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*InvestmentNews* presents 100 all-star wealth professionals redefining success in our industry

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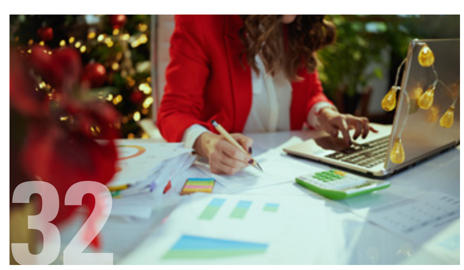








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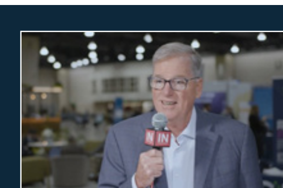

SCAN THIS CODE TO HEAR BERNIE CLARK, SCHWAB’S HEAD OF ADVISOR SERVICES, DISCUSS THE GROWTH OF THE RIA INDUSTRY

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# Editorial

# Charitable giving is a win-win for advisors

As the holidays approach, charitable giving and, by extension, donor-advised funds are top of mind. Whipsawing markets had an impact in 2022, with total giving down 3.4%, although as markets came back to life in 2023, Schwab Charitable reported a significant uptick in donations over the first six months of the year. Take that, Scrooges.

As Gregg Greenberg explores in his news analysis (page 10), advisors can provide a crucial value-add in explaining the benefits of using DAFs from the standpoint of tax efficiency and impact. A client should want to give to a cause for its own sake, regardless of planning benefits, but let's be frank here – an advisor doesn't have to be so altruistic.

Aside from the primary goal of helping worthy causes get much-needed cash, advisors can use DAFs to strengthen their own businesses in several ways. Philanthropic discussions with clients over issues close to their hearts can only deepen the advisor-client relationship. Getting to know more about them may also open doors to related communities and future referrals.

DAFs, in particular, are also a way to safeguard your balance sheet. Helping a client support a cause not only builds the connection but also keeps the assets – and related fees – with you rather than involving a third party.

While the biggest impact should, of course, be felt by the beneficiary of the donation, there are clear advantages to making charitable giving a pillar of your advisory experience.

**Philanthropic discussions with clients over issues close to their hearts can only deepen the advisor-client relationship**

**INVESTING LEGEND**

The media is prone to anointing superstars prematurely, so it's only right that when a genuine legend in our industry passes, we pay our respects. Despite the giant shadow of Warren Buffett, whom he helped build Berkshire Hathaway, it says it all that Charlie Munger was successful and revered in his own right.

Much of that was his investing acumen, but his cult following was undoubtedly burnished by his influence on Buffett and his quotable plain talking. Buffett called him the "abominable no-man" because he was so adept at keeping his friend's enthusiasm in check, but Munger is also credited with broadening Buffett's philosophy beyond mentor Benjamin Graham's value principles to include excellent businesses with strong brands and pricing power.

Munger's wit and incisive views were a large reason why Berkshire's annual meeting became such a hot ticket. I'll leave you with a favorite Munger quote: "I think life is a whole series of opportunity costs. You know, you got to marry the best person who is convenient to find who will have you. Investment is much the same sort of a process."

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


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## MILLENNIALS SNUBBING LIFE INSURANCE

Perceived wisdom is that it's best to buy life insurance when you're young, as it's more affordable and one is less likely to have health issues. But millennials are torn, with a new survey revealing that 1 in 2 (53%) don't own any.

