OCTOBER 23, 2023

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KING OF KANSAS

ROOTED IN HIS HOMETOWN AND HIS BELOVED ROYALS, CEO PETER MALLOUK'S COMPETITIVE DRIVE PROPELLED CREATIVE PLANNING INTO THE MAJOR LEAGUES

MAGAZINE | VOL. 27, NO. 19 |

OCTOBER 23, 2023

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CHECK IT OUT ONLINE

Editorial

Are advisors getting the short end of profit pie?

CEO bonuses are a sure way to fuel perceptions of compensation injustice lower down the advisory food chain, but news that the chief executive of Avantax could walk away with a golden parachute payment worth $21.6 million raised an extra eyebrow or two.

As reported by *InvestmentNews*' Bruce Kelly, Christopher Walters is in line for the payout — a cash-equity split worth about three times his total compensation in 2022 — once the sale of the firm to Cetera Holdings is complete. In addition, Todd Mackay, the head of broker-dealer Avantax Investment Services Inc., is in line to receive a package close to $6.1 million, according to the same SEC filing.

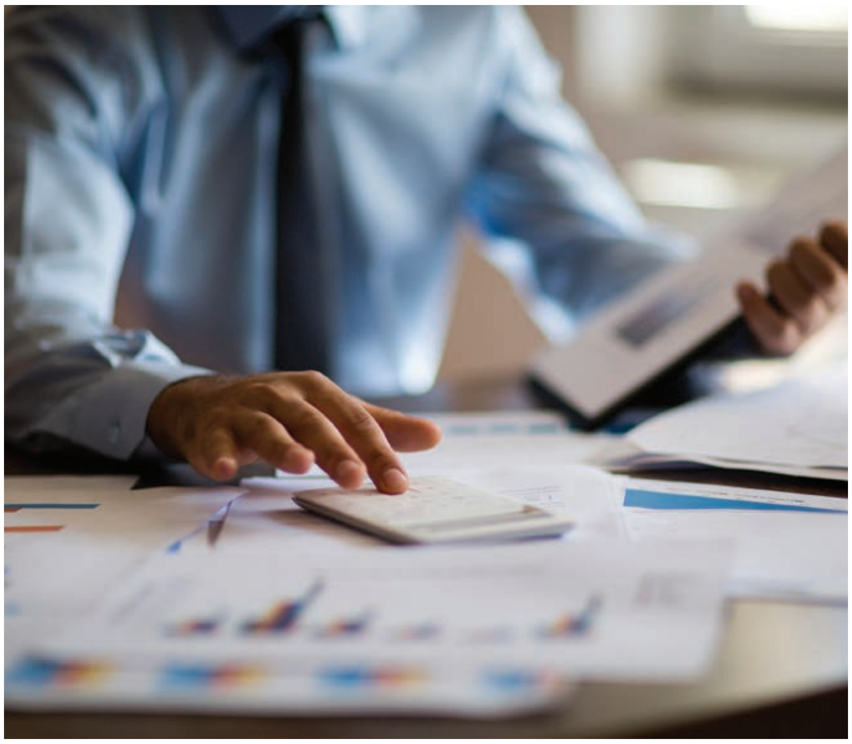
Good luck to them. Being CEO is not for the fainthearted and, as the head of the relatively small, tax-focused broker-dealer, Walters got the deal done and delivered value to shareholders — Capitalism 101. However, what may stick in the craw of the 3,100 advisors left to transition to Cetera is that, as also reported by Kelly, very few are likely to receive any transition money — or stay bonus — and if they do, it'll be slim pickings.

The disparity in fortunes between the leaders and those at the coalface is striking. Of course, whining about a wealth professional generating wealth is like Usain Bolt complaining about the size of his medal collection. But unlike Bolt, who won those races by himself, Avantax advisors played a significant role in generating the company's riches and share price. They may well feel aggrieved at their relative lack of reward.

At the same time these details were made public, the unrelated 2023 *InvestmentNews* Benchmarking Study, Advisory Compensation & Staffing and Pricing & Profitability, sponsored by SEI, was being digested. Based on information from more than 100 advisory firms, it offers valuable insight. The study concludes that while firms remain very profitable, compensation for advisory positions has grown only modestly in the past five years. The support advisor position remained almost unchanged at $65,500 in 2022, while lead advisors had a median salary of $137,904, compared to $135,000 in 2021. This issue contains an excerpt, along with details on where to download the full report.

At a time when it's widely recognized the industry needs to attract more young talent to replace aging professionals and connect more meaningfully with the next generation, this flatlining in salaries is not an attractive look.

Of course, low compensation does not impact CEO bonuses and nor should it; by the nature of business, these executives should be the crème de la crème of our industry and be rewarded as such. But should advisors, those interacting with clients daily, earn a bigger share of the profit pie? It sure looks that way, and one can hazard a guess a few Avantax advisors feel the same.



AVANTAX ADVISORS PLAYED A SIGNIFICANT ROLE IN GENERATING THE COMPANY'S RICHES AND SHARE PRICE. THEY MAY WELL FEEL AGGRIEVED.

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

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M&A SUMMER SURGE

The mergers and acquisitions marketplace for RIAs saw a summer surge this year, led by a busy few months for Goldman Sachs.

86
transactions announced by RIA buyers

32%
increase from second quarter

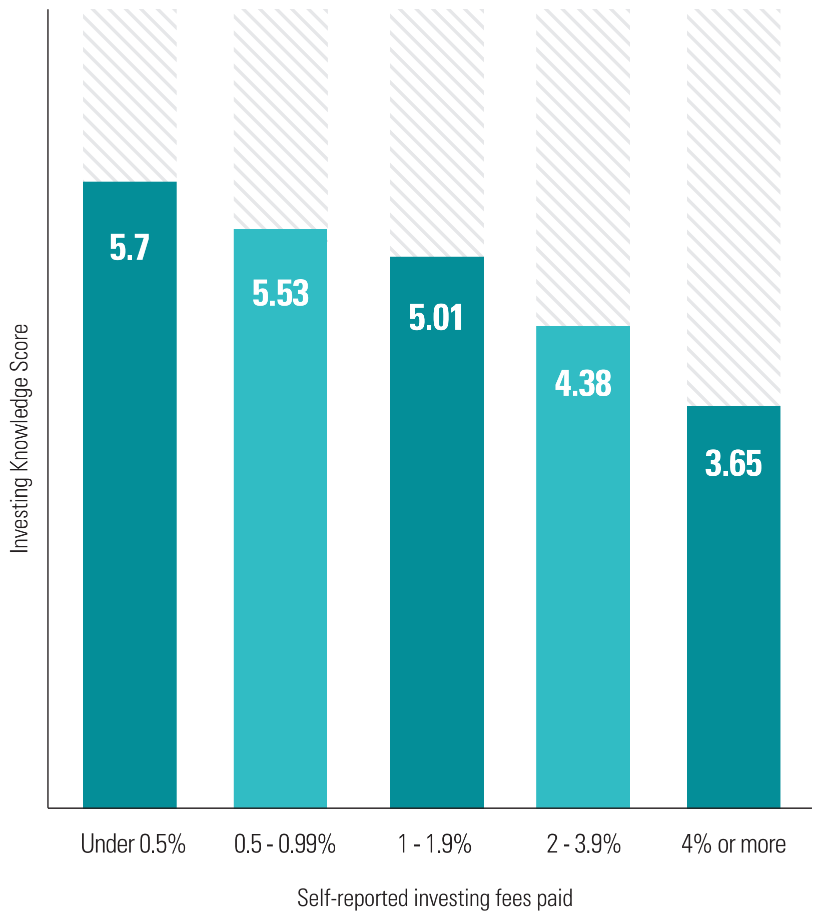
90.6%
of transactions by strategic acquirers

$1 billion
amount Goldman Sachs will be investing into World Insurance Associates

Source: Echelon, as of Sept. 30

WHY KNOWLEDGE HELPS CLIENTS' WALLETS

There's a difference in the investing world between thinking you know something and actually knowing it, with the former linked to paying higher investment fees, according to a study.



Source: Finra Foundation. Data based on research from group's 2018 and 2021 studies.

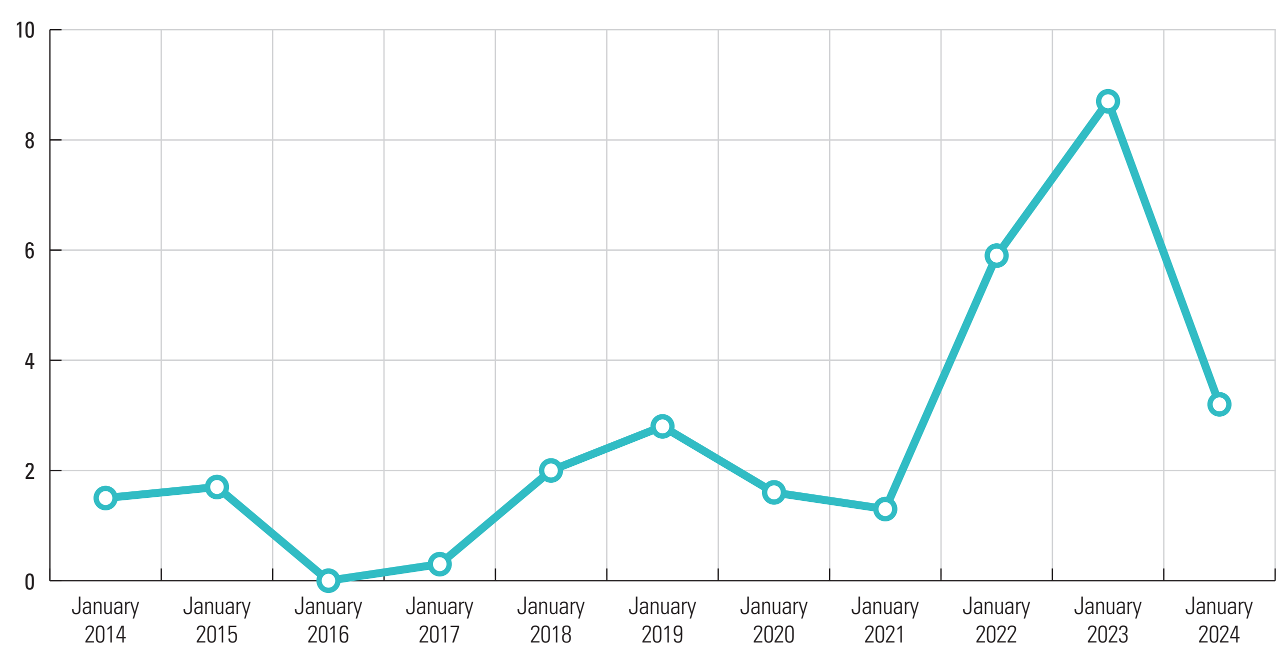
WOMEN AND WEALTH

Fewer women in America feel financially secure or confident in their retirement readiness than men. Just **43%** of women feel financially secure and **44%** think they will be ready for retirement, compared to **59%** of men who feel financially secure and **61%** who think they will be financially prepared for retirement.

A breakdown of women's biggest fears about retirement offers further insight.

COLA INCREASE

The Social Security cost-of-living adjustment was increased again for next year, but the decline from the COLA for this year is a sign of cooling inflation. The rise amounts to an average increase of $50 a month for the 66 million people who receive Social Security as well as the 7.5 million who get Supplemental Security Income.



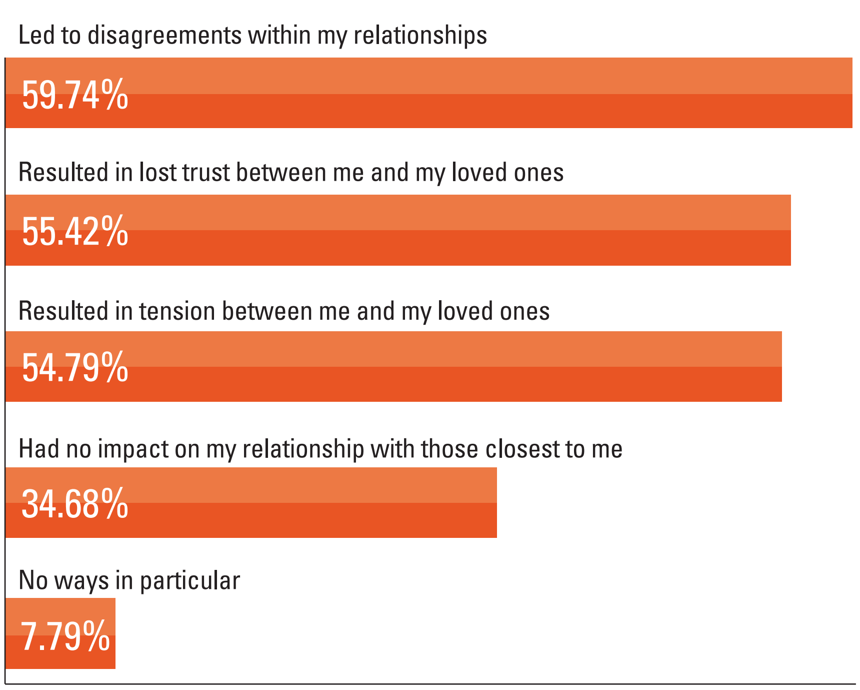
Source: Social Security Administration

BIGGEST FEARS/CONCERNS ABOUT RETIREMENT	ALL WOMEN	GEN Z WOMEN	MILLENNIAL WOMEN	GEN X WOMEN	BOOMERS+ WOMEN
Outliving savings	45%	41%	39%	52%	46%
Declining health	41%	42%	30%	50%	49%
Boredom	30%	36%	29%	27%	34%
Drifting, feeling uncertain or indecisive about where to focus time, attention and energy	17%	34%	17%	14%	14%
Isolation from friends, family, co-workers	14%	25%	15%	10%	14%
Missing your career	13%	23%	15%	9%	12%

Source: Northwestern Mutual

IMPACT OF FINANCIAL STRESS ON LOVED ONES

Respondents who at least sometimes experience financial stress on how it has influenced relationships with those closest to them.



Source: Forbes Advisor. Data was collected from Sept. 15 to Sept. 18

GEN Z RETIREMENT OBSTACLES

Gen Z employees, or those who are 21 to 26 years old, want to retire at age 61, but 99% say they are facing obstacles to saving for a comfortable retirement, a 9% jump over last year and higher than the 88% of millennials, 91% of Gen Xers and 86% of boomers who cite such concerns.

Inflation	54%
Keeping up with expenses	36%
Unexpected expenses	31%
Helping aging parents financially	30%
Saving/paying for children's education	28%
Stock market volatility	27%
Paying off credit card debt	25%

Source: Charles Schwab. The study was conducted from April 19 through May 2 and was completed by 1,000 401(k) plan participants ages 21–70.

NewsAnalysis

WHAT'S BEHIND FINANCIAL PLANNING RENAISSANCE?

INDUSTRY INSIDERS EXPLAIN THE TRANSFORMATION FROM A TIME WHEN INVESTMENT SELECTION WAS KING TO A MORE COMPLICATED ERA FOR CLIENTS, WHO WANT THEIR LIVES TO HAVE MEANING, PURPOSE AND LEGACY.

BY EMILE HALLEZ

The financial advice business isn't what it used to be — and many in the profession say that's a good thing.

With investment management effectively being outsourced to the dizzying number of model portfolios and home office research services available, stock picking just isn't the main selling point of an advisor's services anymore. Instead, we live in a renaissance of financial planning, where understanding, empathy and communication are critical and clients increasingly value help with goals like retirement, college planning, emergency savings and even vacation budgeting.

Rob Isbitts has been there. He was an advisor for 27 years, as a chartered financial analyst focused on investments, until he sold his practice three years ago to a certified financial planner. He also spent the better part of three years as the lead portfolio manager on a mutual fund.

> **"WHAT DID IT MATTER THAT THE FATHER EARNED AND MADE GREAT INVESTMENTS; HE JUST LOST OVER 40% OF HIS NET WORTH TO FEDERAL AND STATE TAXES."**
>
> NADINE BURNS, CEO, A NEW PATH FINANCIAL

"The only reason I was able to get away with it … was because I started doing it in the '90s, and the clients were very loyal," said Isbitts, who today runs Sungarden Investment Publishing, an investment research firm, and is founder of the newsletter ETF Yourself.

"The investment selection has been commoditized," he said. "That doesn't mean that I would discourage any new entrants from the business, starting with a small boutique RIA, like I did … You have to be beyond unique in order to make it — or you have to have basically what hedge fund managers do." The latter is a pile of money managed for friends and family, he said.

The numbers of CFA and CFP designations have each risen steadily over the past 10 years. Although CFAs have outpaced CFPs during that time, that trend has recently changed.

Since 2014, the number of CFAs globally has increased by over 61%, going from 122,748 to 198,185, according to figures from the CFA Institute. During that time the number of CFPs rose by about 37%, to 97,575, up from 71,296, data from the Certified Financial Planner Board of Standards show.

But since 2020, the number of CFPs is up by 10%, while the number of CFAs is up 8.6%.

WHAT PEOPLE WANT

"Consumers definitely want help that goes beyond investment selection," said Laura Varas, CEO of consumer research firm Hearts & Wallets. "When people get rich, let's say $5 million and up … they become very focused on their investment goals. But everybody else in America, 98% of households, is focused on life goals."

The average number of those goals has been increasing, and people are having to balance competing financial priorities. Ten years ago, 42% of people said they had between three and five financial goals, and 18% said they had no such goals at all, according to Hearts & Wallets data. Last year, those figures were 55% and 10%, respectively.

But interestingly, the most commonly cited goals people had were not directly about investing. Forty-eight percent pointed to building an emergency fund, followed by 43% who said they wanted advisors to help them plan financially for a vacation. Behind those goals were having enough money to work less when older (39%) and being able to stop work fully in retirement (32%). People cited investing goals such as generating current income, capital preservation and capital appreciation about as much as they said they wanted financial planning around buying a new car or buying real estate, at more than 20%, according to Hearts & Wallets.

Addressing all those financial goals isn't something that robo-advisors can do, or at least not do very well, Varas said. Only one out of five financial advice sources — ranging from robos to full-service human advisors — covers three or more of the financial goals people pointed to. That makes the services financial advisors provide more distinctive than most professionals realize, she said.

The demand for comprehensive financial planning doesn't vary dramatically by the amount of wealth someone has. Generally, more than 70% of people said it's important to them, though the rate was highest among households with $1.75 million to $2 million in assets, at 85%. However, its importance dipped among households with $8 million to $10 million, with less than 60% citing it as important, the Hearts & Wallets data show.

It's also something that people value more with age. About 70% or more of baby boomers said every year since 2010 that personal financial advice was important to them. That rate was slightly lower for Gen Xers, though it has increased for that generation over time. In 2010, only about 35% of millennials said it was important, though that rate has since nearly doubled.

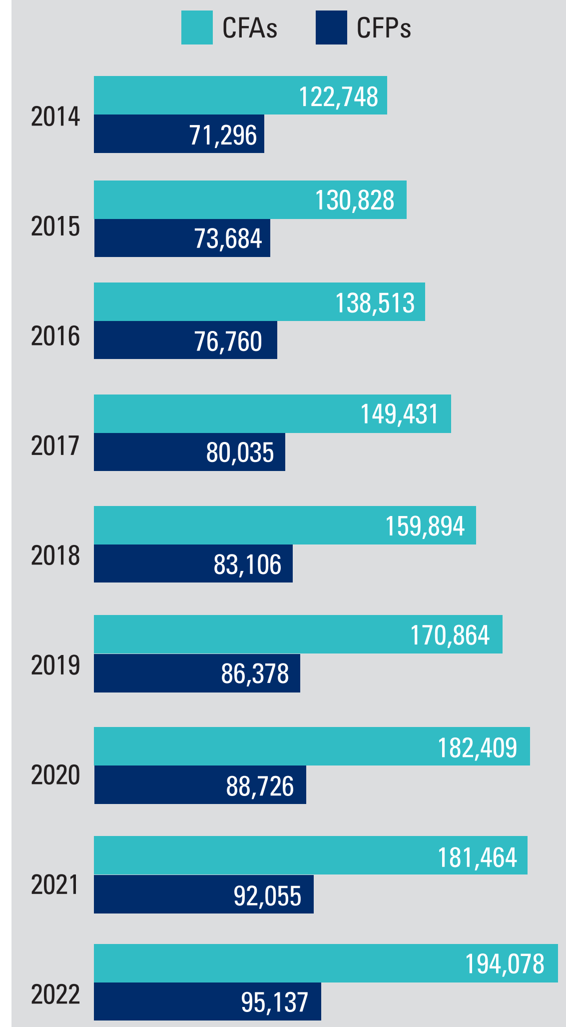
But the types of financial goals people focus on varies by asset level, with the exception of taking a vacation, which more than 40% of groups across the board cited. While less than half of households with $100,000 to $500,000 in assets said that investment-related goals were important to them, more than 60% of those with $3 million or higher prioritized them.

