narrative."

Marie Swift, president and CEO of Impact Communications, said all three firms were "rebranding because the value proposition for each firm has slightly changed.

"Riskalyze wanted to get away from its old value proposition of focusing on risk and show they can ignite growth at firms. So they picked Nitrogen, which got a thumbs-up from me," Swift said.

"And it's the same reason with CI, which is making a bigger foray into U.S. wealth market. The company wanted something more memorable. The new name means client-oriented. And it's much easier for people to remember. Any name with initials makes it tough to remember what it stands for."

Kurt MacAlpine, CEO of Corient and CI Financial Corp., said in a statement: "The unified Corient brand clarifies for clients that they benefit from the expertise of our entire network and the expanded services and capabilities made possible by our greater size and scale."

bkelly@investmentnews.com

ROTH IRAs

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traditional accounts is clearer for early-career workers who are currently in lower tax brackets (Roth is a good choice) and for high earners who are close to retirement (tax deferral is more obvious), Jeremy Finger, founder of River Bend Wealth Management, said in an email.

It also makes sense to diversify savings across account types, said Rose Swanger of Advise Finance.

"There is a place for Roth, but for most investors, their peak working years cause them to have a higher salary or [be] in a higher tax bracket than at retirement. For that reason, at a minimum, they could split their 401(k) contributions to both Roth and pre-tax version," Swanger said in an email. "Later, they will have options to choose which tax location to tap to have the most tax-efficient withdrawals."

However, many clients reach retirement with far more than they need in traditional tax-deferred accounts, said Brandon Gibson of Gibson Wealth Management.

"Often, I ask them to delay Social Security benefits until 70, since they're able to. This allows them to strategically use up some of those pre-tax balances before they're required to start RMDs. Alternatively, this is also a time when they could convert a little each year to Roth," Gibson said in an email. "Mr. Slott's suggestion in his article addresses the same issue many years earlier."

ehallez@investmentnews.com

WEALTH TAX

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the easiest way to raise revenue without painful changes to taxes," Bohne said. "In our current system, taxes arise from naturally occurring economic activity or life events, which are easily identified."

If tax reform is the goal, Power also favors zeroing in on the current tax code rather than imposing a levy on assets through a new wealth tax.

"It would be much better to address the tax loopholes people use to recognize income," he said.

The arguments in favor of a wealth tax that the authors of the tax bill made did resonate with one advisor.

"I'm all for anything that democratizes political power and reduces stratification," Landon Tan, an advisor at Query Capital Financial Guidance, wrote in an email. "Perhaps, in the unlikely event that this passed, this legislation would make a dent in the inequality we see."

The doubts Tan has about the legislative viability of the bill are well-founded. It's unlikely to be taken up at the committee level by the Republican-controlled House.

Democrats hold a slim majority in the Senate, but the party's power there is heavily influenced by moderates who may not be as enthusiastic about a wealth tax bill or President Biden's proposal to impose a minimum 25% tax on billionaires.

"They're just playing political games," Power said. "In my estimation, it won't go anywhere."

mschoeff@investmentnews.com

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