**22%**
of millennials expect to live to be 90 or older

**28%**
of millennials who don't have life insurance don't think they need it

**1 in 6**
would experience financial hardship within a month of their significant other dying

**26%**
had trouble affording insurance in 2023

**1 in 4**
is worried about covering insurance premiums in 2024

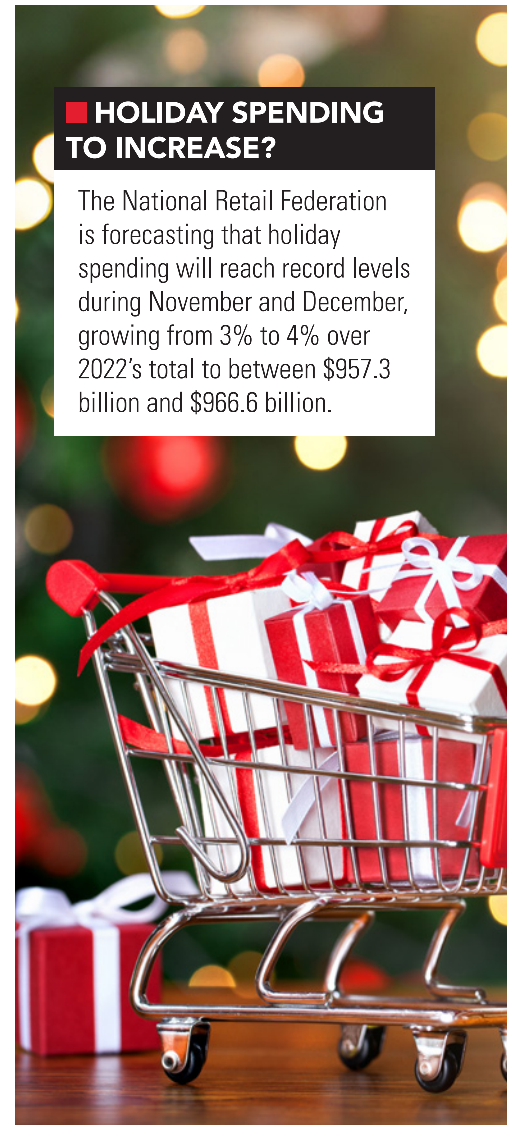
Source: Insuranks, October 2023

## TOP 10 PENSION FUNDS

Total assets managed in US$ billions

| | Asset owner | Market | Est. | Total Assets ($B) |
|---|---|---|---|---|
| 1 | Government Pension Investment Fund | Japan | 2006 | 1,449 |
| 2 | National Pension Service | South Korea | 1988 | 706 |
| 3 | Federal Retirement Thrift | U.S. | 1986 | 690 |
| 4 | APG | Netherlands | 1922 | 490 |
| 5 | California Public Employees | U.S. | 1932 | 432 |
| 6 | Canada Pension Plan | Canada | 1997 | 421 |
| 7 | Central Provident Fund | Singapore | 1955 | 407 |
| 8 | National Social Security Fund | China | 2000 | 347 |
| 9 | CDPQ | Canada | 1965 | 297 |
| 10 | California State Teachers | U.S. | 1913 | 290 |