"The cruel irony is that the more money you have, the easier and safer it is to take more risks with your money," Varas said. "When you're trying to save for the incredible amount of $100,000, fireworks should go off," she added, as capital appreciation isn't the main factor that carries people over that line.

COMPLICATED TIMES

People's financial situations are more complex than in the past, in part because the middle class largely doesn't have pension plan coverage, and taxes are convoluted, said Nadine Burns, CEO of financial planning firm A New Path Financial.

TOTAL NUMBER OF CFAs VS. CFPs



Source: CFA Institute and Certified Financial Planner Board of Standards

“IT’S ALWAYS BEEN A PEOPLE BUSINESS. THE RECOGNITION BY THE INDUSTRY OF JUST HOW MUCH OF A PEOPLE BUSINESS IT IS HAS GROWN.”

ERIC AMZALAG, CEO, PEAK FINANCIAL PLANNING

As an example, she points to a recent client whose father “worked hard to grow his wealth with investment selection, [and] he did very well with the help of an investment advisor.” However, when the father died, the investment advisor ensured the inheritance went to the person who is now her client, who will pay a higher tax rate on the amount than his siblings. He is dispersing big chunks of the assets to those siblings, who will not be taxed on the amounts they receive, Burns said in an email.

“What did it matter that the father earned and made great investments; he just lost over 40% of his net worth to federal and state taxes,” she said. “Maybe a CFP professional with an estate planning attorney could have worked to save this. I personally believe everyone can benefit by having someone help them with their financial life today, someone who has their interest at the forefront.”

PLANNER FOR LIFE

Barry Flagg got his CFP designation at 23 or 24 years old, making him the youngest on record as of 1987. Now 61, he calls himself the “oldest youngest” CFP holder and says he’s seen the transformation in the industry firsthand.

“The financial planning/wealth management profession used to be almost synonymous with investment selection, management and accumulation, and is now definitely evolving/expanding to address changing client needs for decumulation and risk management,” Flagg, managing director at Triangulum Financial Partners, said in an email. “This evolution/expansion of services has exposed insurance products as the last, largest, most neglected and often worst-performing asset in clients’ financial/estate plans, particularly for the wealthy.”

There was also a notable shift in the business following the dotcom bust, Ashley Folkes, managing partner of Inspired Wealth Solutions, said in an email.

“Over two decades ago, when I embarked on my career, our primary strategy involved presenting innovative concepts to attract clients. Individual stocks and technology mutual funds were all the rage during the dotcom bubble era,” Folkes said.

The business has since transformed, with “fee-only” and “fiduciary” now being used by many, a development that stemmed in part from increased compliance enforcement to help weed out unethical advisors, he noted.

“When I became a certified financial planner years ago, it opened my eyes to the importance of comprehensive planning and its impact beyond mere portfolio returns,” he said. “Our discussions now revolve around meaning, purpose, legacy and how all the elements of your financial life fit together.”

Younger clients are also averse to long-term contracts and high fees, Kassi Fetters, owner of Artica Financial Services, said in an email.

“They want to be set up to run down the correct road to achieve college, house and retirement funding but don’t see the need to pay 1% of their AUM from their 30s into their 50s. And, contrary to most advisors, I agree with them,” Fetters said. “Until younger clients have a larger portfolio, they have a complex financial situation or business, all they really need from an advisor is a path to run down for success.”

GOLDEN AGE

The internet has been transformative for independent financial advisors in allowing them to show what they can offer beyond off-the-shelf investment strategies and demonstrating to consumers that they have many choices, Eric Amzalag, CEO of Peak Financial Planning, said in an email.

“For the last 50 years, the wealth management industry has done a great job of destroying its credibility via opaque fees, poorly performing products and slimy sales strategies,” said Amzalag, who is an active YouTuber. “Many of my clients come to me after working with an advisor in the fee-based, corporate world because they are tired of the lack of attention, lack of transparency around fees and the lack of apparent skill that their prior advisor had.”

While he would not necessarily discourage people from pursuing CFAs rather than CFPs, the latter could be harder for artificial intelligence to replace because of the personal aspect of planning, Isbitts said.

“It’s always been a people business,” he said. “The recognition by the industry of just how much of a people business it is has grown.”

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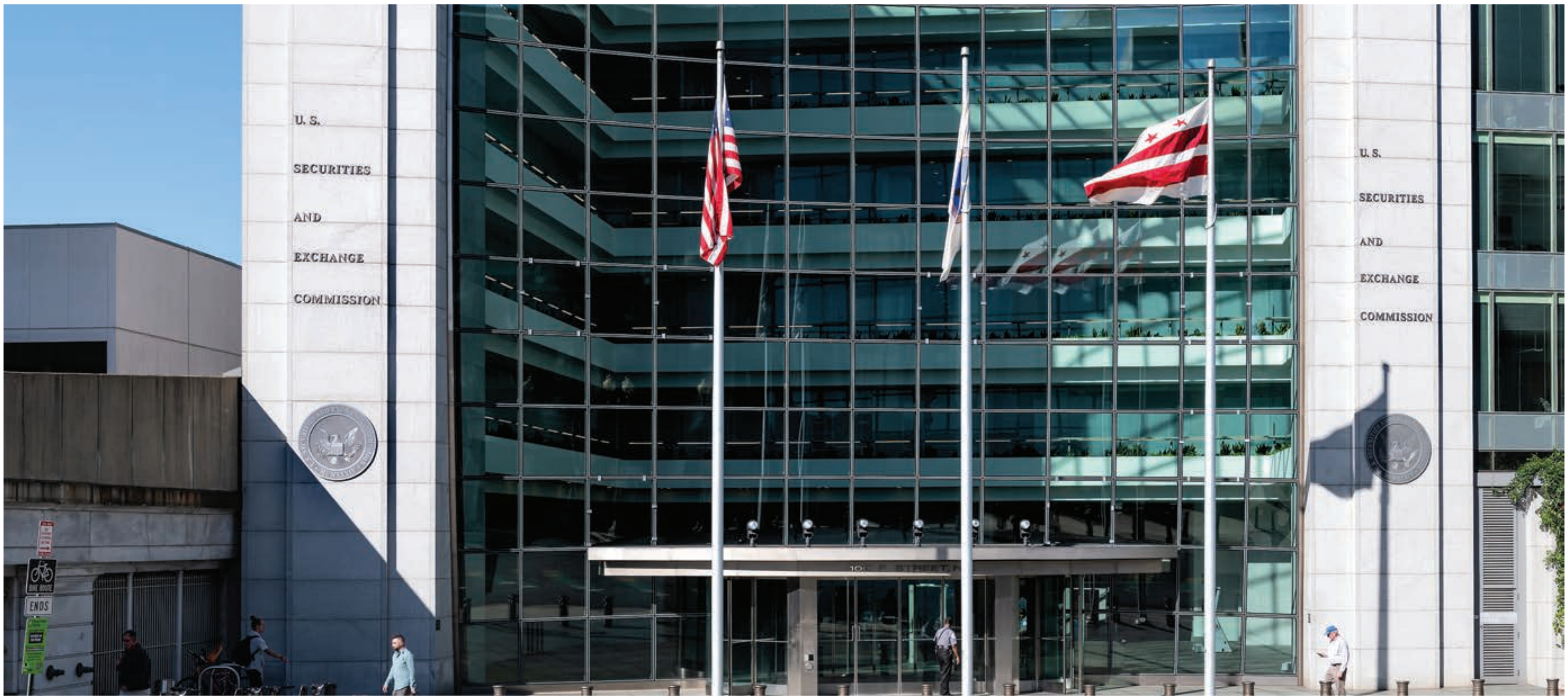

TRYING TO HALT THE SEC

A WIDE RANGE OF FINANCIAL INDUSTRY GROUPS ARE URGING THE AGENCY TO WITHDRAW ITS MOST CONTROVERSIAL PROPOSALS, BUT EVEN THE MOST CRITICIZED MEASURES LIKELY WILL AVOID MAJOR CHANGES.

BY MARK SCHOEFF JR

Some of the SEC rule proposals generating the most withering criticism are among those that would have the biggest impact on financial advisors. But the widespread opposition won't necessarily convince the SEC to revise them substantially before they become final regulations.

Financial industry trade associations, bipartisan lawmakers on Capitol Hill and even some investor advocates are strongly resisting Securities and Exchange Commission proposals on mutual fund reform, advisor custody of client funds and conflicts of interest related to advisors' use of artificial intelligence and predictive analytics.

Many opponents want the SEC to withdraw those proposals. Although the agency has modified to some extent most of the nearly two dozen final rules it has promulgated since Chair Gary Gensler was sworn in in April 2021, taking a proposal off the table would be an extraordinary step.

"Very seldom does a rule proposal go out there and wither on the vine," said Jay Gould, special counsel at Baker Botts and a former staff attorney in the SEC investment management division, where he participated in writing rules.

"The thrust of the rule, the reason for the rule, is going to be adopted," Gould added. "They may make a few concessions here or there, but if they believe the investor protection element is significant, they will move forward with it."

Before the most controversial proposals ultimately become final rules, a plethora of critics are trying to shape them through the rulemaking process.

During recent congressional hearings, Gensler was taken to task by Republicans and Democrats about the mutual fund proposal, which would implement swing pricing and daily trading deadlines that opponents say would roil fund operations and diminish their value for retirement savers and other investors.

"THERE'S NOTHING FOR THE CHAIRMAN TO DO OTHER THAN THROW IT IN THE GARBAGE."

CHRISTOPHER IACOVELLA, CEO, AMERICAN SECURITIES ASSOCIATION

The custody proposal has raised a number of concerns, including worries that it will deem advisors to have control of client funds if they make trades on behalf of clients. It also would extend custody obligations beyond securities and funds to sweep in private securities, real estate, derivatives and some crypto assets.

In addition to industry groups, Democratic and Republican lawmakers have expressed qualms about the custody proposal. The SEC reopened the comment period on the measure earlier this year.

The pushback may be strongest on a proposal designed to address potential conflicts of interest for investment advisors and brokers who use artificial intelligence or other predictive data analytics in interactions with clients and customers.

Under the proposal, advisors and brokers would be required to "eliminate or neutralize" conflicts arising from the technology that optimize advisors' or firms' revenue interests over investors' interests in achieving the highest returns possible.

The proposal has ignited a firestorm across a wide range of interest groups — from trade associations that represent the brokerage industry to the major trade group for investment advisors — and from congressional Republicans.

The SEC has heard a litany of criticism about the proposal.

For instance, opponents worry that the "covered technology" to which it would apply could range far beyond AI and predictive data analytics and encompass even formulas plugged into Excel spreadsheets. They also have asserted that the proposal overlaps with Regulation Best Interest, the broker-dealer standard of care, as well as with the fiduciary duty that advisors owe to their clients.

Opponents are trying to stop the proposal dead

in its tracks. During the public comment period, which ended Oct. 10, several groups called on the SEC to withdraw the rule. They included the Investment Adviser Association, the Investment Company Institute, the ERISA Industry Committee, the American Securities Association and the Insured Retirement Institute.

"There's nothing for the chairman to do other than throw it in the garbage," said ASA CEO Christopher Iacovella.

Usually, resistance to a proposal translates into comment letters that suggest how the SEC can improve the measure. But on predictive data analytics, there wasn't so much a prescription for making it better as a list of reasons why it should die.

The tone was, "We're not going to suggest changes because the industry can't work with the rule as proposed," said Ben Marzouk, a partner at Eversheds Sutherland. "That's a pretty stark message."

The Investment Company Institute, which represents mutual funds, has called on the SEC to abandon the swing pricing, custody and predictive data analytics proposals.

"ICI has serious, fundamental disagreements with the nature and direction of multiple rulemakings on the SEC agenda," ICI spokesperson Stephen Bradford wrote in an email. "They will hurt the very investors the SEC serves and are simply not fit for purpose."

"The SEC benefits from robust engagement from the public and will review all comments submitted during the open comment period," an SEC spokesperson wrote in an email. "Generally, we respond to comments received as part of the final rulemaking and not beforehand."

Gould has seen from the inside how the SEC must strike a delicate balance between investor protection and not putting too big a regulatory burden on financial advisors and firms.

"I think [Gensler] has very good judgment in that regard," Gould said.

The fact that the SEC is making a point of revising proposals in response to criticism "shows the [rulemaking] process is working," said Kurt Wolfe, counsel at Quinn Emanuel Urquhart & Sullivan.

But the fiercest critics of the predictive data analytics, custody and mutual fund reform proposals are likely to be disappointed in the extent to which they are modified. They might have to turn to a lawsuit as their next option.

"I have to believe these rules will be challenged in court, if the final rule is substantially similar to the proposal," Wolfe said. "The rewrite that would be required to get the industry comfortable is more than the commission is willing to do."

Political pressure on the SEC has been growing over the last decade as the regulatory process has

WHAT'S CAUSING THE COMMOTION AROUND THE SEC'S ARTIFICIAL INTELLIGENCE PROPOSAL?

Opponents have raised two prominent concerns:

1 Financial advisors must "eliminate or neutralize" conflicts that arise when an algorithm puts their interests ahead of their clients' or customers' interests. But "neutralize" is a new term of art in the advice debate. No one seems to know what the SEC means.

2 The rule would apply to "covered technology" that could range far beyond AI and so-called predictive data analytics to encompass even the formulas used on Excel spreadsheets.

"I DON'T EXPECT THE SEC TO WITHDRAW THAT PROPOSAL JUST BECAUSE SOME SECTIONS OF THE INDUSTRY ARE LODGING ALARMIST AND EXAGGERATED OBJECTIONS TO IT."

STEPHEN HALL, LEGAL DIRECTOR AND SECURITIES SPECIALIST, BETTER MARKETS

He pointed out that under the Administrative Procedure Act, agencies must consider public input as they draft regulations.

"The extent to which they make changes is where the rubber hits the road," Bradford said. "We are seeing an extremely active SEC agenda under Chair Gensler. He has closely held ideas about how regulations should be updated — and doesn't propose rules simply to do a 180. His office has been receptive to hearing our thoughts and to meeting with our staff."

Of course, the SEC also is getting a lot of encouragement for the dozens of proposals it is pursuing.

"The SEC's track record overall so far is to issue proposals and final rules that substantially increase investor protection, market integrity and market stability," said Stephen Hall, legal director and securities specialist at Better Markets, a nonprofit public interest organization that leans to the left. "There is nothing to suggest the SEC should withdraw any of its proposals or weaken them."

Hall foresees the SEC standing tough on the predictive analytics proposal.

"I don't expect the SEC to withdraw that proposal just because some sections of the industry are lodging alarmist and exaggerated objections to it," he said.

The SEC is taking note of the vociferous input.

In a Sept. 12 appearance before the Senate Banking Committee, Gensler said the SEC has promulgated more than 20 final rules so far in his tenure and has modified most of them as they advanced to final rules.

"Nearly all of them have changed based on public feedback," he told lawmakers.

It remains to be seen how the SEC will react to calls for withdrawal of some of the biggest proposals.

become a more efficient way to introduce industry reforms than the legislative process, which is subject to gridlock given the closely divided control of Capitol Hill. It's a trend that's likely to continue.

The SEC is now the target of Republican ire in a way that used to be directed at the Consumer Financial Protection Bureau, said Michael Canning, principal at The LXR Group, a government relations consulting firm.

"This is the first time you've seen the SEC play that role," Canning said. The agency "is taking up more political oxygen than it has in a long, long time. Everything about the commission's rulemaking has become more politicized."

In fact, the next election may help determine when the SEC proceeds with some rules, including predictive data analytics.

If final regulations are promulgated after a certain point next year — probably in the late spring — they will be vulnerable to being overturned by the next Congress if Republicans take control of the House, Senate and White House.

On something as explosive as the predictive data analytics rule, the SEC may hold off on issuing a final regulation until the political landscape is clearer.

"I can't imagine a world in which they try to finalize this rule until after the election," said a financial industry lobbyist who asked not to be identified in order to speak candidly about rulemaking timelines. "There is widespread opposition. There are a lot of practical problems."

By next spring, critics and supporters of pending SEC rules should know how far the agency is willing to bend without breaking.

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'MURKY DISPARITY' STALLS PROGRESS

RECENT CLAIMS OF PAY DISCRIMINATION, RETALIATION AND SEXUAL HARASSMENT HAVE SERVED AS A PAINFUL REMINDER THAT PROGRESS FOR WOMEN IN THE FINANCIAL ADVICE INDUSTRY IS NOT A STRAIGHT LINE.

BY BRUCE KELLY

FEMALE CFP REPRESENTATION

30%
Portion of newly minted CFPs in 2022 that were women (1,519 of 5,214), according to the Certified Financial Planner Board of Standards Inc.

4.4%
Increase in number of female CFPs last year, to 22,446

23.6%
Representation of female CFPs at the end of last year

23%
Ceiling for years, until 2022, of the proportion of female CFPs

Women appear to be making some advance in the broad financial advice industry, with an increase in the numbers of women getting the certified financial planning designation last year just one example of that.

There are roughly 320,000 working brokers and financial advisors in the United States, and for years women have been underrepresented; they make up about 20% of the financial advisors working right now.

But recent claims of pay discrimination, retaliation and sexual harassment by Genevieve Sisco, a former recruiter at Advisor Group, now Osaic, underscore that change in the financial advice industry may come in fits and starts.

In her complaint, which was filed in federal court in Iowa at the end of August, Sisco alleges she was fired in 2022 by Advisor Group and the broker-dealer where she worked, SagePoint Financial Inc., for complaining about her pay and compensation, along with her role in the investigation of an allegedly personal relationship in the office of senior management.

"The company fired Sisco in retaliation for her protected complaints regarding pay equity as well as for her participation in the company's investigation into sexual misconduct by the romantic partner of the current CEO," the complaint alleges.

"IT'S IMPOSSIBLE TO SAY WE WORK IN AN INDUSTRY THAT'S ALWAYS BEEN WELCOMING TO WOMEN."

SENIOR FEMALE FINANCIAL ADVISOR, WHO WISHED TO REMAIN ANONYMOUS

In contrast to Sisco's allegations, Advisor Group, which rebranded as Osaic, has purposefully worked to promote women, assembling a leadership team in which six of the 14 senior executive positions are filled by women, as *InvestmentNews* noted last year.

While the financial advice industry publicly clamors for diversity, many large firms have a poor history of hiring women, along with minorities. But according to *InvestmentNews* data, Advisor Group reported that 33.4% of its financial advisors were women in 2021, well above the industry's average.

"It's impossible to say we work in an industry that's always been welcoming to women," said one senior female financial advisor at a major firm who spoke confidentially to *InvestmentNews* because of the sensitivity of the topic. "If you look at the industry today, we've come a long way, but there's still plenty more to do.

"On the retail side of the industry, I'd love to see more women," she added. "But only about a third of the seats on the boards of S&P 500 companies are women, so there's lots of room in this business to improve."

One securities attorney, Jenice Malecki, said that there is still plenty of pay disparity on Wall Street between men and women employees at a variety of firms.

“ARE EMPLOYEES BEING TREATED THE SAME IN HOUSTON AND NEW YORK CITY? THAT MIGHT NOT BE THE CASE.”

JENICE MALECKI, SECURITIES ATTORNEY, MALECKI LAW

“I still get a lot of calls from women who have pay discrepancy issues and face the glass ceiling,” Malecki said. “Certain strides have been made for women but more at a macro level or at the largest firms, but there is plenty of pay inequity at those same firms, which have smaller offices or outposts around the country. Are employees being treated the same in Houston and New York City? That might not be the case.

“There isn’t any pay transparency, so people don’t know if they’re making the same amount of money as the person sitting next to them,” she said. “And not all employees are willing to push back. Unfortunately, there is still a lot of murky disparity out there.”

Financial advisors at large firms like the former Advisor Group are all paid according to the same pay scheme, known as a grid. The uniform pay scale, particularly at independent broker-dealers like Advisor Group, would likely make it difficult for firms to short-change one group of financial advisors over another in this day and age.

But differences in wages and pay can certainly exist among employees, including recruiters like Sisco. And a disparity in compensation between male colleagues and Sisco, a senior vice president of recruiting at SagePoint Financial, is one of the key parts of her claims against Advisor Group and the broker-dealer.