Source: Thinking Ahead Institute, November 2023

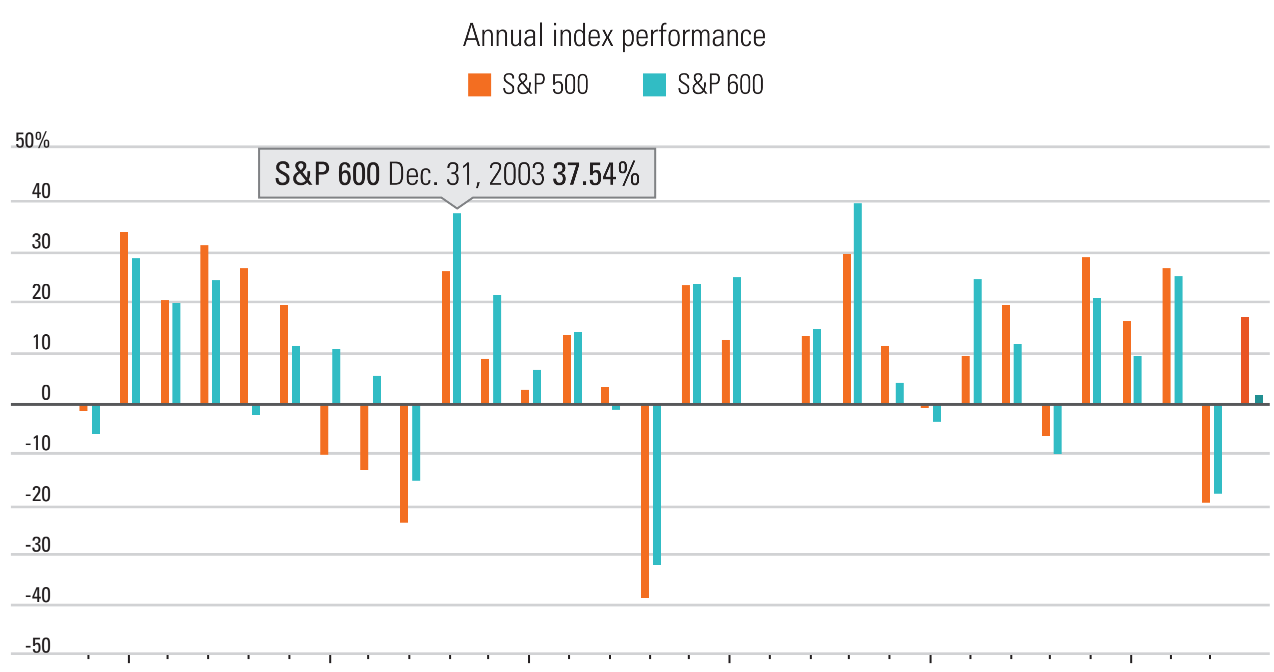


## HOLIDAY SPENDING TO INCREASE?

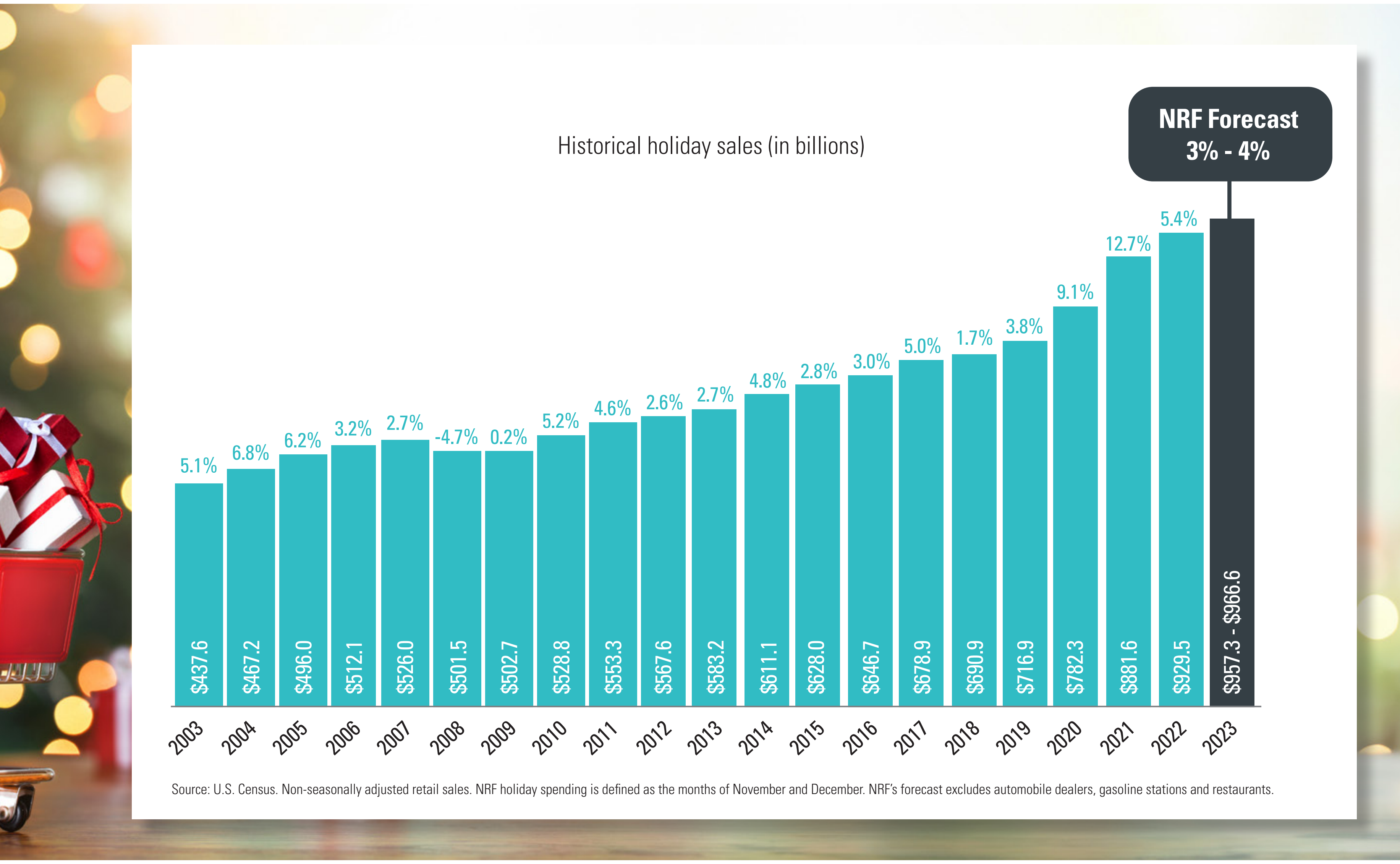
The National Retail Federation is forecasting that holiday spending will reach record levels during November and December, growing from 3% to 4% over 2022's total to between $957.3 billion and $966.6 billion.

## SIZE MATTERS

The S&P 600, an index of smaller companies, may have surged 8% from its recent low on Oct. 27, slightly trailing the S&P 500. But for 2023 overall, it's set to lag behind its large-cap counterpart by the widest margin in a calendar year since 1998.




Source: FactSet, as of Nov. 16

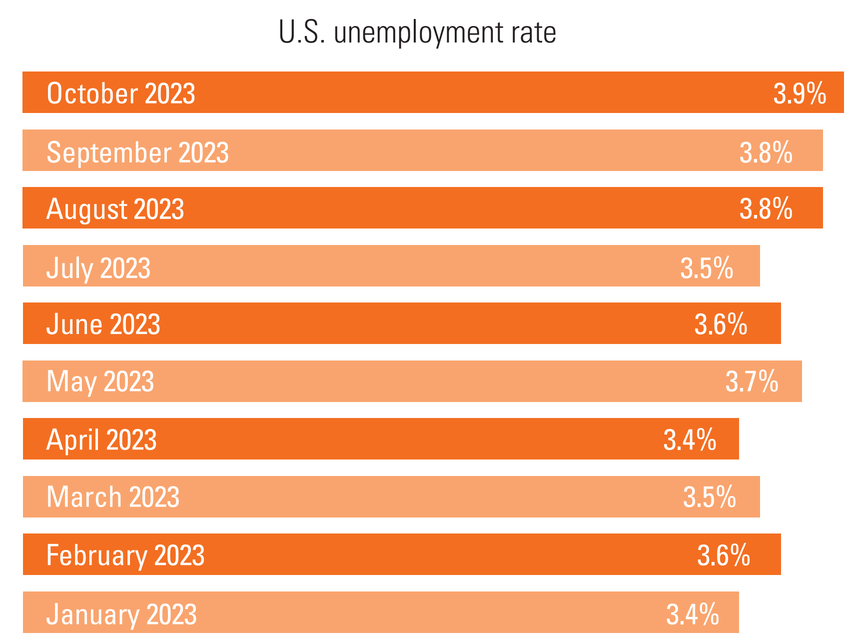



Source: U.S. Census. Non-seasonally adjusted retail sales. NRF holiday spending is defined as the months of November and December. NRF's forecast excludes automobile dealers, gasoline stations and restaurants.

Source: National Retail Federation, November 2023

## ARE RATE CUTS COMING?

Wall Street is gearing up for rate cuts, with interest-rate futures indicating a roughly 60% chance the Fed will lower rates by a quarter of a percentage point by its May 2024 policy meeting, up from the 29% chance priced into futures at the end of October. An uptick in the unemployment rate supports this view, some argue.




Source: YCharts

## WHO LEADS WEALTH MANAGEMENT FINTECH?

In a J.D. Power survey of more than 6,000 financial services customers, brands' mobile apps and websites were rated with scores on a 1,000-point scale.

**798** for Citi, the top performer for full-service apps and sites

**741** for Vanguard, the lowest in this category

**754** for J.P. Morgan Wealth Management, the best-rated for self-directed client sites and apps

**705** for Merrill Edge, the worst performer in this category

Source: J.D. Power, November 2023

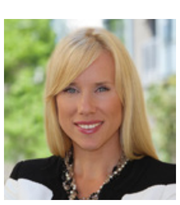
# GIANT RIAs IN OLD-FASHIONED DONNYBROOK FOR ADVISORS AND CLIENTS

## Edelman Financial Engines is suing Mariner Wealth Advisors, alleging that Mariner is poaching its clients and running Edelman out of business

BY BRUCE KELLY

It's a story that sounds right out of the booming 1990s retail brokerage industry, when wolves roamed Wall Street right next to the bulls and bears, looking to snatch up brokers from rivals.

One industry giant poaches financial advisors from a top competitor, leaving the rival spitting mad. The aggrieved firm is ready to go to war over proprietary information, namely clients and client leads, it claims to have lost. So this firm goes to court and files a complaint seeking damages.



**"The RIA aggregators are paying money to financial advisors to join and work there, but the contracts have restrictive work agreements"**

JODIE PAPIKE, CEO, CROSS-SEARCH

This was a common occurrence up until 2004, when a truce of sorts was declared among large brokerage firms. Before the agreement, called the Protocol for Broker Recruiting, was established, large national firms would routinely sue advisors and each other when brokers were recruited and left one broker-dealer to work at another.

Firms filed temporary restraining orders and froze client assets during the litigation, hoping to persuade some of the advisors' clients to stay. It created an unwelcome mess for clients and the broker industry.

But this isn't a story of a broker-dealer conflict. It's one giant financial planning and registered investment advisor firm, Edelman Financial Engines, with $291 billion in client assets, alleging that another industry giant, Mariner Wealth Advisors, with $110 billion in assets, is poaching clients and running Edelman out of business.

Edelman Financial Engines' complaint alleges that Mariner is stealing its trade secrets, interfering with contracts, defaming the firm's reputation, and stealing the fruits of its marketing work and goodwill. Edelman is seeking damages, alleging that Mariner has hired 10 Edelman planners and taken 851 clients with $621 million in assets under management.

Perhaps most shocking is Edelman's claim that Mariner has it in for the firm.

"Mariner has openly stated that its purpose is to 'run Edelman out of business' though these unlawful and predatory actions," alleges the lawsuit, which was filed Nov. 17 in U.S. District Court in Kansas, where Mariner is based in Overland Park.

Broker-dealers are still suing each other over similar trade disputes. But for decades, the RIA industry has characterized itself as being above such frays, with financial advisors at such firms focusing solely on the needs of their clients.

It appears that contract disputes involving financial advisors at RIAs are increasingly coming to the fore as the industry continues its rapid growth, making it look much more like the brokerage industry of decades past, when a broker could leave one firm for another on a Friday only to be sued by the old firm the next Monday.

"We plan to litigate this matter vigorously in order to protect the significant investments [Edelman Financial Engines] makes to grow business and provide our clients with the security, privacy, and superior investment advisory and financial planning services that they have come to expect from us," an Edelman spokesperson wrote in an email.

Mariner Wealth Advisors did not return calls to comment.

Edelman Financial Engines' charges against Mariner Wealth sound like an old-fashioned brokerage industry battle for clients. Aren't RIAs supposed

**"I think you would struggle to find any RIA that doesn't have a nonsolicitation clause in its agreements"**

PETER MALLOUK, CEO, CREATIVE PLANNING

to be high-minded fiduciaries and not get in the muck that this complaint alleges?

"Financial advisors need to be careful when they are signing employment and work agreements," said Jodie Papike, CEO of Cross-Search, a third-party recruiting firm. "The large RIA firms spend a lot of time and money on marketing and prospecting clients. We're increasingly seeing this type of conflict, especially out of these aggregator RIAs.

"The structure is, the RIA owns the client, much more so than at an independent broker-dealer," Papike said. "The RIA aggregators are paying money to financial advisors to join and work there, but the contracts have restrictive work agreements. And at the end of the day, it's all about the agreement and contract the firm has with the advisor."

The RIA side of the financial advice industry has not been shy recently when discussing the enforcement of noncompete clauses with financial advisors who are recruited to other firms.

For example, Creative Planning, another RIA giant with $245 billion in assets, said in August it was acquiring Personal Financial Management, an RIA, from Goldman Sachs Group Inc.

*InvestmentNews* later asked Creative Planning's CEO, Peter Mallouk, whether any of those financial advisors who had left the firm could wind up in legal disputes over noncompete or nonsolicit clauses in contracts. His response was muted but left little doubt of the stakes involved.