“Unfortunately, the Company did not reward Sisco’s success as it would have if she were a man,” according to her complaint. “In 2019, Sisco learned that one of her male counterparts had a base salary that significantly exceeded her pay even though they had the same role.

“Sisco repeatedly complained, to no avail, about the pay disparity throughout 2019, 2020 and 2021,” the complaint alleges. “She also complained, throughout her time as [senior vice president of recruiting] that the company was underpaying her direct reports, many of whom are women and people of color, relative to their white and male peers.”

Sisco worked at SagePoint from 2008 to 2022, when she was fired. She now works at a rival to Advisor Group, Cetera Advisors.

“Despite Sisco’s success at SagePoint, the Company consistently underpaid Sisco relative to Sisco’s male peers,” according to the complaint.

In one instance, a former colleague who worked as a senior vice president of recruiting for another Advisor Group broker-dealer told Sisco in 2019 that he had earned $200,000, which was significantly more than Sisco, whose salary that year was about $125,000.

Sisco declined to comment for this article when reached via LinkedIn. Her attorney, Jeremiah Iadevaia, did not return calls to comment.

Advisor Group filed a motion to dismiss Sisco’s federal complaint on Oct. 9.

Meanwhile, Sisco earlier had filed a similar complaint with Iowa. And in June, the Iowa Civil Rights Commission said that “further investigation” into her claims was not warranted, noting that, in the case of unequal pay between her and other employees, “the evidence provided demonstrates that the co-workers were not similarly situated” to Sisco.

“Advisor Group and SagePoint deny all the claims brought by Ms. Sisco-Hodges,” David Barton, counsel for Osaic, wrote in an email. “Each of these claims was reviewed in detail and dismissed by the Iowa Civil Rights Commission. The Commission’s report vindicates our own review of Ms. Sisco-Hodges’ claims, which we contend are unfounded.”

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NewsAnalysis

WHAT NEXT AFTER SUMMER SALE?

INSIDERS SAY GOLDMAN'S NEW STRATEGY IS LESS A RETREAT FROM THE RIA MARKETPLACE THAN A REALIGNMENT.

BY GREGG GREENBERG

Get ready, advisors! Goldman Sachs is stepping back into the RIA space.

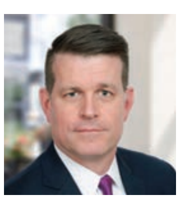
Not that it ever really left.

Following months of gossip about the future of its investment advisor business, Goldman Sachs finally ended all the speculation in August by announcing the sale of its Personal Financial Management unit to Creative Planning, a leading RIA with $245 billion in client assets. Terms of the deal were not disclosed, but those Wall Streeters' long *schadenfreude* concerning Goldman CEO David Solomon's unsuccessful attempt to crack the consumer business saw their accounts rise.

Or at least they grinned as if it did.

Goldman acquired United Capital for $750 million in 2019 and then renamed it Personal Financial Management. The RIA unit targeted high-net-worth clients, but not the ultra-wealthy, who have accounts of $20 million to $50 million and are the typical target clients for the esteemed investment bank.

The unit's summer sale, along with Solomon's other recent maneuvers to scale down Goldman's consumer-oriented operations, shifted the bank's focus back to the super-rich.



"GOLDMAN SACHS IS TARGETING RIAs WHO PROVIDE INVESTMENT ADVISORY SOLUTIONS AND GUIDANCE TO A SOPHISTICATED CLIENT BASE WITH UNIQUE NEEDS."

RICHARD LOFGREN, MANAGING DIRECTOR AND HEAD OF ADVISOR ENGAGEMENT, GOLDMAN SACHS ADVISOR SERVICES

According to a February Investor Day presentation, Goldman services around 16,000 ultra-high-net-worth clients with an average account size of around $60 million, totaling nearly 8% of that market. The average ultra-high-net-worth client's tenure at the bank is over 10 years.

Goldman insiders say the reorganization is less a retreat from the RIA marketplace than a realignment.

GOLDMAN BY THE NUMBERS

$7.19 billion
Goldman's Global Banking and Markets net revenue in Q2 2023

$3.05 billion
Goldman's Asset and Wealth Management net revenues in Q2 2023

$2.71 trillion
Record assets under supervision, an increase of $42 billion since 2022

$659 million
Platform Solutions Q2 net revenues, up 92% from 2022

48,500
Goldman Sachs employees worldwide

The unit's new focus is not to compete with RIAs (a leading cause of industry resentment toward PFM that Solomon failed to foresee) but to serve them in a way very few banks can.

"Goldman Sachs is targeting RIAs who provide investment advisory solutions and guidance to a sophisticated client base with unique needs. We look to partner with growth-focused advisory firms seeking to enhance their business and clients' outcomes through digitally advanced, institutional-grade custody solutions and the full breadth of services required by the modern-day advisor," said Richard Lofgren, managing director and head of advisor engagement for Goldman Sachs Advisor Services.

There's no doubt that a lot of advisors need those services now that many of their clients have attained account balances that — although not ultra-high — are undoubtedly high enough to introduce them to more advanced financial solutions. And when it comes to alternatives, structured products, complex single-stock strategies or lending against nontraditional products, there are only a handful of banks with the resources or trading acuity to rival Goldman's.

Solomon himself addressed the new plan at a recent financial services conference, calling the new organization "purer" because it enables Goldman to serve RIAs without conflict, while maintaining its ultra-high-net-worth business.

"We do think that's an opportunity to bring more assets into our asset management business," he said.

It's not only about access to Goldman's vaunted traders, though. Technology will also play a vital role in the white-shoe firm's plan to offer white-glove service, Lofgren said.

"Technology is a such an important tool that advisors use to address the unique needs of their clients. We don't feel like technology will completely take the place of dedicated advice and guidance; rather, it will aid the speed with which client accounts are opened, data is examined and evaluated and performance or tax reports are created," he said.

'ONE GOLDMAN SACHS'

Most of the responsibility for the bank's new so-called One Goldman Sachs RIA strategy will be held by Adam Siegler, head of Goldman's third-party wealth business for the Americas within its global banking and markets division. Siegler was tapped this summer to oversee the firm's RIA strategy, taking ownership from Padi Raphael, global head of Goldman's third-party wealth business, who had been leading it since Joe Duran, co-head of the PFM group, left earlier this year.

Regarding the change in leadership, Marc Nachmann, global head of Goldman's asset and wealth management division, expects a smooth transition. "Adam has been working closely with Padi and asset management leadership over the past year to develop our One Goldman Sachs RIA strategy, and I am confident that our team will help position Goldman Sachs as the partner of choice to the large and fast-growing RIA market," he said.

"WE DO THINK [THE NEW STRATEGY] IS AN OPPORTUNITY TO BRING MORE ASSETS INTO OUR ASSET MANAGEMENT BUSINESS."

DAVID SOLOMON, CHAIRMAN AND CEO, GOLDMAN SACHS

"We are now intently focused on delivering market-leading solutions to RIAs, including asset management across public and private markets, structured notes, lending, deposits and custody so that financial advisors in turn can deliver exceptional service to their high-net-worth and mass affluent clients," Nachmann added.

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‘COMPETITIVE, DRIVEN AND RELENTLESSLY FOCUSED’

PETER MALLOUK, OWNER OF CREATIVE PLANNING, OWNS A PIECE OF A BASEBALL TEAM AND HAS BUILT A FIRM POTENTIALLY WORTH BILLIONS

BY BRUCE KELLY

AS THE last decade was drawing to a close, Creative Planning owner Peter Mallouk, an estate planning attorney who bought the firm in 2004, decided it was time to shift the business strategy.

Since acquiring the firm, he had been relying on implementing a unified approach and process to clients’ financial planning, wealth and money across the firm to increase client assets. Organic growth up until that point was the name of the game for Creative Planning, and like many competitors, Mallouk also leaned on the RIA referral program from the custody group of the Charles Schwab Corp. to reel in new clients.

It was time for a change. That meant, in Mallouk’s thinking, that it was time to start buying RIAs to add to the firm’s growth.

Clearly the firm had been a success, with assets of $42 billion before it made its first acquisition in early 2019 for the Johnston Group, a registered investment advisor with $500 million.

"JUST NATURALLY, I'M FOCUSED ON OUR CLIENTS AND MY TEAM. IT HELPS ME UNDERSTAND WHAT PEOPLE WANT. I HAVE GOOD RELATIONSHIPS WITH SEVERAL OTHER RIA OWNERS, BUT I'M NOT GOING TO CONFERENCES."

PETER MALLOUK, OWNER, CREATIVE PLANNING

He decided to throw fuel on the mergers and acquisitions firepower of Creative Planning, which is based in Overland Park, Kansas, a financial advice industry hub that's a suburb of Kansas City, Missouri. A year later, Mallouk sold a minority stake in Creative Planning to private equity firm General Atlantic, with Mallouk controlling over 80% of the firm's equity.

Mallouk's personal stake in the firm could some day translate into an astonishing windfall for the 53-year-old son of an Egyptian immigrant. For instance, he hasn't diluted his percentage of ownership of the firm by selling more to outside investors, like private equity investors hungry for the steady cash flow kicked off by RIAs.

Giant RIAs like Creative Planning keep climbing in value; earlier this year, private equity manager Clayton Dubilier & Rice said it was acquiring the publicly traded Focus Financial Partners, an RIA aggregator, and taking it private for the price of $7 billion. Focus Financial Partners controls $300 billion in RIA assets, or just 20% more than Creative Planning.

Right now, the firm's employees and financial advisors can receive ownership grants or buy units at a discount in small bites. Mallouk is not selling any of his equity in Creative Planning and declined to say what percentage is controlled by employees, except to note that he is "shifting more of the ownership of the firm to his team."

Industry sources and competitors say Mallouk is hungry, intelligent and hard-driving, not surprising for someone who has built such a firm in 20 years.

"Those words are true," he said in an interview this month. "People who know me would say I'm competitive, driven and relentlessly focused on the best offering for the client."

And he has his quirks. Mallouk sticks to a personal rule of not traveling more than one day per week on business and staying out of town no more than once a month. That leads to more time with his wife and three kids, and his team at the home office, where he is a big believer in a player-coach approach.

Indeed, several senior financial advice industry executives said they had only met Mallouk briefly at meetings or did not know him at all.

"Just naturally, I'm focused on our clients and my team," he said. "It helps me understand what people want. I have good relationships with several other RIA owners, but I'm not going to conferences."

And ever since 2020, his firm's RIA assets under management have been growing at an incredible rate, from $69.5 billion in 2020 to $130.5 billion this year, according to InvestmentNews Research data. Creative Planning also controls another $115 billion in retirement plan assets and has close to 1,100 financial advisors under its roof.

Many in the financial advice industry may regard Mallouk's latest move as his most audacious. In August, Goldman Sachs Group Inc. said it was selling its registered investment advisor business, Personal Financial Management, with $29 billion in assets and a few hundred advisors, to Creative Planning.

PROFILE

Name: Peter Mallouk

Title: CEO and president

Company: Creative Planning

Age: 53

Years in the Industry: 21

Interesting fact: Mallouk has a personal rule of not traveling more than one day a week on business.

"I GOT TO WORK IN THE [KANSAS CITY ROYALS'] CLUBHOUSE FOR THE VISITING TEAM WHEN I WAS IN HIGH SCHOOL. I DID LAUNDRY FOR THE PLAYERS, CLEANED THEIR SHOES, AND EVEN BOUGHT FRIED CHICKEN FOR WADE BOGGS."

PETER MALLOUK, OWNER, CREATIVE PLANNING

For the giant investment bank, it was a retreat from the mass affluent market. Goldman Sachs had bought the business, formerly United Capital Financial Partners, for $750 million in 2019.

"Peter's a man of action — years ago he said he was going to acquire and did so faster than anyone in the business," said David DeVoe, CEO of the eponymous consulting firm that has worked with RIAs sold to Creative Planning. "And he's actively involved, too.

"And Creative Planning is trending further upstream when it makes deals," DeVoe added. "Most consolidators or large buyers are landing firms with $750 billion in assets. Peter's getting firms with $1.1 billion. And he's moving toward having an RIA with a national footprint."

Mallouk has gotten where he is by sticking to his roots in Kansas, where he was raised and where he graduated from University of Kansas in 1993 with four majors. Three years later, he earned his law degree and a master's in business administration from the same school.

"My dad introduced me to investing after he got screwed over by a couple of advisors," Mallouk said. "He would go to the library and read about and study investing, and wound up buying mutual funds from American Century," an iconic Kansas City, Missouri, investing firm that opened in 1958 and featured no-load mutual funds.

Mallouk read a book by the founder of American Century, James E. Stowers Jr., and that spurred an interest in investing, he said.

But he wasn't focused only on investing as a kid. His love for baseball eventually allowed him to run errands for the likes of baseball Hall of Famer Wade Boggs.

"I listened to the Kansas City Royals when I was falling asleep at night in bed, and got to work in the clubhouse for the visiting team when I was in high school," Mallouk said. "I did laundry for the players, cleaned their shoes, and even bought fried chicken for Wade Boggs," who, out of superstition, ate chicken before every game.

In 2019, Mallouk and his wife, Veronica, regarded as top philanthropists in Kansas City, became minority investors in the Royals, as part of a group that included star local quarterback Patrick Mahomes. Mallouk declined to say what percentage of the team he owned.

Around that same time, Creative Planning launched a national TV advertising campaign. "Those [spots] were new ways to try to meet clients," Mallouk said.

Mallouk is currently being closely watched by the entire financial advice industry, some of whom, in the spirit of competition, likely hope he bungles his acquisition of the Goldman Sachs RIA, Personal Financial Management.

According to industry news website Citywire, more than a dozen Personal Financial Management advisors have left the firm recently and could wind up in legal disputes with Goldman over noncompete or nonsolicit clauses in contracts.

"I think you would struggle to find any RIA that doesn't have a nonsolicitation clause in its agreements," Mallouk said. "Our reputation for enforcing that is accurate."

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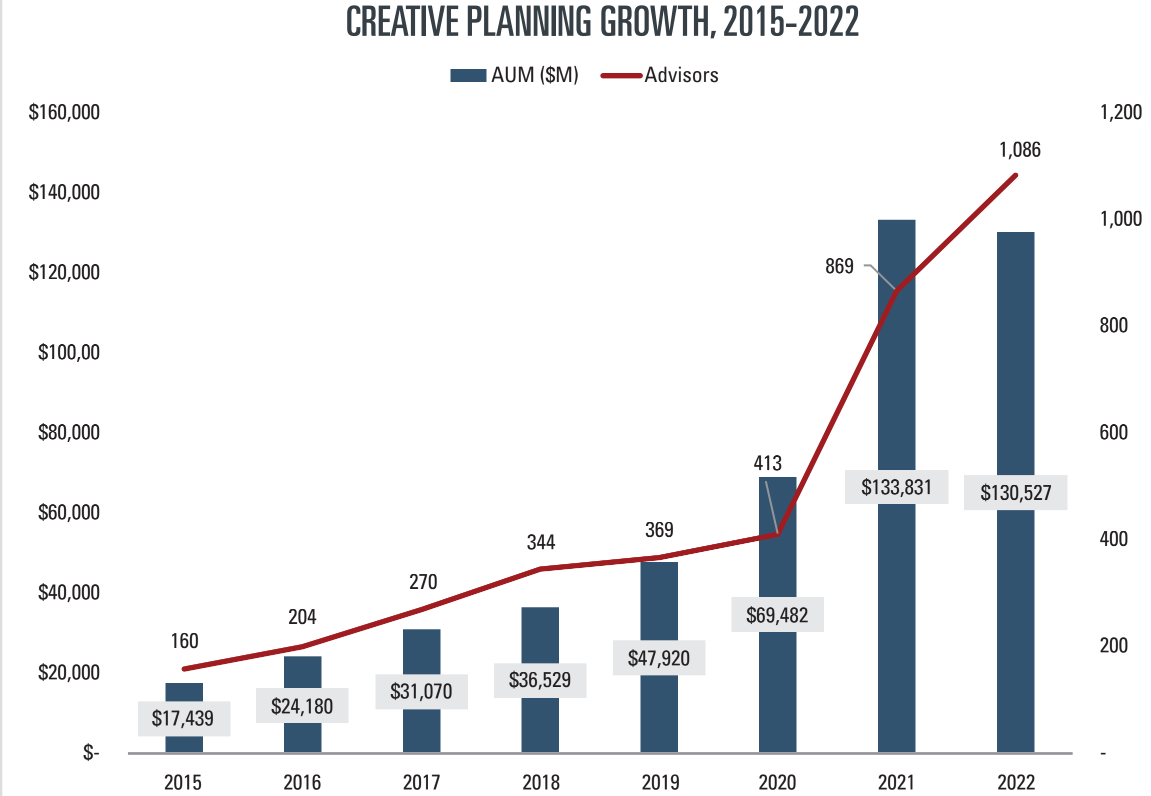
CREATIVE PLANNING GROWTH, 2015-2022



OROS BREWS UP GROWTH AT HIGHTOWER

FROM SCALING THE EXECUTIVE RANKS TO THE CRAFT BREWERY BUSINESS, CEO KEEPS HIS 'ETERNAL FOCUS' ON ONE THING – THE CUSTOMER.

BY GREGG GREENBERG

Prior to taking the top job at Hightower Advisors in 2019, Bob Oros was a financial industry veteran, having climbed the executive ranks at Schwab, LPL Financial and Fidelity. But that wasn't the only buzz he was making at the time.

He was also a partner in a regional craft brewery, a very different business from the national RIA consolidator he was about to run.

You see, managing a craft brewery is a hands-on, creative endeavor with a strong focus on product quality. It's also marketing-heavy because the public needs to discover your product in order to try it. And that's not easy at a small but growing business.

Hightower, on the other hand, is a large-scale operation built on small businesses that have become successful more as a result of the enthusiasm and managerial skills of the operators than the taste and marketing of the product itself.

The common denominator of both enterprises in Oros' eyes: the customer.

"Neither endeavor would be successful without an eternal focus on people," he said. "What people want. What they say about you. What they don't even know they want, but we can deliver."

BUYING THE NEXT ROUND

When Oros joined the Chicago-based RIA aggregator as CEO in January 2019, it was already a very different business from the one first started in 2007. Back then, it was primarily focused on recruiting wirehouse brokers to operate as partners under the Hightower banner.

That modus operandi changed shortly before Oros' arrival after private equity powerhouse Thomas H. Lee Partners purchased a large stake in the firm, infusing it with $100 million in fresh capital. Cash in hand, Oros had the deep pockets to go fishing for small-to-midsize RIAs across the country.

Pretty soon, the minnows were turning into whales, with Oros regularly reeling in advisory teams with assets in the multibillion-dollar range.

Moreover, more and more of that revenue was heading back to Hightower. The firm owned just 23% of the advisers' practices and revenue when Oros started at the company. Skip ahead to today, and that number is over 98%.

"This is increasingly important as the first round of RIA founders begins to retire. Succession and consolidation are a challenge that we are now equipped to help our firms solve as part of a community of well-run, well-thought-out businesses," Oros said.

As a private company, Hightower doesn't disclose financial data, including total annual revenue. At last check, it boasted about 135 advisory businesses in 35 states and the District of Columbia, with AUM totaling about $131 billion.

While the firm has nearly completed its change from a partnership to an acquisition machine, the pace of its purchases may be slowing. Hightower, which has announced 11 deals so far in 2023, recently said it was laying off 5% of its employees as part of an "internal adjustment."

RAISING THE BAR

Considering all the businesses that it's rolled up in the past few years, it's not a surprise that people equate Hightower with acquisitions. Oros, however, maintains that inorganic growth is not his primary focus.

"Organic growth is our top priority and an important aspect of our strategy for how we build both our advisory businesses and the firm overall," he said. "Businesses that can deliver consistent, proven same-store sales growth are highly valuable."

As to how Oros supports those many parts that make up the whole that is Hightower, he said the key is providing advisors with value-added resources, such as Hightower's in-house trust company services, investment management offerings and private market alternatives, estate and tax planning services, and marketing support.

Having access to these resources helps advisors create "a seamless, more holistic client experience," which in turn drives an increase in referrals, Oros said. New client relationships are, of course, critical to growth in the advisory industry.

When it comes to the kind of profile that makes

WHO IS BOB OROS?

Bob Oros is chairman and CEO of Hightower, a national wealth management firm that invests in and empowers financial advisory businesses to drive growth and help clients achieve their financial goals. Under Oros' leadership, Hightower has transformed its business and culture, accelerated acquisitions, expanded services for advisors and achieved consistently strong organic growth. He has over 25 years of strategic and operational experience, previously serving as CEO at HD Vest, executive vice president and head of the RIA segment at Fidelity Clearing and Custody, and in various leadership roles at LPL Financial and Charles Schwab.