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

Meanwhile, the Edelman Financial Engines' complaint paints a picture of a rival RIA not afraid to throw a few elbows and dish dirt in order to recruit Edelman's advisors.

"In another statement designed to pressure Edelman employees to depart for Mariner, at least one Mariner agent has openly stated, 'We're running [Edelman Financial Engines] out of business,'" according to the complaint.

"While this statement may be an accurate disclosure of Mariner's unlawful goals, the unmistakable connotation that Edelman is in imminent danger of going 'out of business' was false when made," the complaint continues. "While Mariner has caused Edelman grievous financial and reputational harm and misappropriated its trade secrets and proprietary information, Edelman is in no danger of imminent collapse."

*bkelly@investmentnews.com*

## DAMAGES EDELMAN CITES IN SUIT

A recent Edelman Financial Engines lawsuit alleges Mariner Wealth Advisors poached advisors and clients. According to the complaint, Mariner so far

- has hired 10 Edelman financial planners
- has taken 851 clients
- those clients have $621 million in assets under management

# NewsAnalysis

# IBM'S PENSION IDEA AND THE FUTURE OF RETIREMENT PLANS

## The unusual addition of a cash balance plan could benefit the company and, observers say, workers

BY EMILE HALLEZ

IBM made waves in the retirement plan world last month when the company revealed that it's going back to a defined-benefit pension of sorts in lieu of contributing to employees' 401(k) accounts.

At the beginning of 2024, the 5% match the company currently provides within the 401(k) plan will instead go to what it calls the Retirement Benefit Account – a portable account with a fixed rate of return over three years that appears to be a cash balance plan.

That on its own would be newsworthy, as the trend in corporate retirement benefits has been to shift the risk of saving and managing investments for retirement to workers through the use of defined-contribution plans.

**"According to my research, for over 25 years employers have switched to a DC model because it was 5% to 15% cheaper per person"**

TERESA GHILARDUCCI, LABOR ECONOMIST

But how the news sits with other recent events is even more unusual, raising interesting questions about whether there is a future for defined-benefit plans in the corporate world.

IBM's change coincides with many other big employers offloading their pension liabilities to insurance companies, in a move known as a pension risk transfer, as interest rates have buoyed the plans and made them positively funded for the first time in a while. And some businesses that years ago rid their books of pension plans have recently rebuffed demands from workers to have pensions reinstated. The United Auto Workers, for example, was unsuccessful in getting the big three automakers to bring back defined-benefit plans, instead getting the companies to agree to higher employer contributions to 401(k)s.

In IBM's case, there has been speculation that the change was simply in the company's financial interests, in part because the 1% automatic 401(k) contribution the company made in addition to the 5% match is going away, reportedly replaced by a one-time salary increase.

But people who are steeped in retirement-plan-design research and consulting see it differently.

### VIEWS ON TRADITIONAL PENSIONS VS. 401(K)S

"It's very possible that a defined-benefit plan, such as IBM's, could be cheaper than a very, very generous DC plan. But according to my research, for over 25 years employers have switched to a DC model because it was 5% to 15% cheaper per person," labor economist Teresa Ghilarducci said in an email.

Unlike DC plans, participation in DB plans is mandatory for workers whose employers provide them, she noted. "DB plans get a higher rate of return per dollar contributed. DB plans are a lot more efficiently run. And the direct cost of administration does not fall to the employee."

Some employers opt to pay for 401(k) plan administration, but often workers help pay, or fully pay, those costs, which can be assessed through account charges or via fees tacked on to the mutual funds within the plan.

And defined-contribution plans can weigh less heavily on public companies' balance sheets, which has been an incentive for employers to switch, said Jamie McInnes, president of Oculus Partners.

"The issue with [DB plans] is that as people have been living longer, those liabilities have been getting more expensive," McInnes said. "You end up with a liability that translates, frankly, to your income statement. It impacts your earnings."

A poorly managed 401(k) might be bad for workers, but a poorly managed defined-benefit plan is also bad for the company, said Don Trone, CEO of 3ethos, a firm that researches and consults on leadership, stewardship, and governance.

"Underfunded pension plans have to be reported in the balance sheet," Trone said.

### RETIREMENT LIABILITIES

It's hardly surprising that the United Auto Workers couldn't get Ford, GM, and Stellantis to bring back defined-benefit programs. Restoring those pension plans was a key demand in the recently resolved strikes. U.S. automakers not only froze pension plans years ago, but more recently they've transferred the liabilities they once had to insurance companies.

"Presumably, they were not interested in reinstating those liabilities," McInnes said. "I would have been really surprised had the manufacturers agreed to reenter those arrangements."

The government agency that insures company pensions, the Pension Benefit Guaranty Corp., has seen three years of solvency, according to the annual report it issued Nov. 16. The PBGC's multi employer program has had positive net assets, and will likely continue to for 40 years, as a result of the American Rescue Plan Act of 2021's Special Financial Assistance Program, which sought to prop up underfunded defined-benefit plans.

Defined-benefit plans, which used to be the norm, ran into trouble as life expectancy increased. Companies that provided the plans long ago didn't assume that their workers would live decades

beyond the once-common retirement age of 65. That made plans costlier to provide as employers had to put more money into funding them and pay increasingly high PBGC premiums, McInnes said.