“WE LOOK FOR FOUNDERS WITH PROGRESSIVE MINDSETS EXCITED ABOUT RUNNING THEIR BUSINESSES.”

BOB OROS, CHAIRMAN AND CEO, HIGHTOWER

an RIA a strong acquisition candidate for Hightower, Oros says it’s been consistent since his arrival.

“These are long-term relationships, so it must make sense from both a business and a cultural perspective on both sides of the table. We look for founders with progressive mindsets excited about running their businesses, who are growth-oriented and have built successful practices that clearly demonstrate their long-term value,” he said.

Oros is quick to point out that Hightower has been busy acquiring service providers in addition to RIAs to round out the firm’s offerings. In July, for example, Hightower made a strategic investment in GMS Surgent, a CPA firm offering high-end tax planning and preparation services.

“As a wholly owned tax subsidiary, the GMS Surgent team expands the suite of tools Hightower already offers, which includes GTBA, a business management firm offering family office services, and Wellspring, which supports advanced estate and tax planning strategies,” he said.

BREWING UP SUCCESS

The inherent unpredictability of Wall Street ensures there’s no all-encompassing playbook for industry success. Oros attests to the fact that the only thing guaranteed from a lifetime spent in the wealth management world is experience, and the scars to prove it.

“Having seen the industry from a number of different views has been very helpful as we go through different cycles, and as a leader you become a compilation of all the experience you have had along the way,” he said.

Market — and career — ups and downs aside, Oros fervently believes the best part of his job is being part of an industry that makes a difference in people’s lives.

“We help them retire, pay for kids’ education, leave a legacy and, most of all, make our world a better place,” he said.

Cheers to that.

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BEYOND HIGHTOWER

- Oros is chairman of the board of the Mental Health Association of Greater Chicago.
- He’s also a board member of Equal, which provides advocacy for homeless students.
- Oros is an active mentor at his alma mater, Central Michigan University.
- He sponsors a student-managed multi-asset investment portfolio at CMU.
- Oros is a partner at the Reklis Brewing Co., a craft brewery in New Hampshire.

A year of profitability married with caution

The *InvestmentNews* Advisor Benchmarking Study, produced in partnership with SEI, is based on data provided by independent financial advisory firms in an annual study that has run for over a decade. Access to the full report and dashboard are available by subscribing at InvestmentNews.com. The following is an excerpt from the report.

BY INVESTMENTNEWS

Last year was a lot like a Sunday evening — pleasant and satisfying, but with the clear and gathering notion of hard work ahead. Losses in the financial markets and continued inflation created the expectation over the year that dire times may be on the horizon. As a result, we saw a year of profitability, but also one of cautious spending and hiring.

The results of the 2023 *InvestmentNews* Advisor Benchmarking Study not only provide a benchmark for firms that have business characteristics similar to those of the participants, but also an opportunity to examine the forces shaping the results and the strategies and tactics employed by advisory firms in the pursuit of faster growth and better profitability.

CHANGES IN ASSETS AND CLIENT RELATIONSHIPS

The fortunes of financial advisory firms are closely linked to the returns on investment generated by financial markets, and it is therefore no surprise that 2022 was a year of declining assets under management.

The firms participating in the 2023 study saw the assets they manage on behalf of their clients decline by an average of 7.4%. By comparison, the S&P 500 Index total return declined 18.1% over the year. The strong correlation between the two is evident, and anyone with experience in the industry will find that relationship to be logical and perhaps inevitable. Still, long-term success for an advisory firm means finding ways to do a little bit better than what the financial markets would deliver.

> THE NET AVERAGE DECLINE OF 7.4% IN AUM WAS INFLUENCED THE MOST BY AN AVERAGE 11.0% LOSS DUE TO MARKET PERFORMANCE.

The quarterly billing of advisory fees substantially mitigated the overall revenue effect of the decline in assets. In fact, the firms in the study experienced a 5.0% median increase in revenue in 2022. This is because the first quarter of 2022 was most often billed to clients on Jan. 1, when the markets were still near their high points. More firms bill their clients at the beginning of the quarter than at the end. The same is true for subsequent quarters — the decline in AUM was gradual, and this created a lag effect that shielded revenue. Unfortunately, this means that revenue recovery will also lag as financial markets begin growing again.

The markets not only define investment returns, but heavily influence the overall interest that consumers have in investing and in engaging trusted professionals to help them. It is certainly true that while consumers go to the doctor when they feel poorly, they go to the financial advisor when they do well.

On average, the advisory firms in the study added a net 51 new clients, for an average of 8.0% growth in their client relationships. This could be seen as an outstanding result, but we do need to consider the sources of growth before reaching that conclusion. The averages don't always tell the full picture, as they tend to disguise the extremes.

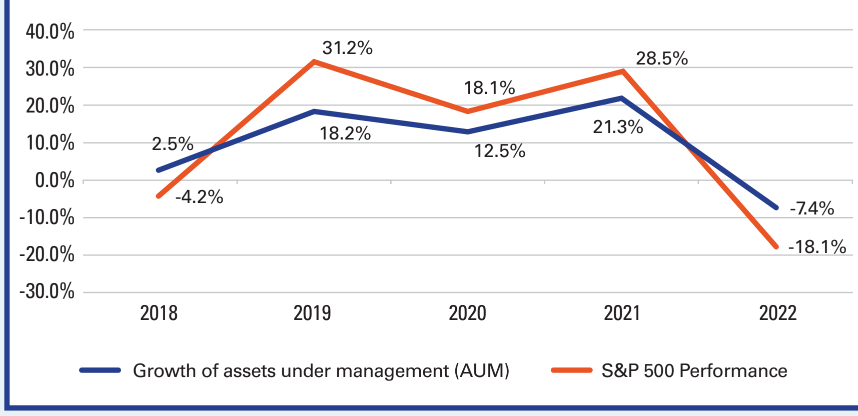
The typical firm made no acquisitions and was therefore limited to organic growth, while a small cadre of mostly very large firms participated actively in acquisitions, accelerating their own growth, but at a very steep price.

In 2022, an average 17 clients per firm were lost and 37 per firm were added through organic growth, resulting in a net average of 20 new client relationships, or 3.1% growth — a relatively modest result in terms of historical growth and the expectations of most firms. An additional average 31 clients were gained through mergers and acquisitions (or through hiring a new advisor who brought existing clients with them), resulting in large gains in client relationships for the minority of firms that participated in mergers or acquired other firms.

GROWTH DYNAMICS

The net average decline of 7.4% in AUM was influenced the most by an average 11.0% loss due to market performance. Firms also experienced an outflow of 2.2% in assets from clients who left. Notably, many clients who leave an advisor do not hire a new advisor, and instead choose to manage their own finances, according to surveys by the Ensemble Practice. Thus, the loss of clients by one firm may not actually create opportunities for other firms.

Growth of assets under management, 2018-2022



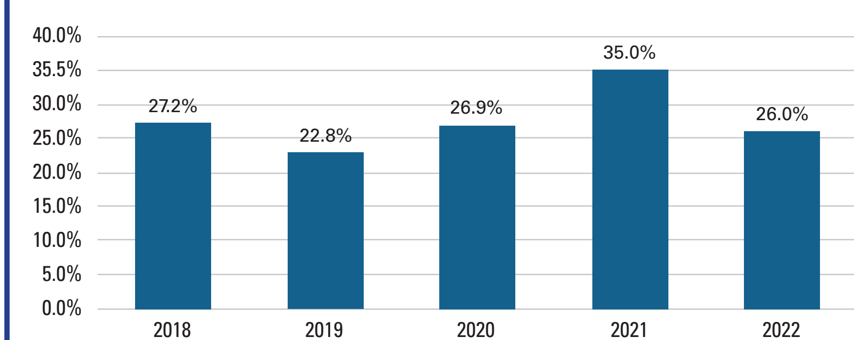
Firms also lost 3.6% of assets to distributions — cases in which the client still works with the advisory firm but chooses to remove some of the assets from their management either to use them as income (e.g., in retirement), make large purchases or simply convert the investments into cash. Some advisory firms do not charge fees on cash held by clients in their advisory accounts. By comparison, distributions reduced AUM by 2.3% in 2021, when the stock market was generating great returns. In general, it is safe to assume across the industry that outflows accelerate during bear markets. But this may not always be true: Some firms include cash and liquid assets in their definition of billable assets, and many firms encourage their clients to stay invested in down markets.

As Warren Buffet famously said, "Be fearful when others are greedy and greedy when others are fearful." Many clients must have followed this philosophy, as contributions added 3.7% to average AUM. Existing clients also continued to refer new potential clients to firms, and that referral activity created 1.8% growth in AUM. For comparison, in 2021, client contributions added 5.2% to AUM, and their referrals resulted in 3.1% growth. Much as with outflows, it is safe to assume across the industry that the rate of referrals declines for most firms in bear markets.

Mergers and acquisitions emerged as some firms' secret ingredient for growth. M&A activity created 1.9% growth on average, inclusive of the recruiting cases in which firms were able to attract an advisor who also brought clients from their prior firm. However, this type of growth was the privilege of a select few: Only 9.5% of participants reported AUM inflows from M&A activity, and the majority of such firms were in the largest size category, with over $1 billion in AUM — what we term "super ensembles."

The decline in assets over the course of 2022 created a stormy sky that adviso-

Operating profit margin, 2018-2022



ry firms could see from miles away. The lagging effect on revenue created by the billing process gave advisory firms time to prepare for the challenges to come, but damage to profitability seemed and continues to seem inevitable.

PROFIT MARGINS AND OWNER INCOME

On average, 2022 still brought great profitability to independent advisory firms, but it also clearly signaled that the high profit margins of 2021 were unsustainable and perhaps will never be seen again. The average advisory firm in the study had a profit margin of 26.0% in 2022, and the median firm had a profit margin of 25.0% — a good result by historical standards but spoiled by the foreboding decline in AUM.

The largest firms in the survey, those with more than $1 billion in AUM, had a median profit margin of 25.4%. Midsize firms with AUM between $500 million and $1 billion had a profit margin of 26.0%, and small ensembles with under $250 million in AUM had a profit margin of 21.8%.

Solo firms, those with only one advisor, had a median profit margin of 33.0%. It is difficult to compare the profit margin of solo firms to that of larger organizations, primarily due to the differences in how they

ONLY 9.5% OF PARTICIPANTS REPORTED AUM INFLOWS FROM M&A ACTIVITY, AND THE MAJORITY OF SUCH FIRMS WERE IN THE LARGEST SIZE CATEGORY.

account for the compensation of the only advisor/owner. While larger firms typically pay market-level compensation to their owners, solo firms are often sole proprietors who combine their compensation and profit into a single stream of income.

On average, advisory firms generate 42.5 cents of income for their owners for every dollar of revenue. Income may be the most simplistic measure of financial success: It simply represents what the owners collectively take home after all the bills are paid. It does not reflect the cost of the owners' own labor, but it is also immune to some of the distortions that owner compensation can create. For that reason, some acquirers use earnings before owner compensation, or EBOC, in their valuations, deal structures and management decisions.

All ensembles had the same EBOC margin of 42.2%; only solo firms were different, with 70.9%.

The past year challenged advisory firms to shepherd their clients through the losses of the financial markets and the anxiety of inflation, while finding the right way to manage their own resources in anticipation of declines in revenue and increases in cost. The industry environment was the same for all participants in the study, but the outcomes were not always identical — good firms found a way to defy the challenges, even if by a small amount. Still, we are clearly witnessing a transformation in how the advisory community operates and competes. The past five years have given us some of the highest profit margins ever seen, and the steepest increases in owner income. The result is a sense that the standards for financial success and fair compensation are changing as we speak.

inresearch@investmentnews.com

SCAN THIS QR CODE FOR ACCESS TO THE FULL 2023 ADVISOR BENCHMARKING STUDY.

Industry

NEWSWRAP

Wells Fargo advisors jumping internally — to FiNet

WELLS FARGO ADVISORS, the broad marketing umbrella for close to 12,000 bank advisors, wealth management advisors and independent advisors, is betting big on its independent advisor business, in which an advisor works as either an independent contractor or registered investment advisor.

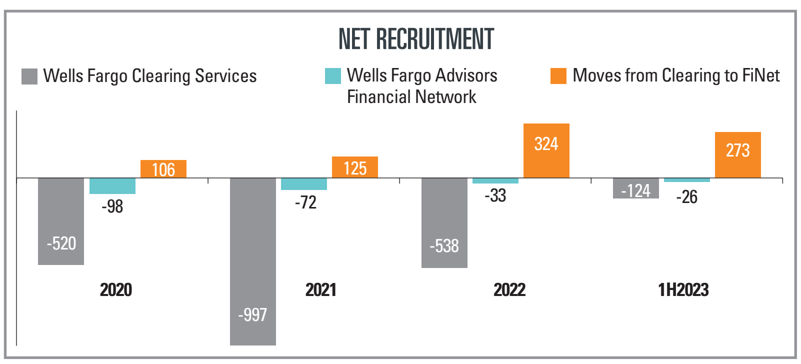
With thousands of advisors having left or retired from Wells Fargo since the banking scandals of 2016, the bank has turned to its independent business model, where advisors pocket a larger percentage of revenue, as a way to hang onto its veterans. Last summer, Wells Fargo bolstered its independent broker-dealer, Wells Fargo Advisors Financial Network, known as FiNet, by creating a new bonus for advisors who would have otherwise lost hard-earned deferred compensation.

Senior Wells Fargo executives are touting the growth in FiNet and its RIA business, with Barry Sommers, CEO of Wealth and Investment Management, telling Bloomberg, "We really do believe that five years from now, the independent channel will be our biggest channel."

InvestmentNews Research data make it clear that Wells Fargo has created an easier path for advisors to switch from Wells Fargo Clearing Services, the broker-dealer that's home to its 9,000 or so wealth management advisors, to FiNet. What's not clear is how much revenue this is costing the firm; each Wells Fargo advisor generates on average near $1 million or more in annual revenue.

Since 2020, 828 financial advisors have moved from Wells Fargo Clearing Services to FiNet, with the pace accelerating in the past two years. Those advisors represent $828 million in annual revenue, according to back-of-the-envelope math, so the stakes for Wells Fargo are high.

"The bank is trying to keep advisors who would have left anyway and keep revenue in house, although the revenue is less for the bank with an advisor at FiNet," said Danny Sarch, an industry recruiter. "The Wells Fargo name to the public is still a bit tainted. They're trying to keep the financial advisors tied to the company."



FOCUS

How advisor's 'trial by fire' taught him about deeper relationships

Looking back to when he started out, Sam Huszczo, founder of registered independent advisor SGH Wealth Management, said his ignorance was something of a superpower.

His first job as a naïve 24-year-old two decades ago was at a commission-based firm where he was thrown, headfirst, into the race for clients. It was sink-or-swim time, but, after a year in the role, Huszczo had a deeper understanding of where he wanted to take his career.

"You don't learn sales or business development in college," he recalls. "It was trial by fire to learn all that type of stuff, but I felt like the relationships with clients were really transactional. They weren't deep. You didn't have the motivation to contact your existing clients all the time, because you were always looking for that next commission."

That's not how Huszczo, who is based in Southfield, Michigan, wanted to work. He took the sales and process skills he learned and started his own business in 2005. He views the industry as "moldable": The investment landscape has transformed since SGH's launch, but that also means you must change with it in order to best serve your clients.

At the beginning, SGH invested clients almost exclusively in mutual funds; however, this active management often came with hefty fees. Many investors turned to cheaper, passive ETFs, although that market has matured considerably to now offer many active strategies. "There's more offerings today, and client appetite is more sophisticated than [simply] wanting inexpensive investment options," Huszczo adds. "You can't just rest on the moniker of it being cheap."

"THE BIGGEST MISTAKE OF THE YOUNGER GENERATION IS VOLUNTEERING PRAGMATICALLY FOR BUSINESS CONNECTIONS OR TO HELP THEIR OWN CAREERS."

SAM HUSZCZO, FOUNDER, SGH WEALTH MANAGEMENT

To navigate this evolving landscape, SGH Wealth Management leans toward the low-expense-ratio side of the ETF industry, incorporating factor-based investing. This approach uses quantitative models that have been used by insti-

NEWSWRAP

Duran's Rise Growth hires Terri Kallsen as managing partner

RISE GROWTH PARTNERS, Joe Duran's effort to build the next generation of national advisory firms, has hired Terri Kallsen as managing partner and senior operating advisor, the firm announced last Monday.

Kallsen most recently was chief operating officer at the $70.5 billion Wealth Enhancement Group. Earlier, she was executive vice president of investor services at Charles Schwab, where she led more than 7,000 employees, and president of wealth management at USAA.

Duran announced last month that he would launch Rise Growth Partners next year with private equity backing to take minority stakes in registered investment advisory firms and help them grow into national enterprises.

Kallsen will be one of the Rise executives advising the firm's "select group of partner RIAs on business management, client service delivery and growth strategies," according to a statement.

"Throughout my career, I've had the pleasure of guiding many RIA owners toward achieving growth and scale," Kallsen said in the statement. "We're looking for talented RIAs with a thirst for growth, a values-based culture, leaders who want to partner in a synergistic way, and most importantly, [who are] open to change for the betterment of their firms."

"Terri is the type of leader I have always worked most effectively with … [one] who possesses comprehensive industry knowledge [and] passionately believes in the transformative potential of independent advice," Duran said.

Sam Huszczo

tutions for decades to filter factors that are relevant to their clients' investment goals. "It keeps evolving, but the tenets stay the same — keep the expense cheap and know your target client," he says.

SGH Wealth Management primarily serves individuals with assets ranging from $2 million to $5 million. While Huszczo's background as a chartered financial analyst qualifies him to manage much larger accounts, the firm has found its niche in this specific segment. "That's our sweet spot where we feel like we can offer a much better platform than the competition," he said.

The firm is young and so are its employees, with an average age of just 24. With boomers retiring, financial advice needed more than ever, and more CFPs under 50 than above, Huszczo wants to be prepared for the changing of the guard. But as past president of the CFA Society Detroit and recipient of the CFA Institute Volunteer of the Year in 2017, one area of growth he targets is arguably more old-fashioned — volunteering.

"When I look back at it, honestly, volunteerism was the catalyst that helped my career," he said. "I'd say the biggest mistake of the younger generation is volunteering pragmatically for business connections or to help their own careers."

The connections will come, Huszczo believes, but only if the volunteerism is guided by actual passion. For example, his work with the CFA acted as a springboard into other areas.

"Find something you enjoy," he says. For him, that was music. "I randomly got two degrees from Michigan when I went there. One was in jazz piano performance. I don't play music anymore, but I love music, so if I can help the Detroit Symphony Orchestra figure out their finances better, that is something I can feel good about."

This passion and commitment resonate through his involvement in board meetings and interactions with fellow board members, fostering genuine connections. Over time, he says, these authentic connections and experiences will open doors.

NEWSWRAP

Bank of America sees decline in income for wealth group

DESPITE THE broad stock market's rise over the past year, with the S&P 500 up almost 19%, Bank of America's Global Wealth and Investment Management group, which includes Merrill Lynch, reported net income of $1 billion in the quarter ended in September, a decrease of 13% compared to the same period last year.

The wealth business also reported third-quarter revenue of $5.3 billion, a decline of 2%. That decrease was driven by lower net interest income, partially offset by higher asset management fees due to higher market levels and asset flows from clients, according to the company.

Bank of America CEO Brian Moynihan pointed to the wealth management group as a weak link in the bank's chain of businesses on a conference call with analysts. When asked about the bank's efficiency ratio, or its ability to use assets to generate income, Moynihan responded, "One of the big differences between us and other companies you can compare us to is that the size of our wealth management business relative to the size of the company is large. And as you know, that's a business that we continue to work to make more efficient, but is the least efficient business in the platform."

Elsewhere, Charles Schwab Corp. reported last Monday that its net interest revenue sank 24% to $2.2 billion from the year prior as clients moved cash into higher-yielding products.

The company's bank deposits fell 28% to $284.4 billion in the third quarter from the year prior, beating the $268.8 billion average estimate of analysts surveyed by Bloomberg.

"However, cash realignment activity decelerated further during the quarter — even with the brief uptick in August and an increase in long-term interest rates," chief financial officer Peter Crawford said in a statement.

There was positive news for Wells Fargo & Co., which beat analysts' expectations for net interest income in the third quarter and again raised its full-year guidance as the bank continues to benefit from higher interest rates.

The bank earned $13.1 billion in NII — revenue collected from loan payments minus what depositors are paid — in the three months through September, up 8.3% from a year earlier, according to a statement Oct. 13.