**HYBRID-STYLE PLANS**

However, the system IBM is switching to – a cash balance plan – is a hybrid program, with elements of defined benefit and defined contribution. The company has indicated that the assets it earmarks for workers are portable, meaning they can take them to other employer plans or individual retirement accounts via rollovers. For workers, portability has been one of the positive aspects of the widespread switch to 401(k)s.

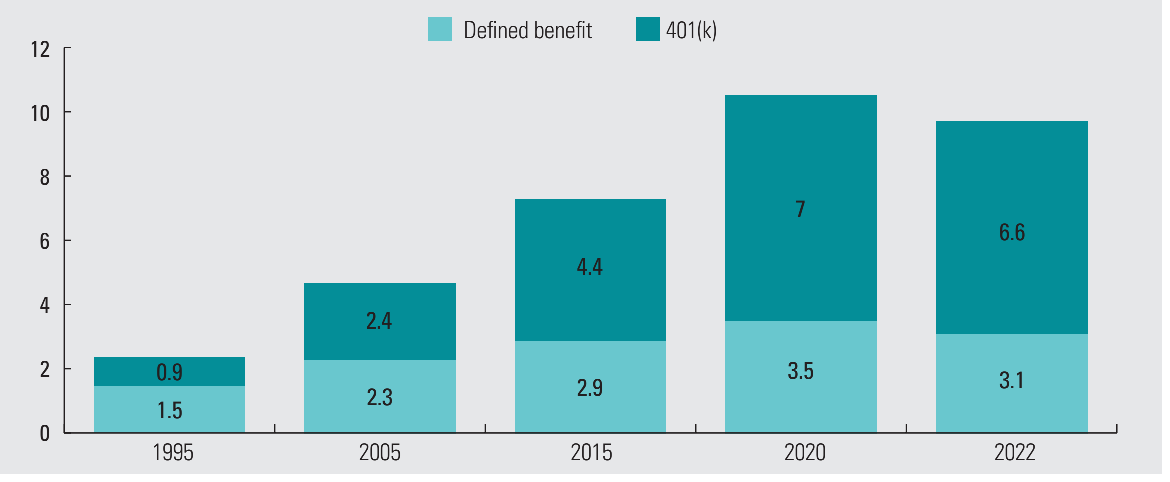
"Most companies didn't realize that when they made that shift from defined benefit to defined contribution, it was … putting greater demand on the company to show leadership and stewardship to the employees," Trone said.

Surveys have shown that only about 25% of workers feel that their employers have their best interests in mind, he noted. And that sentiment has a strong effect on whether employees contribute to the company 401(k), he said.

"They just see [contributions] as the big boss taking a chunk out of my paycheck," Trone said. "That's one of the reasons why 401(k) plans as a general rule have been disappointing."

Conversely, a defined-benefit plan, such as the one being introduced by IBM, is better for the average employee, "because the company is managing the retirement risk," he said.

**ASSETS IN CORPORATE RETIREMENT PLANS ($T)**




Source: Investment Company Institute

**"The issue with [defined-benefit plans] is that as people have been living longer, those liabilities have been getting more expensive"**

JAMIE MCINNES, PRESIDENT, OCULUS PARTNERS

**EMPLOYER BENEFITS**

There are benefits to employers, not the least of which is that offering a traditional pension is seen as a recruiting tool. In IBM's case, though, it's worth noting that there has been opposition to the change, as employees have been petitioning the company to reinstate the 401(k) match and automatic contribution.

But additionally, a traditional pension scheme is thought to help employers manage the costs of their medical benefits, as defined-benefit plans encourage people to retire younger, when they typically have fewer health issues, Trone said. "It's a question of whether a defined-benefit [or] cash-balance plan makes it easier for a company to control their health-care costs, particularly with their elder employees."

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# DONOR-ADVISED FUNDS UNDERPIN GROWTH IN CHARITABLE GIVING

Schwab Charitable reported its donors increased their giving by 8%, or nearly $350 million, to more than $5 billion in its fiscal year 2023

BY GREGG GREENBERG

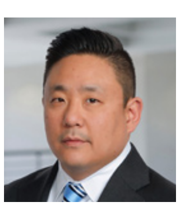
Charitable donations declined in 2022 after hitting record levels in 2021 and 2020. With only a few weeks to go before year-end, where will 2023 wind up when it comes to philanthropy? And how is 2024 shaping up on the giving front?

Total giving in the United States declined 3.4% in 2022, to $499.33 billion, as a result of the downturn in both stocks and bonds, according to Giving USA's annual report on philanthropy. Individual donors gave $319.04 billion of that total, representing 64% of all charitable giving. The messy markets made this only the fourth time in four decades that donations did not increase year over year.

That said, charitable donations have turned around along with the stock market so far in 2023. Schwab Charitable, for example, reported that its donors increased their giving by 8%, or nearly $350 million, to more than $5 billion in its fiscal year 2023, which ended in June. Donors surpassed one million individual grants to charities for the first time in the organization's history, supporting more than 120,000 charities throughout the year.

Along with the comeback in stocks, donor-advised funds helped elevate those results as well. While charitable giving typically is correlated with markets and the overall economic environment, donor-advised funds are resilient and provide a consistent source of funding for charities during challenging economic times, as contributions to DAFs may have been previously made and those resources have already been earmarked for charity.

“The great thing about using a donor-advised fund is that the money is set aside ahead of time,” said Rachel Schnoll, CEO of the $3 billion Jewish Communal Fund. “Fundholders have funds available to continue to send money to the organizations they care about.”



**“Clients want that strategic-planning process as part of the conversation of overall wealth management; in fact, they are demanding it”**

SAM KANG, PRESIDENT, SCHWAB CHARITABLE

If the long-anticipated recession hits in 2024, Schnoll does not expect a dramatic drop in giving – or the need for it.

“Charitable organizations need more assistance than ever because more people are relying on their services,” she said.

### ADVISORS DO GOOD (AND WELL) TOO

Charitable giving isn't simply a nice topic for advisors to opine about anymore. It's now a required service offering for any wealth management practice.

“Clients want that strategic planning process as part of the conversation of overall wealth management; in fact, they are demanding it,” said Sam Kang, president of Schwab Charitable.

Advisors can help donors by identifying which assets to give, Kang said, including non-cash assets such as publicly traded stock or private business interests. Donating appreciated non-cash assets directly to charity, including to a donor-advised fund, can increase the amount available for charities by as much as 20% by potentially eliminating a donor's capital gains tax liability on the assets.

More than half of all contributions to Schwab Charitable in fiscal year 2023 were non-cash assets, Kang said.

Jonathan Swanburg, president of TSA Wealth Management, uses Schwab donor-advised funds for clients, calling them “terrific tools” for investors who are looking to donate large sums for an immediate tax benefit but aren't sure which charities or programs they want to support.

“Donor-advised funds are easy to set up and make it very easy to process donations once the donor decides where he or she wants the money to go,” said Swanburg, adding that “clients often ask if they can make a qualified charitable distribution to a donor-advised fund, but the answer there is no.”

Gideon Bernstein, chief investment officer at Leisure Capital Management, says investors should be working with an advisor for charitable giving because most of them “don't know what they don't know.”

“Advisors are actually a value-add because they can help investors to understand the best way to get


## GIVING FACTS

- Americans gave $499.33 billion in 2022, down 3.4% from 2021
- That total equals $1.37 billion in donations a day
- Individuals gave $319.04 billion in 2022, representing 64% of all charitable giving
- More than $45 billion was given via gifts in a will or trust, an increase of 2.3%
- Giving to overseas charities led in 2022 in response to Ukraine war
- Mega-gifts by individuals of $450 million or more totaled $14 billion in 2022

Source: Giving USA Foundation

**"Finding a DAF that echoes the values of the client sets that advisor apart and shows they understand what makes their client tick"**

RACHEL SCHNOLL, CEO, JEWISH COMMUNAL FUND

charitable tax deductions, and understand concepts such as 'bunching,' which is a way to strategically make your giving more impactful in years when you have higher income," said Bernstein.

Not to mention that aside from the tax benefits of charitable giving, the donations make the client feel pretty good about themselves too.

"Everybody that I had talked to that was involved in charitable giving had a more amazing outlook on life. They found out that giving was actually the secret to happiness," Bernstein said.

### CHOOSING THE RIGHT DAF

There are, of course, a lot of DAFs to choose from.

"Finding a DAF that echoes the values of the client sets that advisor apart and shows they understand what makes their client tick," said Schnoll.

Schnoll says she regularly works with financial professionals, including attorneys, accountants, and financial advisors, who are drawn to JCF because of their tax-solving abilities and exceptional service. And because the JCF is a Jewish donor-advised fund, that appeals to certain members of their client base as well.

"We offer an advisor network and frequently pull together our advisors for informal lunches or larger events. At these events we discuss philanthropy and offer networking opportunities between the different financial professionals," Schnoll said, adding that because the JCF is not affiliated with a financial services firm, it offers an open-architecture platform of high-quality, low-cost investments.

Advisors shopping for the right DAF may want to consider whether they will retain the ability to manage investments on behalf of their clients. They may also want to investigate how quickly grants are processed and whether there are hidden fees for wire transactions or document review.

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# NewsAnalysis

# WHITE HOUSE, OTHERS QUESTION ANNUITY SAFEGUARDS

Once again, annuities are at the heart of a debate over retirement savings and investor protection. The DOL says state oversight of sales of the products isn't strong enough

BY MARK SCHOEFF JR.

In the scrum over the Department of Labor's latest proposal to raise investment advice standards for retirement savings, everyone is piling on oversight of annuity sales.

The White House promoted the DOL measure as an antidote to what it asserted is weak state regulation. President Biden and other administration officials warned that fixed index annuities are laden with "junk fees" that can harm retirement savers. They say the DOL rule is required to fill the regulatory gap concerning insurance products that aren't securities.

Instead of Regulation Best Interest, the broker advice standard promulgated by the Securities and Exchange Commission, "advice to purchase these insurance products is governed by state law, which varies state by state. These inadequate protections and misaligned incentives have helped drive sales of fixed index annuities up 25% year-to-date," the White House said in a fact sheet about the DOL proposal.

Just as the Obama administration did in promoting the previous DOL rule, the Biden DOL is elevating annuities as a primary source of the investor harm that can be caused by commissions and other financial incentives for advisors who sell them.

## EMBRACING THE IDEA, NOT LEGALITY, OF FIDUCIARY STATUS

The Department of Labor's proposal would hold to a fiduciary standard most financial advisors and most financial advice to retirement savers.