NEWSWRAP

RIA M&A surges back in the third quarter

THE MERGERS an acquisitions marketplace for registered investment advisors saw a summer surge this year, according to a report by Echelon Partners, a boutique investment bank focused on the investment management and wealth management industries.

According to Echelon, in the quarter ended Sept. 30, RIA buyers announced 86 transactions, passing the 65 announced in second quarter by 32%. That made it the most active third quarter on record, according to the tally by Echelon, which likely shows some pent-up demand being released.

The level of deal-making in the RIA marketplace is "a rebound to levels of deal activity not seen since early 2022," according to the report.

And Goldman Sachs Group Inc. was a busy player.

"Goldman Sachs was both a buyer and seller in the quarter's top deals, acquiring a stake in World Insurance Associates [via Goldman Sachs Asset Management], while also selling Goldman Sachs Personal Financial Management, [created after its acquisition in 2019 of United Capital Financial Partners] to Creative Planning," according to Echelon.

Both those deals were announced in August. Goldman Sachs will be investing more than $1 billion in insurance brokerage World Insurance Associates, which currently has a total enterprise valuation of approximately $3.4 billion, the company said in an Aug. 21 press release.

A week later, Goldman Sachs said it was selling Personal Financial Management to Creative Planning, a leading RIA with $245 billion in client assets. Terms of that deal were not released.

A series of large deals was struck in September, the Echelon report noted.

Private equity investor Carlyle Group said it was providing a cash infusion to acquisition-hungry Captrust Financial Advisors. Also in September, Cetera Holdings said it was acquiring Avantax Inc. for $1.2 billion and private equity investor Abry said it was investing a minority stake in Prime Capital Investment Advisors, an RIA with $22 billion in client assets.

Regulation

NEWSWRAP

Don't say 'fiduciary rule'; DOL prefers 'retirement security' regulation

A DEPARTMENT OF LABOR official said the agency's next attempt at setting investment advice standards for retirement accounts will not just be a rehash of previous fiduciary rules.

"We're intentionally referring to it as the retirement security rule rather than the fiduciary rule," DOL assistant secretary Lisa Gomez told reporters last Monday on the sidelines of a conference in Washington about retirement financing sponsored by TIAA. "The reason is we want to signal … that this is not a regurgitation of the old rule."

In September, the DOL sent a proposal formally titled "conflict of interest in investment advice" to the Office of Management and Budget for review. The abstract says the measure would revise the regulatory definition of the term "fiduciary" to "more appropriately define when persons who render investment advice for a fee to employee benefit plans and IRAs are fiduciaries within the meaning" of federal retirement law.

If the OMB approves the proposal, the DOL will release it for public comment — a move that's expected to occur later this month.

It would mark another step in the agency's effort over more than a decade to reform advice rules for retirement investing. The goal has been to ensure financial advisors put their clients' interests in building a nest egg ahead of advisors' revenue interests.

An Obama administration fiduciary rule was struck down by a federal appeals court. The Biden DOL has let stand a Trump administration version of the rule but indicated when it did so that more rulemaking was coming.

Gomez did not provide details about how the latest proposal would differ from previous versions, nor did she confirm a timeline.

"It's a high priority for the White House and for the department, so you can expect something very soon," said Gomez, director of the Employee Benefits Security Administration. "We are trying to protect retirement savers. This is a new approach. Stay tuned."

FOCUS

SEC maintains ESG focus despite absence in exam priorities

Just because ESG wasn't mentioned in the SEC's examination priorities for next year doesn't mean that ESG regulation is out of mind for the agency.

The Securities and Exchange Commission didn't mention reviewing the use of environmental, social and governance factors in investment recommendations and strategies as an emphasis in its investment advisor exams in 2024 in the document it released last Monday.

That's a sharp contrast from the agency's priority lists of the last couple of years, in which ESG was prominent. The absence of the topic was first noted by Bloomberg Law.

Even though ESG was excised from the examination preview document, the theme still courses through SEC enforcement and rulemaking.

"It would be a mistake to construe that exclusion as an indicator that ESG is no longer a priority for the SEC," said Kurt Gottschall, a partner at the law firm Haynes Boone and former director of the SEC's Denver office.

The agency recently fined a subsidiary of Deutsche Bank $19 million for making misleading statements about incorporating ESG factors into its ESG-integrated actively managed mutual funds and separately managed accounts.

NEWSWRAP

Finra tags advisor for sales of GPB alternatives

THE FINANCIAL INDUSTRY REGULATORY AUTHORITY INC. has penalized plenty of broker-dealers over sales of private placements manufactured by GPB Private Holdings, typically for selling the high-risk securities in 2018, when GPB had failed to file required audited financial statements for two of its biggest limited partnerships with the Securities and Exchange Commission.

Now it appears that Finra's enforcement office is starting to take a harder look at the individual brokers and financial advisors who sold the GPB private placements, which were limited partnerships formed to acquire income-producing companies such as auto dealerships and trash businesses. GPB raised $1.8 billion from retail investors starting in 2013, but it hit the skids five years later when it failed to file audited financials with the SEC.

Finra fined a broker, Arni J. Diamond, $5,000, and suspended him from the securities industry for four months as a result of alleged unsuitable recommendations of GPB private placements to two clients that totaled $250,00 and occurred prior to 2018, according to Finra.

At the time he sold the GPB securities, Diamond was registered with a broker-dealer called Kalos Capital Inc., which a year ago said it was filing for bankruptcy because it was swamped with $9 million in legal fees and costs related to sales of GPB private placements.

Diamond couldn't be reached for comment as the phone to his eponymous firm in Jacksonville, Florida, has been disconnected.

Finra has penalized 15 broker-dealers a total of $3.7 million for sales of GPB private placements. The regulator appears now to be focusing on advisors who sold the product.

It may be too little too late, one attorney said.

"From my clients' perspective, it's frustrating to see Finra charging brokers after the nail is in the coffin of their portfolios due to speculative, overconcentrated positions in risky alternatives," said Scott Silver, a plaintiff's attorney. "In this day and age, it's not hard to track brokers doing this kind of behavior that could be prohibited at time of sale. And it gives the investor no solace to see this kind of slap on the wrist years after the fact."

Last year, the SEC brought enforcement actions against Goldman Sachs Asset Management and BNY Mellon for compliance violations involving ESG investing.

Those cases are highlighted on an agency webpage devoted to its enforcement task force on climate and ESG issues.

"FIRMS SHOULD CONTINUE WITH RIGOR AND DILIGENCE TO OPERATE THEIR ESG RISK AND COMPLIANCE PROGRAMS. THEY SHOULD NOT RELAX AT ALL."

CARLO DI FLORIO, GLOBAL ADVISORY LEADER, ACA GROUP

On the rulemaking side of the agency, the SEC recently issued a final regulation designed to combat greenwashing by expanding a rule that requires the names of funds to reflect their investment strategies. Two other rules are pending — one on public company climate disclosures and another to strengthen ESG disclosures by investment advisors and investment companies.

All of those actions "in their totality show that the SEC remains focused on ESG," said Carlo di Florio, global advisory leader at ACA Group, a governance, risk and compliance consulting firm, and a former director of the SEC examination program.

The financial industry should pay attention to the agency's body of work on ESG and not be lulled to sleep by the 2024 examination priorities, he said.

"I don't read too much into it," di Florio said. "Firms should continue with rigor and diligence to operate their ESG risk and compliance programs. They should not relax at all. They should continue to do the work they're doing in this area."

The SEC suggested the priorities document is a just starting point, not a destination.

"The published priorities are not exhaustive and will not be the only issues addressed in FY24 examinations," an SEC spokesperson said in a statement.

When the SEC probes for compliance deficiencies, fraud and risk, it transcends specific topics, said Leah Malone, a partner at Simpson Thacher & Bartlett and head of its ESG and sustainability practice. Shortfalls in those areas apply to a range of investing activities.

"The ESG label doesn't make this something so different that it needs to be called out separately," Malone said. "It's part of the natural examination process that the SEC does in the ordinary course. It's baked into their mission of protecting investors and ensuring accurate disclosures."

The absence of ESG in the 2024 exam priorities could reflect the fact that there are pending ESG rules, Gottschall said. When final regulations are issued over the next few months, they may go into force in 2025. Compliance with those rules could be a priority.

"I anticipate [ESG] will be back in future years," Gottschall said.

NEWSWRAP

SEC targets marketing rule, advisor compensation, complex products in 2024

THE SEC will zero in on investment advisors' compliance with the marketing rule, their compensation arrangements and their recommendations of illiquid or difficult-to-value assets in its examinations in 2024.

The Securities and Exchange Commission will also place "particular examination focus" on how advisors protect clients' personal information and the accuracy and completeness of their regulatory filings, such as Form CRS, according to the 2024 examination priorities the agency released last Monday.

The marketing rule, which became effective in November, allows advisors to use client testimonials and reviews and has implications for social media marketing. The SEC will assess how advisors adopt and implement policies to comply with the marketing rule, ensure proper disclosure on Form ADV, and substantiate claims in their advertisements.

Furthermore, the SEC will examine alternative revenue-maximizing methods employed by advisors, particularly focusing on revenue from clients' bank deposit sweep programs and fee breakpoint calculations, especially in non-automated fee billing systems. In terms of valuation assessments, the SEC is concerned about recommendations related to illiquid or difficult-to-value assets, such as commercial real estate or private placements.

The agency will emphasize the evaluation of complex products and novel investment strategies to determine adherence to fiduciary duty and Regulation Best Interest by investment advisors and brokers, respectively. This includes derivatives, leveraged exchange-traded funds, high-cost and illiquid products, and unconventional strategies, especially in the context of advice provided to specific client types.

For brokers, the priorities also touch upon proprietary products, microcap securities, and investors saving for college. Additionally, the SEC will probe economic incentives that advisors may have to recommend specific products, such as revenue sharing and markups. Disclosures pertaining to conflicts of interest associated with investment advice will also be reviewed.

Whether it's in their recommendations of complex products and strategies, how they market their practices or whether they act in their clients' best interests, the SEC wants advisors to be more forthcoming.

"What they're seeing is a need for increased disclosures and transparency to the investors," said Bernadette Murphy, managing director at Vigilant, a compliance consulting firm. "The SEC has always focused on fees and expenses. They're going even deeper here."

NEWSWRAP

SEC AI proposal would hurt retirement savers, industry group warns

A FINANCIAl industry group has called on the SEC to withdraw a proposal aimed at addressing conflicts of interest related to the use of artificial intelligence by financial professionals, asserting that it could harm retirement savers. Under this proposal, released by the Securities and Exchange Commission in July, investment advisors and brokers using AI and predictive data analytics must eliminate or neutralize situations where technology prioritizes their interests over those of investors.

The rule encompasses what the SEC terms "covered technology," encompassing analytical, technological, or computational tools that optimize, predict, guide, forecast, or direct investment-related behaviors. This extensive scope has sparked criticism across the financial sector, with the ERISA Industry Committee, which represents retirement plan sponsors, stating that it would affect a broad range of tools, including those assisting investors in saving for retirement.

Andy Banducci, a senior vice president at the ERISA Industry Committee, called for the proposed rule's withdrawal, expressing concerns that it would impose new review and documentation requirements on technology-based financial wellness programs. This could result in financial firms offering less-valuable information and reduced access to these programs, which could gradually become less useful over time.

SEC Chair Gary Gensler emphasized the importance of protecting investors from conflicts arising from AI-driven interactions.

Critics argue that the rule is excessively broad and attempts to address diverse issues with a single, blunt instrument. They suggest that revisiting existing regulations, such as Regulation Best Interest and the interpretation of fiduciary duty under the Investment Advisers Act, may offer a more sensible approach.

In summary, the financial industry group is calling for the withdrawal of the SEC's proposal targeting conflicts of interest related to AI, citing potential harm to retirement savers and concerns over the rule's broad scope and potential negative impacts on investors and financial professionals. Critics suggest that existing regulations may be more appropriate for addressing these concerns.

NEWSWRAP

Social Security COLA for 2024 may leave some retirees short

THE SOCIAL SECURITY cost-of-living adjustment will be 3.2% in 2024, down from the massive boost of 8.75% implemented this year.

The increase, which the Social Security Administration announced, is higher than the average of 2.6% seen over the past 20 years. But the decline in the COLA from 2023's is a sign of cooling inflation.

The rise amounts to an average increase of $50 a month for the 66 million people who receive Social Security, as well as the 7.5 million who get Supplemental Security Income, the administration said.

"Social Security benefits are really only designed to replace about a third or less of our income, so when we have a COLA, even when it's higher than average, like 3.2%, the dollar amount of this increase is really pretty modest," said Mary Johnson, Social Security and Medicare policy analyst at The Senior Citizens League. "Even though the inflation rate or the rate of price changes has come down, some prices don't. Things like rent, your medical costs, they go up and they rarely come down."

Social Security taxes are also affected, with the maximum earnings that are taxable going from the current level of $160,200 to $168,600. That affects self-employed workers more, as they have to pay both the employee and employer portion of the tax, totaling 12.4%, Johnson noted.

Larry Luxenberg, principal of Lexington Avenue Capital Management, said in an email that this increase is a sign of normalcy for inflation and that "there are hopeful signs for everyone." But the fact that a decrease in the size of the annual COLA follows a decrease in core inflation doesn't necessarily reflect the financial realities for many, Jim Sumpter, president of CMC Financial, said in an email.

"While it is nice that there will be an increase, it could be less than what clients are actually spending money on. Many items still cost much more than the overall increase, which could be a net deficit to many seniors," Sumpter said.

FOCUS

How authentic style helps clients turn dreams into reality

Emlen Miles-Mattingly believes in genuine human connection. As founder and financial advisor at Gen Next Wealth, he knows financial planning is as much about values and relationships as it is about numbers and strategies.

"Because of my authentic communication style, clients connect with me on more than just a financial level," he said. "When someone has things they value in their relationship and life, I want to make sure we accentuate those through their plan."

As a result, meetings with clients can sometimes get emotional. He remembers one experience that could stand in for many. He was talking to a retiree, reviewing his account, when he realized he needed to change his approach. "I asked him, 'What's one thing you've always wanted to do with your family?'"

The client was taken aback. He had never been asked that question before. It turns out Miles-Mattingly's client had always dreamed of taking his family on a vacation, putting everyone up in a hotel, covering all expenses.

When Miles-Mattingly asked him what had prevented him from doing that, he started to cry. He talked about tension in his family that made such a gesture improbable, if not impossible. "We talked through that specific situation with his family. And I gave him some advice: Just let your kids know how much you love them. Do they know that this is what you want to do?"

The outcome? "The next quarter, he had that trip planned. That's the difference in my advice. I'm really connected with people. It's not always about money. It's about the people who are important."

The holistic approach to financial planning doesn't just focus on numbers. "We try to lead with the full picture of someone's finances, which usually includes their family," he said.

This comprehensive view ensures that all aspects of a client's financial life are considered, especially when it comes to preparing for the future. The personal touch in these discussions can make all the difference.

"It hits home when it's actually at home," Miles-Mattingly said.

Hearing him talk about connecting

"I GAVE [MY CLIENT] SOME ADVICE — JUST LET YOUR KIDS KNOW HOW MUCH YOU LOVE THEM."

EMLEN MILES-MATTINGLY, FOUNDER, GEN NEXT WEALTH

NEWSWRAP

Gen Z has ambitious retirement goals in face of increasing obstacles

A NEW STUDY shows Gen Z workers are itching to retire at age 61. If that's the case, they have a lot of hurdles to clear.

According to Charles Schwab's annual nationwide survey of 401(k) plan participants released Oct. 11, Gen Z employees, or those who are 21 to 26 years old, want to retire at age 61, but 99% say they are facing obstacles to saving for a comfortable retirement, a 9% jump over last year and higher relative to the 88% of millennials, 91% of Gen Xers and 86% of boomers who cited such concerns.

The top obstacles to meeting their retirement goals for Gen Z are inflation (54%), meeting monthly expenses (35%), and paying for unexpected expenses (31%). Gen Z is also the generation that's most likely to say financial stress has affected their ability to do their jobs, at 26%, followed closely by millennials (22%), while Gen X (15%) and boomers (10%) report a much lower impact.

The online survey of 1,000 U.S. 401(k) plan participants was conducted by Logica Research between April 19 and May 2. The survey respondents worked for companies with at least 25 employees, participated in the 401(k) plan and were 21 to 70 years old.

"Just a few years ago, Gen Zs were all about F.I.R.E., or Financial Independence Retire Early. Now, given higher inflation and other issues like student loans, they don't feel they have the resources to save for retirement," said Scott Bishop, managing director at Presidio Wealth Partners.

Elsewhere, the report showed that more than half of all workers say their employers stepped up in the past year to help them manage their financial stress. Marci Stewart, director of communications consulting and participant education at Schwab Workplace Financial Services, said, "[This] can go a long way toward helping to boost retention and slow job-hopping among younger workers."

Emlen Miles-Mattingly

and looking at the different projects with which he's involved, it's clear that for the Madera, California-based advisor the concept of family extends beyond the home to encompass his entire community.

"When we started, the first initiative was the 'Minority Money' podcast," Miles-Mattingly said. "It began with simple morning videos I'd post on social media, where I'd share financial tips and personal encouragements. My friends kept suggesting, 'You should have a podcast.' Initially, I was hesitant, but after seeing a business partner launch his own podcast, I thought, 'If he can do it, so can I.' That's how 'Minority Money' was born."

The podcast's inception was driven by a desire to address key areas crucial for minorities: finance, family, education and health. "The reason why I picked those areas was because when I worked at an insurance company, I noticed that no middle-aged black men got approved for life insurance," Miles-Mattingly said. "I was the exception, and that was mainly because I was younger when I applied."

The success of "Minority Money" paved the way for other initiatives. "In 2020, after the tragic event involving George Floyd, a group of friends and I felt the need to do something. We wanted to raise awareness in the financial planning community about the untapped talent out there. That's when the BLX Internship Program was born. Our goal was simple: to make the industry more inclusive."

Following the BLX Internship Program, he also launched the Onyx Advisor Network, a platform designed to help advisors start, scale and sustain their practices.

But beyond these initiatives, there's a bigger vision. "I aspire to be one of the first black RIAs to surpass $100 million in AUM. It's not about the money or personal achievement. It's about setting a precedent. Just as I was inspired by others, I want to inspire the next generation."

NEWSWRAP

Medicare participants get early view of 2024 increase

MEDICARE PARTICIPANTS waiting to hear how much their premiums would increase next year learned their fate early this year.

More than 66 million people enrolled in Medicare were informed about their Medicare Part B premiums, which are usually deducted from Social Security benefits.

The Centers for Medicare & Medicaid Services said the standard monthly premium for Medicare Part B enrollees will be $174.70 in 2024, an increase of $9.80 from $164.90 in 2023. The annual deductible for all Medicare Part B beneficiaries will be $240 next year, an increase of $14 from the annual deductible of $226 this year, according to the CMS.

Higher-income Medicare beneficiaries will pay even more next year. In 2024, individuals with modified adjusted gross income of $103,000 or more and married couples with MAGIs of $206,000 or more will pay additional surcharges ranging from an extra $69.90 per month to an extra $419.30 per month on top of the standard Part B premium. Married couples where both spouses are enrolled in Medicare pay twice as much.

High-income surcharges for 2024, known as income-related monthly adjustment amounts or IRMAA, are based on income reported on 2022 federal tax returns. About 8% of Medicare beneficiaries pay IRMAA surcharges.

High-income retirees are also subject to monthly surcharges on their Medicare prescription drug plans, ranging from an extra $12.90 per month to an extra $81 per month per person on top of the monthly premium. Medicare drug plans are run by private insurers, and premiums vary widely.

The CMS says the increases in the 2024 Part B standard premium and deductible are primarily a result of projected increases in health care spending.

NEWSWRAP

MetLife latest in string of 401(k) lawsuit settlements

THERE HAS BEEN a flood of settlements this year in 401(k) plan lawsuits, netting plaintiffs and the law firms that built the cases millions of dollars.

Several of those cases involved financial services firms, including MetLife, which recently indicated in court records that it has reached a deal to settle a two-year lawsuit.

"There have been more settlements announced this year — 30 to our count — than most years," said Daniel Aronowitz, managing principal of 401(k) insurer Euclid Fiduciary. "We see two things happening: More cases have worked their way through the litigation process, especially from the years like 2020 with the most filings, and more cases are settling quickly when certain law firms are involved."

Over the past few years, there has been a rapid rise in the number of law firms and cases pursuing a quick-hit strategy — lobbing claims against 401(k) sponsors in hopes of getting a high number of small but fast settlements.

But other law firms, such as Schlichter Bogard or Sanford Heisler, "are playing the long game and seeking high settlements," as they are "focused on performance and duty of loyalty claims, which have a higher settlement value," Aronowitz said in an email.

This year has seen big settlement figures. For example, General Electric is settling the case against it for a proposed $61 million, and a case against Verizon settled for $30 million.

Recently, at least one law firm has reportedly been contacting plan sponsors before filing claims and alluding to possible settlements.

MetLife declined to comment on the settlement it recently reached.

The insurer was sued in 2021 by plaintiffs alleging the company breached its fiduciary duties to participants by stocking the now $7.9 billion plan with its own line of index funds. Those funds had higher fees than options available from competitors, which resulted in MetLife employees paying more than they needed to, the plaintiffs claimed.

Your Practice

NEWSWRAP

Advisors prefer independent business models, Fidelity finds

IT APPEARS THAT more advisors are making the move to go independent — and there's no sign of that trend stopping.

New Fidelity Investment research found that approximately 1 in 6 advisors has switched from a corporate firm to go independent over the past five years. Additionally, advisors cite independent business models as the top destination, with 94% of advisors saying they're happy with their decision to move and 85% saying they feel more in control of their futures.

Rohit Mahna, head of client growth at Fidelity Institutional Wealth Management Services, said the findings suggest advisors might be better informed than before and want to put their clients first, as they always have.

"They've got access to Google and things online and different social networks," Mahna said. "So their aperture of knowledge has grown. We're seeing many teams and advisors looking to go independent so that they can be better aligned to meet the needs of clients."

Advisors may prefer independence and the benefits that come with it, but a lack of knowledge may be preventing them from taking that step. The most notable concerns found in the research were fear of the unknown (60%), client attrition (48%) and time spent transitioning versus managing the practice and their clients (35%).

To help address concerns related to moving to an independent model, Fidelity has launched a resource, Independence Hub, which aims to help advisors navigate the decision-making process, educate them on leadership, and provide next steps and suggestions on their independence journey.

The hub offers an RIA valuation tool that helps advisors understand the potential economics as they go independent. Mahna said Fidelity sees the hub as a living and breathing thing.

"That hub, based on feedback, will just get enhanced and will grow more and more," he said. "We want to make sure people feel very empowered that they could drive their discovery process on their own when they're online."

FOCUS

How social media powered millennial-focused practice

It wasn't until Thomas Kopelman left the constraints of a traditional broker-dealer that he was able to unleash the full potential of his social media strategy.

His instinct told him early on that the industry's methods of client acquisition at the time felt wrong. Being told to attend every networking event and come back with a certain number of leads felt antiquated. "Financial advice shouldn't be a numbers game," he insists.

Instead, Kopelman, who is based in Indianapolis, believed in the power of social media to allow advisors to connect with clients genuinely seeking financial guidance. But the traditional setup was restrictive. "I couldn't post without a week-long approval process, couldn't blog, podcast, or even tweet freely. I knew I had to make a change," he said.

Just over two years ago he co-founded AllStreet Wealth, a fee-only financial planner that targets millennials, and soon reveled in the freedom. Social media has been the catalyst for the company's rapid expansion.

"It's predominantly Twitter," Kopelman explained. "While we engage with various platforms, Twitter unequivocally emerges as our top lead generator.

"On a relatively quiet month, I can confidently expect around 12 potential clients reaching out via Twitter. In more active months, this figure can even climb to 25," he said. "Our calendar for the upcoming months is almost full. We're set to onboard four households each in October and November. And while December will see a brief hiatus, I've already onboarded a client for the onset of next year."

> **"I COULDN'T POST WITHOUT A WEEK-LONG APPROVAL PROCESS, COULDN'T BLOG, PODCAST OR EVEN TWEET FREELY. I KNEW I HAD TO MAKE A CHANGE."**
>
> THOMAS KOPELMAN, CO-FOUNDER, ALLSTREET WEALTH

Such a consistent stream of clientele has positioned AllStreet Wealth well for the future. The burgeoning demand also prompted the firm to recalibrate its pricing model. Its revised fee structure now ranges from $12,000 to $18,000, contingent on the situation's intricacy. The firm also continues to hone its operation. Previously, crafting a financial plan was a two-week endeavor but that has been brought down to two or three days.

Kopelman's career, however, wasn't always such smooth sailing. His early life revolved around basketball, and after

NEWSWRAP

Increased satisfaction with life insurance, annuities

CUSTOMER APATHY toward life insurance and annuities is a decades-old challenge, but technology is helping the industry change perceptions.

The latest generation of mobile apps and websites is boosting customer satisfaction as technology drives greater use of the products for financial planning and final planning (such as death benefits and burial insurance), according to new data from J.D. Power.

"Sales of life insurance enjoyed a brief surge in popularity during the height of the pandemic, while sales of annuities have more recently soared," explained Breanne Armstrong, director of insurance intelligence at J.D. Power. "But outside of that, customer satisfaction and engagement have generally declined the longer customers hold onto these products."

But the latest generation of digital tools is fomenting an evolution, with more customers engaging and being more likely to incorporate life insurance and annuity products into their financial plans.

Even when products are purchased through a financial advisor or agent, customer satisfaction in these products is increased when digital interaction channels are used. For life insurance customers, satisfaction is 795 out of a possible 1,000 for nondigital customers but 821 for those using digital. For annuity customers there is a 25-point increase to 809 for digital customers.

The number of life insurance products purchased via websites has more than doubled to 13% over the past five years, and 62% of life insurance customers engage with their provider via digital channels. Satisfaction is 823, 79 points higher than for customers not using digital channels.

Customer satisfaction with the application and orientation process — a critical part of the annuity onboarding process — is highest when customers purchase via provider websites. Using various digital touch points, including website, email, chat, text, or mobile app, for regular interaction with their provider leads to a 35-point boost in satisfaction compared to those who do not use these channels and a 93-point lead over the satisfaction of those who do not interact with their provider at all.

Thomas Kopelman

high school he played for the Minnesota State Mavericks until an injury changed everything. Kopelman switched schools, leading him to Butler University in Indianapolis, where he soaked up six internships ranging from pharmaceutical giant Eli Lilly to startups.

His exit from the broker-dealer world hinged on a mentor in the RIA fee-only world. "He introduced me to the right people and taught me invaluable lessons," Kopelman recalled. Despite multiple job offers, Kopelman's heart was set on working with this particular individual. "I told him, 'You're who I want to be. Just let me learn from you.' And after persistent efforts, he did," Kopelman says.

After Kopelman had gained invaluable experience and insights, his mentor gave him the nudge he needed. "He believed I had learned what I needed and encouraged me to launch my own firm," Kopelman said. AllStreet Wealth was born, co-founded by Kopelman and his partner, Treyton DeVore. "Treyton handles the creative side, while I focus on the client base. It's a partnership that works."

Today, AllStreet Wealth is in a phase of exponential growth, onboarding four households every month with a minimum fee of $12,000. Kopelman's team now includes a part-time assistant, a part-time CFP and a recent full-time hire with expertise in tax planning.

NEWSWRAP

Raymond James reveals tax management enhancements

RAYMOND JAMES will soon be integrating fintech 55ip's cutting-edge tax management technology across its managed accounts platform, the firms have announced.

The partnership marks an industry first, the announcement said, as it will provide custom, tax-smart management at scale for Raymond James advisors and their clients.

"The enhancements will make tax-smart transition, rebalancing and ongoing tax-loss harvesting available to Raymond James managed accounts users," the firms said in a statement.

Raymond James' managed account programs provide clients more than 350 investment strategies with over $144 billion in assets, including $71 billion in taxable assets. The offerings include unified managed accounts, separately managed accounts, mutual funds and ETF model portfolios.

J.P. Morgan bought 55ip in 2020. In the three years since the acquisition, 55ip's assets have increased from less than $2 billion to more than $20 billion, reflecting the demand for tax management and customization.

"We're proud to help Raymond James enhance and expand its approach to tax-smart investment delivery and drive better potential outcomes for their clients," Paul Gamble, CEO of 55ip, said in the release. "Integrating across Raymond James' managed account platform will deliver unprecedented reach and scale to help more people."

55ip's tax technology will be delivered via Raymond James' managed account technology provider, InvestCloud.

George Gatch, CEO of J.P. Morgan Asset Management, said incorporating the technology is important to improving financial outcomes.

"The demand for tax management capabilities will only continue to rise," Gatch said in the statement. "Our partnership with Raymond James is an example of how leading asset management and wealth management firms can partner beyond investment products by providing value-added technology."

Raymond James expects the enhancements to be released in mid-2024.

NEWSWRAP

Consumers with CFPs live better lives, study finds

THOSE WHO DON'T have a certified financial planner may want to consider getting one. A study by the Financial Planning Standards Board found that people who work with a certified financial planner enjoy life more, have a better understanding of their finances and are also more confident about their finances.

Results found that while three in five clients (55%) with financial planners are highly satisfied with their wealth, nine in 10 (87%) feel financially secure, with a similar proportion (86%) feeling better off. By comparison, just two in five consumers (41%) who are unadvised are highly satisfied with their wealth.

When it comes to mental health and family life, more than half of respondents (51%) said they feel more positive about the financial advice they get from their CFP. Clients of CFPs reported the highest quality-of-life score (73 out of

100), compared to those who work with other financial planning professionals (69) and the unadvised (66).

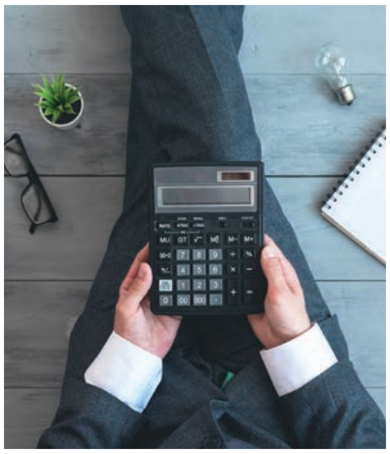
The study also found that 98% of those who work with a CFP trust the advisor to act in their clients' best interests, while 92% reported they would continue to work with their financial planner. Meanwhile, 30% of consumers perceive financial advice as too expensive and 29% are at a loss to find someone trustworthy.

Dante De Gori, CEO of FPSB, said financial planning and the role CFPs play in the current economic conditions have become more important than ever in helping consumers to make informed financial decisions and achieve their long-term goals, while enjoying a better quality of life.

"The findings in this global study illuminate a compelling reality: the immense value that CFP professionals bring in supporting clients' financial needs amid times of uncertainty, reinforcing the reputation of CFP certification as the global symbol of excellence in financial planning," De Gori said in a statement.

NEWSWRAP

Investors who overestimate their financial acumen pay higher fees



A RECENT STUDY by the Finra Foundation highlights the disparity between perceived financial knowledge and actual expertise in the world of investing. The research, based on data from the group's 2018 and 2021 National Financial Capability studies, reveals a noteworthy inverse relationship between financial aptitude and investment fees.

The study included responses from over 4,800 individuals with investments outside of retirement accounts. It discovered that those who performed well on a 10-question investment scenario test tended to pay lower fees for their investments. Those who answered an average of 5.7 out of 10 questions correctly reported investment fees of less than 0.5%. In contrast, individuals who answered only an average of 3.65 questions correctly reported fees of 4% or higher.

Moreover, the study found that individuals who rated their own financial knowledge highly were more likely to pay higher fees. Those who assessed their knowledge at 4.96 out of 7 reported paying the lowest fees, typically under 0.5%, while those who rated themselves at 5.43 paid fees of 4% or more.

The report underscores the significance of enhancing financial knowledge and addressing any potential overestimations in perceived knowledge. It also notes that fee transparency is crucial to helping investors make well-informed decisions. The study authors suggest that using fee comparison tools for mutual funds, ETFs and other investments that consider performance as well can be beneficial. Furthermore, fostering open discussions about fees and costs between financial professionals and their clients is essential.

"Fee transparency is one of many factors that support investors' ability to make well-informed decisions about their investments. However, research indicates that when presented with a summary prospectus, investors tend to focus primarily on returns … often overlooking the impact of fees on their overall portfolio performance," the report stated.

One important caveat highlighted in the report is that some investors with lower scores on the test may have inaccurately calculated the investment fees they paid. This study serves as a reminder that accurately understanding investment costs is a vital component of sound financial decision-making.

FOCUS

'Impact investing goes deeper than trendy ESG funds'

Michael Reynolds, principal of Elevation Financial, is an entrepreneur at heart, having built and sold multiple businesses over two decades, including a digital marketing agency.

For 23 years, he helmed the agency as it evolved from a fledgling startup to a thriving small business. But burned out by red tape, Reynolds sold up and took a brief hiatus to take stock before following his passion for personal finance.

Today, as the sole proprietor of his RIA, the Indiana-based advisor cherishes the opportunity to make a tangible impact on clients' lives across the US. "Transitioning back to working directly with individuals and families has been incredibly rewarding," he says.

The front and center of Reynolds' practice is his specialty in ESG investing. He explains how he navigates greenwashing and what advisors can do to market themselves more effectively.

***IN*: Why do you specialize in ESG investing?**

Michael Reynolds: How much time do you have? I like to go pretty deep because I prefer the impact component. A lot of times we see that ESG means just picking a couple of mainstream index funds that have an ESG label on them and calling it a day. A lot of that is trendy and greenwashing, and I don't feel like it's necessarily the right way to go or necessarily sincere.

I like to make sure that if my clients truly want impact and they really have these progressive values that are important to them, we are choosing investments that truly make a difference. So I look for advocacy. I look for fund families that actually talk to corporate CEOs and lobby for policy change; that use their voice through shareholder advocacy and proxy voting to actually help these companies and encourage

"A LOT OF TIMES WE SEE THAT ESG MEANS JUST PICKING A COUPLE OF MAINSTREAM INDEX FUNDS THAT HAVE AN ESG LABEL ON THEM AND CALLING IT A DAY."

MICHAEL REYNOLDS, PRINCIPAL, ELEVATION FINANCIAL

NEWSWRAP

Do half-empty office buildings offer opportunities for investors?

LEGENDARY INVESTING GURU Peter Lynch popularized the idea of investing in what you know and what you see with your own two eyes. So when financial advisors view the half-empty office buildings right in front of them, should they also be seeing an investment opportunity for their clients?

The commercial real estate market continues to evolve in the post-pandemic world. The increase in remote work is keeping office buildings in many cities well below full occupancy. But offices are only part of the total commercial real estate space, creating a wide and diverse path to profits, said Chris Acito, CEO of Gapstow Capital Partners.

Acito added that not all office property is created equal, at least geographically speaking. Acito's company is behind the Gapstow Real Estate Income Index, which underlies the recently launched AXS Real Estate Income ETF (RINC), a portfolio of stocks of U.S. publicly traded real estate investment trusts that own commercial and residential mortgages and mortgage-backed securities.

"We see the issues being concentrated in a couple of cities where, in fact, the real exposure is a national one," Acito said. "We know that for as many cities as are facing the challenges, some are booming in terms of real estate as well, even among the work-from-home phenomenon that we're seeing."

Morris Chen, portfolio manager for the DoubleLine Commercial Real Estate ETF (DCMB), invests in commercial real estate debt and similarly believes that the proverbial baby is being thrown out with the bathwater.

"If you're opportunistic, you do want to get exposure to the commercial real estate space. Buying mortgage bonds backed by commercial buildings I think is a good start," Chen said. "The entire market isn't characterized by office."

Chen's DCMB offered a yield of 7.2% at last check, so investors are being compensated for their concerns and risk.

"From an active manager perspective, we are looking at bonds that are triple-A rated credits that are yielding 6% to 8% within the fund. From a fund-level standpoint itself, we're at a 7% yield with the duration of one. So you can say that from a market standpoint, the market's on sale," Chen said.

Michael Reynolds

them to make real change that benefits our planet.

You can find those fund families, it's not difficult, but I think a lot of people just don't go that deep into it. They just say, 'Oh well, here's a Vanguard fund that says ESG, so that must be it.' That scratches the surface. I really prefer to go deeper into the impact component.

***IN*: Do you find clients want an impact fund that focuses on a certain sector or theme, like energy?**

MR: I don't personally go to that level of customization because I feel it's not serving my clients well. Say, hypothetically, someone comes along and says, 'Hey, I'm vegan, I want to be in a fund that is all vegan-friendly.' Well, OK, but how long has the fund been around? Is it even reliable enough to have a track record? Is it responsible to put my client in that fund? Sometimes yes, sometimes no.

My stance is I use models that align with general progressive values, positive environmental impact, positive social impact, inclusion and diversity, and good corporate ethics, and that covers a lot of the bases. Some advisors are very customized and say, 'If you are aligned with this cause or that cause, we'll customize your portfolio.' It's just my opinion that it's not serving my clients well to sacrifice other things in exchange for this particular tilt they have. Usually, the progressive values I build my portfolio around serve most people.

***IN*: Your first career was in web design and marketing, so what advice can you give advisors in this area?**

MR: You must really figure out, first of all, what you're good at. Some people hate to write, some people love to write. Some people hate being in front of a microphone, some people love being in front of a microphone. Some people love doing video, most people hate doing video.

It's also important you then decide what you want to say. What's your expertise? What do you love to talk about? What's your target market? Then pick one or two channels that you want to be really good at and commit to owning those channels.

NEWSWRAP

Investors turning more bearish on market, more optimistic on economy

THE U.S. ECONOMY is set to improve by the end of the year, according to 55% of respondents to a new survey from Morgan Stanley.

The poll found that more than half also believe inflation will normalize by the time we welcome 2024, and 41% think it will be early in the new year or sooner when the Fed starts cutting interest rates.

However, things are less optimistic when it comes to the market, with bearish sentiment up four percentage points to 49% in the third quarter compared to the last quarter, nearing first-quarter levels (52%).

And while inflation may be lower in the months ahead, it's still an issue when related to investment portfolios, with 51% of respondents citing it as their top concern, ahead of recession (32%) and market volatility (31%).

PORTFOLIO FOCUS

Investors have some key sectors that they're focused on, led by energy, which gained four percentage points with crude oil prices trending higher again. IT has 46% interested, although it has eased back five points quarter-over-quarter, and 36% of respondents were interested in health care investments.

"As we approach the end of 2023, headwinds abound with continued elevated inflation and geopolitical tensions on the rise," said Mike Loewengart, head of model portfolio construction for Morgan Stanley Portfolio Solutions.

"Yet somewhat remarkably, the economy has continued to chug along — particularly on the jobs front," he said. "This leaves investors facing a conundrum — a resilient economy coupled with a volatile market. Environments like these show the power of a diversified portfolio, which can help an investor weather whatever may be ahead for the market. The goal is to invest through the volatility, not react to it."

NEWSWRAP

Investors love SMAs — but what do advisors think?

A NEW Goldman Sachs survey shows investors are big fans of separately managed accounts. But what do advisors think of them? Are they worth the trouble for all their clients, or just a lucky few?

"I have used SMAs and found them to be very beneficial due to several factors, such as the ability to leverage professional management and customization to individual preferences and objectives, direct ownership, and transparency for clients to see the specific securities held within, and the ability to offer tax efficiency through tax-loss harvesting, and of course a method of diversification to complement their core investment strategies," said Chris Mankoff, certified financial planner at JTL Wealth Partners.

Scott Bishop, certified financial planner at Presidio Wealth Planners, said he used SMAs often when they first came to prominence in the late 1990s as a way to have more customized portfolio management with better tax efficiency. But he found that after fees and limitations, the accounts tended to be "more sizzle than steak."

However, given technology gains in recent years, SMAs and even direct indexing have become more affordable and easier to use. Direct indexing is basically the next level of SMAs because it leverages emerging technologies to customize just about any index to meet an investor's specific needs, whether that involves tax management, ESG preferences or even navigating around overweighted exposure to specific stocks.

"They allow us to do tax-loss harvesting and avoid stocks where a client may be overweight already, such as employer stocks or other low-basis holdings," Bishop said. "It's so much easier now with the new computer programs, and you don't need one account for each SMA anymore."

He added that one downside to consider in international SMAs versus mutual funds is that international SMAs usually can only hold international stocks traded on U.S. stock exchanges. As a result, investors may miss out on certain stocks that could be held in funds.

Bishop also said that for smaller clients or clients with mostly pretax money, he tends not to use SMAs because of "rebalancing complexity and no need for tax efficiency."

ETFReport

METHODOLOGY

The Investment Spotlight report is based on a quarterly survey of advisors about their market sentiment and investing intentions, which *InvestmentNews* has conducted since 2020. Each quarter it dives deeper into a special or timely investing topic. In the latest survey, conducted among more than 200 advisors during the third quarter, we explored the industry's use of ETFs.

Why future looks bright for ETFs

INVESTMENT VEHICLE CONTINUES ON THE ROAD TO BECOMING A WIDELY ACCEPTED AND TRUSTED CORE PORTFOLIO BUILDING BLOCK.

BY DEVIN MCGINLEY

The typical self-directed investor today, even one using a basic free brokerage app, has access to investment vehicles that once would have been exclusive to large institutions and their representatives. With a few clicks, the investor can gain exposure to global diversification and advanced strategies to build relatively complex portfolios at little cost and low investment minimums.

This is in no small part due to the rapid rise of exchange-traded funds, which numbered fewer than 300 two decades ago but today represent more than 600 issuers together managing more than 10,000 funds. From their days passively tracking only the broadest indices, ETFs have proliferated to offer every investment style on the market.

ETFs and the democratization of market access they have fostered have likely caused some handwringing over the years among professional financial advisors. But since crashing the gates of financial markets, ETFs have proved a valuable tool for advisors rather than being a source of industry disruption. Here are three key takeaways about advisor ETF usage from *InvestmentNews'* ongoing investment outlook survey.

ETFs EMERGING AS PORTFOLIO CORE

Although billions of dollars in assets have been converted from mutual funds to ETFs in recent years, mutual funds remain a common building block for client portfolios. According to our survey, 31% of advisors most commonly employ mutual funds in portfolio construction, compared to 28% using ETFs. Both exceed the number of advisors primarily using individual securities (20%) and separately managed accounts (18%).

The data suggest, however, that the prevalence of ETFs in professionally constructed portfolios will increase in the coming years. Asked about shifting holdings from mutual funds to similar ETFs, 44% of advisors said they were very likely to do so in the next two years, and an additional 32% said it was somewhat likely. Over the next year, 44% of advisors expect to increase client exposure to at least one type of ETF, while only 30% expect to increase exposure to at least one type of mutual fund.

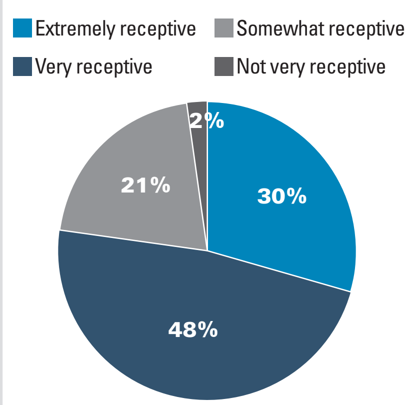
This trend reflects the common advantages associated with ETFs. Asked to name the top three benefits of using ETFs, advisors cited lower expenses (81%), tax efficiency (58%) and daily liquidity (48%). These are oft-discussed benefits of ETFs over mutual funds that are rooted in the structures of the vehicles. But perhaps the most interesting indication of ETFs' growing popularity with advisors is demand for ETFs in active management, where mutual funds have historically held an advantage. Over the next year, 34% of advisors plan to increase their usage of actively managed ETFs, up from 18% of advisors a year ago, while 2% expect to decrease usage. Only 23% of advisors expect to increase allocations to actively managed mutual funds, and 14% expect to decrease them.

CLIENTS ARE HIGHLY RECEPTIVE TO USING ETFs

Advisors who increasingly prefer to use ETFs as portfolio building blocks have found an approving audience among their clients. According to 78% of advisors, the typical client is very receptive to using ETFs in their portfolio, and only 2% of surveyed advisors reported significant pushback. Likely clients easily grasp the cost benefits that have driven their advisors' recommendations.

Clients' embrace of ETFs is also reflected in the extent to which their assets have been invested in the vehicles. About one-fifth (21%) of advisors reported that a majority of their clients' assets are invested in ETFs. Among all advisors — not just those using them — the median allocation to ETFs in client portfolios is in the range of 20% to 29%.

ETF USERS: ON AVERAGE, HOW RECEPTIVE ARE OUR CLIENTS TO USING ETFs IN THEIR PORTFOLIOS?



Although actively managed ETFs are growing in popularity, especially relative to mutual funds, index-tracking products remain the most commonly used ETFs both in the broader market and among advisors. Most advisors are also using sector- and factor-specific ETFs. Even among advisors using ETFs, few employ thematic, leveraged or inverse ETFs in their clients' portfolios.

ADVISORS DON'T VIEW ETF INVESTING AS A THREAT

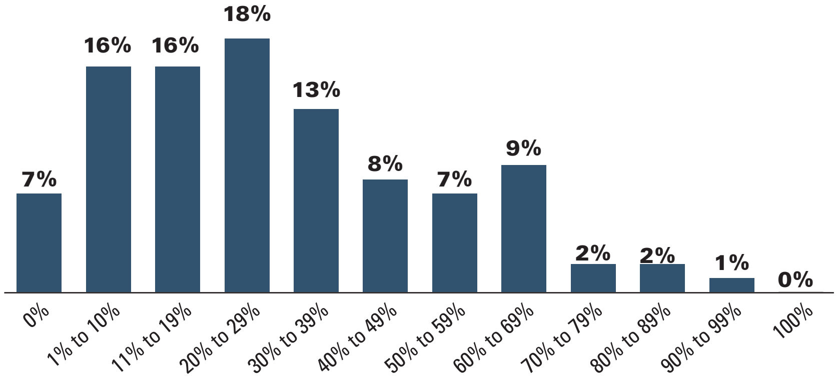
Just as advisors have steered their clients through mutual fund selections, clients seek help from their advisors with ETFs. And though the latter are perhaps easier to access without the aid of a financial professional, the industry is scarcely worried that their increased prevalence will undermine business.

Asked about the potential that ETF investing would ultimately reduce demand for professional advice, 53% of respondents to our survey said they were not very concerned and 23% said they were not concerned at all. Only 2% of advisors said they were very concerned about such a possibility. Advisors are confident overall that their role in helping consumers navigate investments will endure with ETFs.

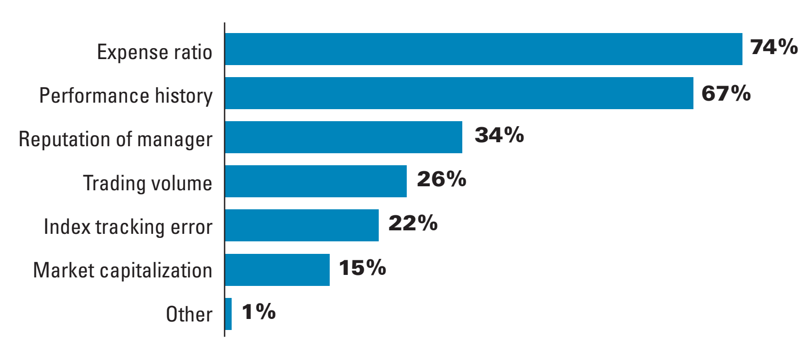
Perhaps unsurprisingly, advisors by a wide margin view expenses as a top factor in ETF selection. When selecting between two funds with similar investment styles, expense ratios are a top consideration for 74% of advisors, most closely followed by performance history, with 67%. Manager reputation and trading volume are top factors for roughly one-third and one-quarter of advisors, respectively, while the fund's tracking error and market capitalization are less important factors.

dmcginley@investmentnews.com

APPROXIMATELY WHAT PERCENTAGE OF YOUR CLIENTS' PORTFOLIOS ARE INVESTED IN ETFs?



ETF USERS: WHEN CHOOSING BETWEEN TWO ETFs WITH SIMILAR INVESTMENT STYLES AND OBJECTIVES, WHAT ARE THE THREE MOST IMPORTANT CONSIDERATIONS?



SectorFocus

‘ESG’ FUND CLOSURES ARE MISLEADING

THE RATE AT WHICH SUSTAINABLE MUTUAL FUNDS AND ETFS ARE BEING SHUTTERED HAS SKYROCKETED, BUT EVEN AS PLAYERS LIKE BLACKROCK CLOSE FUNDS THAT FAILED TO GAIN ASSETS, THEY CONTINUE FILING FOR NEW ONES.

BY EMILE HALLEZ

A handful of asset managers have been pulling the plug on ESG-themed funds they launched several years ago — a result they all but certainly knew was coming, as not every attempt to get a slice of that booming market was going to work.

That hardly means that sustainable investing is on the decline. The number of products continues to grow, as do the total assets in them. But fund companies might have to do more to stand out, whether that means offering unique investments or showing that their strategies are genuine ones in a field rife with claims of greenwashing.

So far this year, firms have shuttered 29 “sustainable” mutual funds and exchange-traded funds in the U.S., more than double the total in 2022, according to Morningstar Direct data. Shops that closed products included BlackRock, State Street, Columbia Threadneedle, Janus Henderson and Hartford Funds, Bloomberg noted in a recent report.

While those closures followed mounting pressure from Republican groups to abandon ESG considerations, they are not necessarily any indication that asset managers are stepping back from sustainable funds.

On Oct. 4, BlackRock’s iShares filed with the Securities and Exchange Commission for a new ETF that would invest in large- and mid-cap international stocks to build a Paris Agreement-aligned portfolio, meaning that the holdings would reflect climate-change goals of limiting global warming to less than 2 degrees Celsius this century. Days before, the company had filed for an iShares Energy Storage & Materials ETF, which would invest in companies focused on the transition to a low-carbon economy.

That week, BlackRock also launched its Climate Transition-Oriented Private Debt Fund, according to Bloomberg. Another firm, DWS, recently filed for an Xtrackers S&P 500 Carbon Budget ETF.

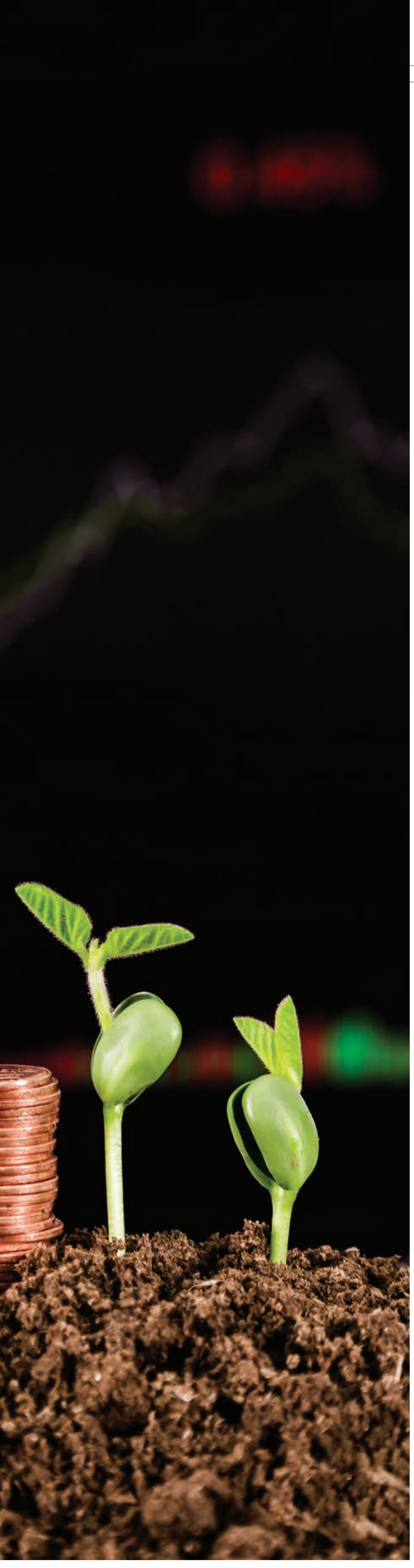
That is significant, given that BlackRock has seen the brunt of anti-ESG messaging from the right. Although the asset manager is hardly a sustainable fund provider exclusively — it’s one of the biggest investors in the fossil fuel industry — its size and influence have made it a prime target.

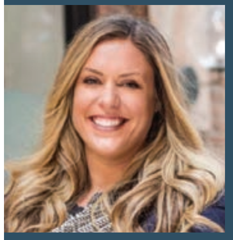
It’s unclear whether the company is any more or less ESG-friendly than it was before the topic attracted so much ire, but BlackRock has certainly sought to distance itself from the moniker. CEO Larry Fink, who in recent years was a leading voice for stakeholder capitalism, has indicated he doesn’t like to use the term “ESG” anymore, likely in part because it attracts negative attention that can be a distraction.

And in a move that raised eyebrows, BlackRock’s board recently added a new member: Saudi oil company Aramco’s CEO Amin Hassan Ali Nasser. That was seen as the company tipping its hat to numerous states that have rushed to restrict ESG considerations in the way public assets are invested.

It has also been reported widely that BlackRock was overall less supportive of shareholder resolutions — usually related to sustainability or human

> “INVESTORS ARE INCREASINGLY SEEKING CLARITY ABOUT THE ROLE ENVIRONMENTAL AND SOCIAL FACTORS PLAY IN THE INVESTMENT AND STEWARDSHIP PROCESSES. THINK ‘TRUTH IN MARKETING’ BUT GOING A FEW STEPS FURTHER.”
>
> ALYSSA STANKIEWICZ, ASSOCIATE DIRECTOR OF SUSTAINABILITY RESEARCH, MORNINGSTAR





> **"YOU NEED TO DO SOME RESEARCH. JUST BECAUSE YOU CALL SOMETHING 'ESG' DOESN'T MEAN IT'S A GOOD INVESTMENT."**
>
> SARAH HAMILTON, PARTNER AND WEALTH ADVISOR, HAMILTON WALKER ADVISERS

rights issues — this proxy season. While that indeed was the case, the volume of shareholder proposals has increased, and they have been asking public companies to do considerably more than similar resolutions filed over the past few years. BlackRock has stated that it hasn't changed its stance on how it uses ESG data in investment decisions or corporate engagement, including proxy voting.

Last year, many sustainable funds lagged peers without ESG mandates as energy stocks boomed. Opponents were quick to point to the recent performance figures as evidence that the use of ESG factors was detrimental to financial returns. Although the year of lower returns did not negate a history of strong performance over longer time frames, such as five years, the trend nonetheless abated this year. To date, ESG or sustainable versions of major indexes have shown comparable or stronger returns than their non-ESG peers.

Climate-focused funds have been a major area of development for fund companies, although the pace of new products has slowed since peaking in 2021, according to a report last month by Morningstar. In 2021, 34 such funds came to the market, followed by 25 in 2022 and eight during the first six months of 2023. As of June, the U.S. climate-themed funds held $31.7 billion in assets, a 4% increase over 18 months that did not follow the more rapid growth seen across Europe, the report noted.

The number of sustainable mutual funds and ETFs in the U.S. reached 656 as of the end of June, representing an 11% increase year over year, Morningstar's separate Sustainable Fund Flows report stated earlier this year.

"There's a lot more being developed around sub-asset classes under the ESG umbrella," said Sarah Hamilton, partner and wealth advisor at Hamilton Walker Advisers.

About half of Hamilton's clients opt for some level of ESG mandate in their portfolios, she noted. That high proportion is a result of Hamilton's holding herself out as a subject matter expert, attracting clients who are specifically interested in sustainable investing, she said.

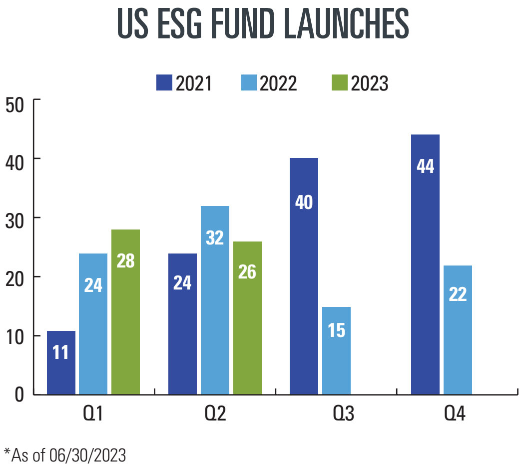
Niche products range from being focused on vegan investors to those who want to see gender diversity on corporate boards, she noted. That level of specificity has allowed her to fine-tune portfolios for clients who are interested in particular issues, Hamilton said.

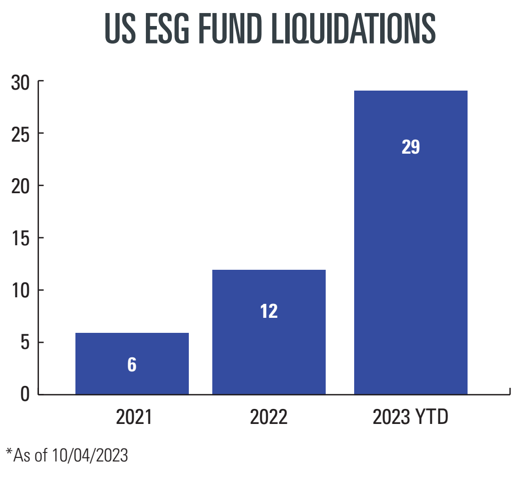
Additionally, the expansion of separately managed accounts and direct indexing, which lets investors screen out companies and hold stock directly, has been a helpful development for some clients, she said.

"Investors are increasingly seeking clarity about the role environmental and social factors play in the investment (portfolio construction) and stewardship (proxy voting, engagement) processes," Alyssa Stankiewicz, associate director of sustainability research at Morningstar, said in an email. "Think 'truth in marketing' but going a few steps further."

Increasingly, "ESG" refers to risk mitigation, often in diversified portfolios, Stankiewicz said. Those might screen out fossil fuels, tobacco and weapons but might be less concentrated in "best-in-class" ESG companies than funds that call themselves sustainable, she said.

Going further are impact funds, sometimes called





Source: Morningstar Direct

"thematic" funds, which are the most concentrated in high-ESG performers and often provide impact reports, Stankiewicz said.

It's now expected that fund companies will issue periodic reports on proxy voting and engagement, she noted.

"Asset managers that seek to differentiate themselves on sustainability matters should prepare to be consistent in their messaging and commitments across markets," Stankiewicz said. "High-conviction sustainability-focused investors likely expect firms to uphold sustainability issues even in the face of political backlash."

Hamilton said she works to educate clients about the differences between merely OK sustainable funds versus good or excellent ones, the latter of which not only apply screens for investments but also engage with portfolio companies. But beyond that, people should pay attention to fees and performance — investments shouldn't get a pass on that just because they're sustainable, she said.

"You need to do some research. Just because you call something 'ESG' doesn't mean it's a good investment," Hamilton said. "You shouldn't have to give up massive amounts of returns to invest this way."

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INDIVIDUAL RETIREMENT ACCOUNTS

How to unravel complicated 2023 RMD rules

As the last quarter of 2023 begins, clients will likely be asking advisors whether they're subject to required minimum distributions. That used to be an easy question to answer both for individual retirement account owners and beneficiaries. However, as a result of the confluence of changes made by the SECURE Act, SECURE 2.0, IRS proposed regulations and recent IRS RMD relief, it's no simple task anymore.

IRAALERT
ED SLOTT

Here's a guide to help cut through the confusion:

IRA OWNERS

The SECURE Act raised the RMD age to 72. Then SECURE 2.0 increased the RMD age to age 73, but only for IRA owners who will turn 72 this year or later. Anyone who turned 72 last year still had to take their first RMD (for 2022) by April 1, 2023, and their second RMD (for 2023) by the end of this year.

Anyone who was born in 1951 will turn 72 this year, so these people will use age 73 as their starting point. They will turn 73 next year (2024) and that will be their first RMD year, but they have until April 1, 2025, to take that 2024 RMD.

It's easier to figure out if you use the year of birth.

Any IRA owner born in 1950 or earlier will have to take RMDs this year. Those born in 1951 or later will not be subject to RMDs this year. (Keep in mind that plan participants — unlike IRA owners — may be able to delay RMDs until retirement if they're still working.)

The IRS RMD relief announced earlier this year in Notice 2023-54 applies only to retirement account owners who were born in 1951 and mistakenly took an RMD earlier this year. That may have happened after they received incorrect notices from their financial institutions saying that they were subject to RMDs for 2023, when in fact they weren't. Anybody who took an unwanted RMD before July 31 had until Sept. 30 to return those funds.

INHERITED IRA RMDS

IRA beneficiaries who are subject to RMDs this year:

Designated IRA or Roth IRA beneficiaries (meaning the beneficiary is a person named on the IRA beneficiary form) who inherited before 2020 (pre-SECURE Act). This group of beneficiaries qualified for the stretch IRA so they must stay on their RMD schedule. None of the IRS relief for inherited IRAs applies to this group.

Eligible designated beneficiaries, or EDBs. These are beneficiaries who inherited in 2020, 2021 or 2022 (subject to the SECURE Act) and qualified to use the stretch IRA because they were in one of these five special EDB categories:

1. Surviving spouses.
2. Minor children of the account owner, until age 21 — but not grandchildren.
3. Disabled individuals — under the strict IRS rules.
4. Chronically ill individuals.
5. Individuals older than, or not more than 10 years younger than, the IRA owner.

These beneficiaries must continue taking their stretch IRA RMDs. None of the IRS RMD relief for inherited IRAs applies to this group. If the EDB inherited this year (in 2023), they can wait until next year to begin taking their stretch IRA RMDs.

Non-designated beneficiaries, like an estate, charity or nonqualifying trust, are unaffected by the recent changes in RMD rules, so those beneficiaries must continue their existing RMD payout schedules.

IRA beneficiaries not subject to RMDs this year:

Designated beneficiaries who inherited in 2020 or later from an IRA owner who died before reaching his or her required beginning date. These are beneficiaries who aren't EDBs, like most adult children and grandchildren. They are subject to the 10-year rule under the SECURE Act, which requires that the entire balance in the inherited IRA be withdrawn by the end of the 10th year after death. But since they inherited from someone who died before RMDs were due, before their RBD or required beginning date, they're not subject to taking annual RMDs for years one through nine of the 10-year term.

Designated beneficiaries who inherited in 2020 or later, from an IRA owner who died after reaching his or her RBD. These are beneficiaries who are not EDBs, so they are subject to the 10-year rule under the SECURE Act. Since they inherited from someone who died after their RBD, they are subject to RMDs for years one through nine of the 10-year term. However, the IRS, recognizing the confusion created by these rules, has said that anyone in this category (originally subject to annual RMDs under the 10-year rule), will not have to take RMDs in 2021, 2022 or 2023. There will be no RMD penalty for missing these RMDs, so they don't have to be taken. Better yet, they won't have to be made up in future years. However, the entire balance in the inherited IRA must still be withdrawn by the end of the 10th year after death.

Designated Roth IRA beneficiaries, who aren't EDBs, who inherited in 2020 or later. These Roth beneficiaries must also empty the inherited Roth IRA by the end of the 10th year after death. But they are not subject to RMDs for years one through nine of the 10-year term, regardless of the age of the deceased Roth IRA owner. All Roth IRA owners are deemed to have died before reaching their RBD, because Roth IRA owners are never subject to lifetime RMDs.

ANY IRA OWNER BORN IN 1950 OR EARLIER WILL HAVE TO TAKE RMDS THIS YEAR. THOSE BORN IN 1951 OR LATER WILL NOT.

TAKING VOLUNTARY RMDS

Now you should understand exactly who is, and who is not, subject to RMDs this year. But that's not the end of the story. Even if your traditional IRA beneficiary clients subject to the 10-year rule don't have to take an RMD this year as a result of the IRS relief, you should look at the long-term, big-picture planning strategy.

These beneficiaries may still be better off taking these distributions (and maybe even larger amounts) during years one through nine. At the end of the 10-year term, all those inherited RMD funds will have to be withdrawn, likely creating a large RMD and an equally large tax bill. Taking distributions spread out over the 10-year term may very well lower the overall tax bill for these beneficiaries.

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

InvestmentNews

women advisor summit

NOVEMBER 8, 2023 | TRIBECA 360°, NEW YORK CITY

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Future of advisor platforms is services

For the past several decades, platforms for advisors have differentiated themselves by the quality of their technology. The focus on tech was an evolution for the platforms, which originally distinguished themselves by the quality of their proprietary products, the primary way brokerage firms and insurance companies attracted advisors in the '60s, '70s and '80s. As product shelves became increasingly open architecture in the '90s and 2000s, what mattered wasn't the products available to advisors but the technology the platform made available to implement those products and help advisors better run their businesses.

However, it's very expensive to build and maintain technology. Consequently, the technology most of today's advisor platforms (e.g., broker-dealers, RIA aggregators, TAMPs, etc.) are touting isn't their own proprietary technology;

ADVISORTECH
MICHAEL KITCES

it's a selection of third-party tools they've woven together into the tech stack they offer to advisors — usually from one of just three leading providers in any category. In the end, advisor platforms increasingly all offer the exact same technology tools, signaling an end to differentiating themselves with technology altogether.

What's the alternative for platforms to differentiate in the future? Services. Because advisory firms still — and will always — need team members to provide service and handle tasks that go beyond what technology can automate.

Support services from platforms might include a wide range of consulting services — from compliance to an advanced planning team, operations to technology — that advisors could engage for a fee as needed. Arguably the even bigger opportunity is for platforms to provide support in the key areas where firms need it — from (virtual) assistants for administrative tasks to ongoing compliance support, bookkeeping and financial reporting to paraplanning, trading and investment research, and more. Such staffing needs already consume 15% or more of the typical advisory firm's revenue, compared to the barely 4% of revenue the typical firm spends on technology. That means providing services is far more of an economic opportunity than just solving advisors' technology needs.

In the long run, the growth of platforms as service providers — not tech platforms — will also create more opportunities for differentiation, as some will inevitably be better at delivering services than others or will be better at the services needed by particular types of advisors in whom they can specialize. That also gives the most successful service-providing platforms more pricing power in what has become an increasingly commoditized, payout-centric competitive environment, as well as the opportunity to drive greater margins for themselves by reinvesting in technology — not for their advisors, per se, but for themselves — to better deliver services to advisors.

The key point, though, is to recognize that advisor platforms aren't large enough to build all their own technology from scratch and can't differentiate themselves by offering the same suite of technology solutions that other platforms are offering. The opportunity comes in the gaps between technology — the work humans must still accomplish — that drive most of the costs of advisory firms. That means the most successful platforms will be those that best deliver services that allow advisors to run the human parts of their businesses more efficiently.

HISTORY OF ADVISOR PLATFORMS

"Financial advisors" started as people who sold insurance or investment products. Financial advisors were affiliated with either an insurance company as an insurance agent or a broker-dealer as a registered representative (i.e., stockbroker). That meant the advisor relied on the company to provide everything needed.

The bad news about this arrangement was that advisors were typically captive to their company and its line of (typically proprietary) insurance or investment products. The good news was that the investment and insurance companies that did this well could become very large, often with many thousands of advisors, all delivering the same products to their clients. That was conducive to building standardized systems and processes, and eventually technology, to make it more efficient.

When computers first showed up in the workplace in the '80s, the largest advisor platforms began building their own technology solutions for their advisors, leveraging the sheer size of their thousands of advisors to amortize the software development costs. The result was that the largest platforms with the broadest base of advisors, which could invest the most in software development, had the best technology.

As large platforms hungered for even more advisors and more product sales, the platforms themselves were becoming increasingly "open architecture" to accommodate more advisors and facilitate more products. These developments eventually made it possible for almost any advisor on any platform to buy almost any product that was available via that platform.

Consequently, insurance brokerages began to emerge, and the mutual fund world began to evolve away from direct distribution and into open-architecture brokerage platforms (and later, platform TAMPs like Envestnet) that could access any fund or asset manager.

The core brokerage platforms that had built the largest custody and clearing back-end platforms began to lease their technology to smaller brokerage firms, spawning the rise of independent broker-dealers that used newfangled platforms with open-architecture product access to let representatives implement any product.

The conclusion of this evolution is that while in the early decades (the '60s, '70s and into the '80s), most advisors picked their platforms largely on the basis of which had the best array of proprietary products, in the '90s (and into the 2000s and 2010s), advisors began to choose their platforms based on the technology that was provided to enable them to execute their businesses more effectively. That's both because the technology commoditized access to products and because the quality of the technology itself became a differentiator.

The trend continues today, with a recent Cerulli study showing that "technology" is the most commonly identified factor (56%) that influences an advisor's choice of which broker-dealer platform to affiliate with!

FUTURE OF PLATFORMS IS SERVICES

While the Cerulli data show advisors look at an advisor platform's technology when deciding what platform to join or switch to, the reality is that very few broker-dealers (or, in today's environment, mega-RIAs) have unique technology on their platform. In practice, it's still very expensive for firms to build their own proprietary technology. Consequently, over the past 20 years, there has been an ongoing consolidation of custody and clearing firms, so that today the overwhelming majority of RIAs and broker-dealers use the same small handful of back-end platforms (Schwab, Fidelity and Pershing) to power their businesses, and only a few self-clearing independent broker-dealers even remain (e.g., LPL, Raymond James and Ameriprise).

Most of today's independent advisor platforms simply buy third-party technology to overlay on these third-party brokerage and RIA systems in the core domains advisors need, such as portfolio management, CRM and financial planning. Those platforms have become increasingly concentrated, too, with the bulk (50% to 70%) of the market share held by just three players in each category, from Orion, Tamarac and Black Diamond in portfolio management to Salesforce, Redtail and Wealthbox in CRM, and eMoney, MoneyGuide and RightCapital in financial planning software.

That means that while today advisor platforms may differentiate from legacy players still running outdated technology by offering more modern tech tools, most broker-dealer and RIA platforms use one of three custody and clearing platforms, while offering one of three portfolio management tools, one of three CRM systems and one of three financial planning software solutions. Technology is becoming less and less of a differentiator. The only way platforms can set themselves apart is by which are the largest and drive the hardest bargain to get that same software for the cheapest — otherwise known as selling a commodity!

CONSULTING SERVICES PLATFORMS MAY PROVIDE

In practice, most advisor platforms today are built heavily around one support service in particular: compliance. Broker-dealers and insurance companies typically have a depth of compliance support simply because it's legally required; advisors are technically agents or registered representatives of the company, which has a legal obligation to ensure they're in compliance.

However, compliance requires very specialized knowledge of rules and regulations that apply to advisors and their firms. While all advisors know (or should know) how to comply, they don't necessarily know how to do compliance as a firm. Consequently, even within the RIA channel, it's common not only to hire compliance consultants to provide expertise and help with the compliance process, but a number of RIA-based platforms have emerged that allow advisors to be independent advisor representatives under a corporate RIA so they can utilize the platform's compliance services to get the expertise they need.

This expert consultant model is viable as a platform's service offering in a lot of areas beyond compliance. For instance, it might include access to an expert investment team, not just to build centralized model portfolios but also to research and deal with client holdings that need further analysis. Similarly, platforms can make available an advanced planning department that can delve deeper into complex client issues. Services could even include consulting about which tech to use and how to use it, rather than just using the tech the platform provides, not to mention opportunities for operations and process consulting more generally.

Notably, though, these aren't meant to be services that platforms offer as value-adds. In the future, these are increasingly likely to be paid services because there's a material amount of revenue opportunity for the platform that provides a good solution. After all, these are domains where advisors often spend money on consultants (operations or tech), or struggle to grow large enough to hire the depth of expertise in-house (advanced investment research and advanced financial planning) because of the cost. So platforms that offer those consultants at a reasonable cost have a growth opportunity.

ONGOING 'OUTSOURCED' SERVICES

It can be difficult to scale consulting services across even a sizable base of advisors. After all, individual advisors may only need a few hours of consulting at a time, which means a platform would need a lot of advisors to do it to average out sustainably.

Fortunately, though, not all services are of a transactional (consulting) nature. In fact, advisors incur a substantial amount of ongoing cost to staff the overhead functions of the business, from operations and administrative support to trading and paraplanning, in addition to other core business functions like IT, finances and marketing.

The 2021 *InvestmentNews* Pricing & Profitability benchmarking study shows advisors spend an average of 9.4% of revenue on administrative and support staff compensation (almost 11% of revenue when payroll taxes and benefits are included). They spend another 1% to 2% for professional services, including accounting and compliance support, and 3% to 4% on investment and planning specialist support, for a total of more than 15% of revenue. If advisor platforms can solve for some or all of this, they could charge advisors just 12% of their revenue to provide staff support, and it would save advisors nearly 20% on their internal staffing

THE REALITY IS THAT VERY FEW BROKER-DEALERS (OR, IN TODAY'S ENVIRONMENT, MEGA-RIAS) HAVE UNIQUE TECHNOLOGY ON THEIR PLATFORM.

costs (cutting staffing costs from 15% of revenue to 12%)!

By contrast, the *InvestmentNews* benchmarking study shows advisors typically spend an average of only 3.7% on technology (some of which is simply computer hardware and office equipment), which means even if a platform can cut an advisor's technology costs by 20%, the advisor's costs drop from 3.7% to 3.0% of revenue, saving them less than 1% of their revenue.

Simply put, providing services to financial advisors is a substantially — 3X to 4X — bigger business opportunity than simply solving for their technology needs.

Services are arguably also far more economical for advisor platforms to build in the first place, as the fundamental challenge of technology is that it can take millions of dollars to build just one proprietary technology solution (and many multiples of that to fill out the entire tech stack an advisory firm would need).

For a service such as providing operations support, an advisory firm might have hired a staff member for $50,000 to $75,000 in salary and benefits, not to

As benchmarking studies note, most independent RIAs pay only 4% to 6% for compliance and technology support (which helps explain why some hybrid platforms are starting to offer an even higher-than-broker-dealer payout to their RIA channel).

By contrast, the typical advisory firm spends as much as 15% of its revenue on back-office people, which gives advisor platforms a nearly 3X opportunity to add value to each advisor (or even higher if the advisor platform also provides the tech support). The potential to 3X revenue-per-advisor without increasing the number of advisors by providing services to them is a tremendous organic growth opportunity for most platforms.

Furthermore, by building a high-quality suite of services that address the hiring and staffing pain points that advisory firms face, platforms can differentiate themselves, reducing pressure on payouts and reorienting the conversation when recruiting and retaining advisors toward the unique value of the services they provide and the (potentially) unique ability that platform has to execute them well. While

BY BUILDING A HIGH-QUALITY SUITE OF SERVICES THAT ADDRESS THE HIRING AND STAFFING PAIN POINTS THAT ADVISORY FIRMS FACE, PLATFORMS CAN DIFFERENTIATE THEMSELVES.

mention the additional cost to search, recruit, onboard and train. If a platform can attract and retain several operations support staff and make them available to advisors on a cost-effective fractional basis, advisors could save thousands, or even tens of thousands of dollars!

As an advisor platform's service lines grow, further reinvestments into systems, process, infrastructure and even technology — to make the platform's own services run more efficiently — create additional economies of scale, allowing the firm to provide even better services for an even lower cost.

TECH-ENABLED SERVICES

Advisor platforms' emerging transition from a focus on technology to a focus on services is as profound as the shift nearly 30 years ago when platforms shifted their focus from products to technology.

For platforms, it will be driven first and foremost by the sheer growth opportunity it represents. In today's environment, independent broker-dealers have continued to struggle with the ongoing margin squeeze of competition for giving the best advisor payouts. Because product shelves are open architecture and technology is increasingly commoditized, the only remaining way to differentiate is on price in the form of higher payouts. Most independent broker-dealers have been whittling that down to charge 8% to 12% (allowing for 88% to 92% payouts) for what is primarily a combination of compliance and technology solutions, and are still losing market share to the RIA channel.

lots of platforms might roll out support functions, not all will execute them with equal quality. That provides a real opportunity for those who can execute well to stand out.

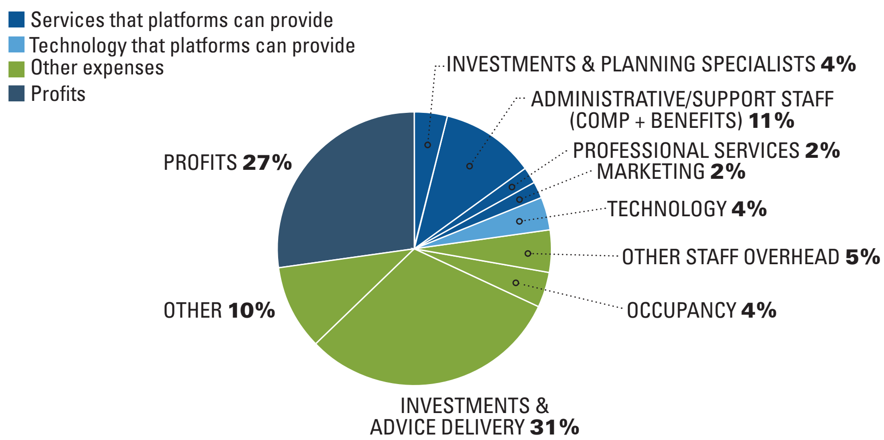
The caveat, of course, is that "just roll out (high-quality) services to your advisors" is far easier said than done. Not just because it's hard to build and especially to scale a good service business, but also because many of today's platforms are so focused on facilitating products and investment portfolios that services are not part of their DNA and will represent a shift not just to their offering and value proposition but also to their culture and even leadership.

In addition, not all advisors are trying to build the same type of firms and serve the same type of clients, which means not all advisors will need or be willing to pay for the same types of services. Advisors who work with very high-net-worth clientele may rely more on the depth of the platform's advanced planning team and the capabilities of its investment research team to analyze complex private holdings, while those who work with mass affluent clients may be more focused on the capabilities of the firm's administrative and trading teams to handle the higher volume of ongoing client support requests.

All of which means that advisor platforms, to build and especially to scale their services, will be similar to advisors who have to get clearer themselves on the "ideal advisor persona" that they're building and scaling their services for.

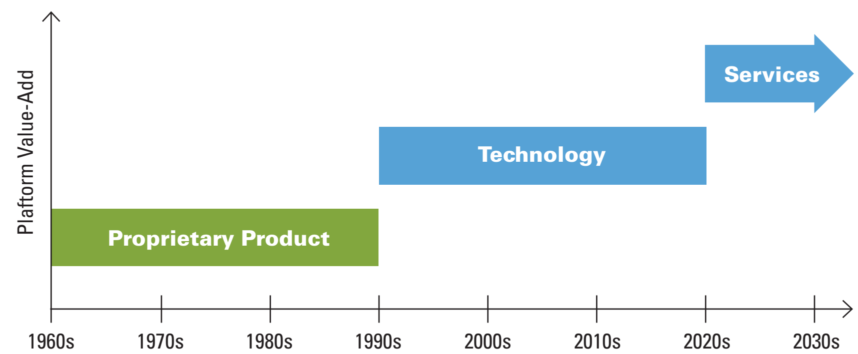
Ultimately, though, the key point is

OPPORTUNITIES FOR FINANCIAL ADVISOR PLATFORMS TO PROVIDE SERVICE AND TECHNOLOGY OFFERINGS

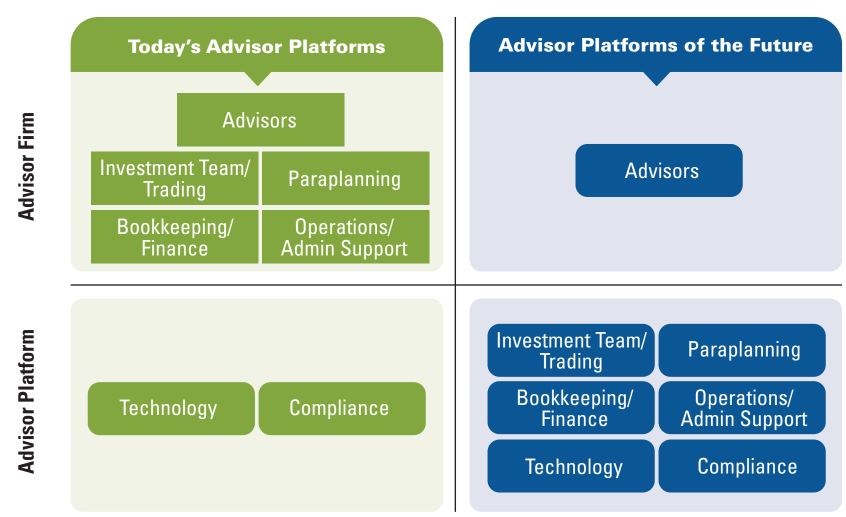


Source: 2021 Investment News Pricing & Profitability Benchmarking Study

EVOLUTION OF FINANCIAL ADVISOR PLATFORMS



CURRENT AND FUTURE FINANCIAL ADVISOR PLATFORMS



that advisor platforms are on the cusp of a transition to a new era — from differentiating themselves largely on their technology to becoming tech-enabled service providers instead. While services may not have the appeal — or margins — of technology companies, advisory firms face real challenges as labor-intensive service businesses. That gives platforms new opportunities to grow by solving the biggest challenge most firms face, which is how to handle all the staffing and overhead needs beyond what widely available tech already solves.

Providing these tech-enabled services represents a significantly larger business opportunity for advisor platforms than offering compliance and technology alone. That's a need the right platforms can position themselves to solve … with a differentiated tech-enabled services solution of the future.

Michael Kitces is head of planning strategy at Buckingham Strategic Partners, co-founder of the XY Planning Network, AdvicePay and fpPathfinder, and publisher of the continuing education blog for financial planners, Nerd's Eye View.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