Support for fiduciary concepts – such as acting in a client's best interests and not making misleading statements – is widespread. Critics of the DOL proposal say legal fiduciary duty, which applies to investment advisors, should not govern one-time transactions involving commissions, such as the sale of annuities.

"We're not anti-fiduciary," said Howard Bard, vice president and deputy general counsel at the American Council of Life Insurers. "One [fee model] is not right. One's not wrong. They're just different standards of conduct based on consumer expectations and consumer choice."

The White House was implicitly criticizing the revised annuity suitability standard the National Association of Insurance Commissioners approved in 2020, which has been adopted by 40 states.

The NAIC says the rule establishes a best-interest standard for annuity sales and prohibits insurance agents or carriers from putting their revenue interests ahead of their customers' interest in high returns. They also say it complements Reg BI.

The NAIC pushed back against the White House's characterization of state protections.

The White House statement "suggests either ignorance of, or willful disregard for, the hard work of

**"I don't know what conflict of interest would be bigger than the advisor's compensation"**

DAVID LAU, FOUNDER AND CEO, DPL FINANCIAL

40 states and counting that have worked diligently to enhance protections for consumers by adopting the NAIC's suitability in annuity transactions model regulation," the NAIC said in a statement.

Critics of the NAIC rule say that, unlike Reg BI, it does not address compensation – such as commissions – as a potential source of conflict for financial professionals. "Material conflict of interest does not include cash compensation or non-cash compensation," the NAIC model states.

The Certified Financial Planner Board of Standards Inc. highlighted that point in guidance it published on Nov. 14 that compares the NAIC model to the code of conduct attached to the CFP credential. The CFP Board said its standard treats compensation as a material conflict of interest.

"The foundation of the [CFP Board's] code and standards is its

fiduciary duty," CFP Board CEO Kevin Keller said in a statement. "As this guide makes clear, a CFP® professional makes a commitment to the CFP Board to act as a fiduciary and, therefore, to act in the best interests of the client at all times when providing financial advice."

Insurance trade groups take umbrage at the argument that the NAIC annuity model rule is lax on compensation oversight.

**"The supporters of the [DOL] rule are myopically focused on promoting a narrow business model, and the result will be that fewer Americans will get the advice they need"**

MARC CADIN, CEO, FINSECA

"That is a red herring," said Howard Bard, vice president and deputy general counsel at the American Council of Life Insurers. "What [the rule] says is compensation is not automatically a conflict."

The notion that compensation is never a conflict "is not what the model says, and that's not what any insurance commissioner in the country would say," Bard added. "They adopted a best-interest standard in lieu of a suitability standard."

But David Lau says the NAIC model rule is misleading because it is labeled as a best-interest standard even though it sidesteps compensation.

"Compensation is the material conflict of interest," said Lau, founder and CEO of DPL Financial, a platform that offers no-load, commission-free annuities that can be sold by investment advisors within the constraints of fiduciary duty. "I don't know what conflict of interest would be bigger than the advisor's compensation."

The Biden administration is unfairly targeting insurance sales, and the CFP Board is trying to promote fee-only fiduciary advisors, said Marc Cadin, CEO of Finseca, a financial industry trade association. Fee-only advice is too expensive for retirement savers with modest assets, he said.

"The framing of the rule is offensive," Cadin said. "The substance of the rule is unfortunate and misguided. The supporters of the rule are myopically focused on promoting a narrow business model, and the result will be that fewer Americans will get the advice they need to become financially secure."

The DOL proposal would redefine the term "fiduciary" to include almost any advisor who is making a recommendation to retirement savers for a fee – regardless of whether they're an investment advisor, broker, or insurance salesperson. The proposal would amend a prohibited transaction exemption that allows independent insurance agents to earn commissions but subjects them to fiduciary duty.

Annuities will likely remain in the middle of the debate over the DOL proposal. The products can be expensive and opaque, but they also provide lifetime income in retirement that many savers covet. Proponents say the lifetime-income feature makes annuities more costly than mutual funds.

"Annuities are great product structures," Lau said. "Consumers should be able to get them through a fiduciary."

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InvestmentNews
THE TRUSTED RESOURCE FOR FINANCIAL ADVISORS

SPECIAL REPORT


InvestmentNews HOT LIST 2023

**The Hot List 2023 celebrates a collection of 100 individuals redefining success in the industry and setting new benchmarks**

CONTENTS PAGE

# ALL-ROUND ALL STARS

*InvestmentNews'* 2023 Hot List recognizes the best and brightest in the business. While the featured professionals in this year's roundup have all found success in their respective fields due to their outstanding abilities, they share a common interest in supporting underserved groups and the next generation of wealth professionals.

From developing financial aid scholarships to promoting access to public education and sports, the executives included in this prestigious group are not only excelling professionally but also making a tangible difference within their communities and farther afield.

**JESSE HURST, IMPEL WEALTH MANAGEMENT**
*Senior wealth manager and chief executive officer*

For true leaders, success goes beyond revenue; for them, it's about establishing a legacy.

Hurst founded Impel in 2017, and the firm serves individuals across the U.S. by providing customized financial guidance.

"When I started Impel, I could have just focused on the clients I had and made a very nice living," he says. "But we have the opportunity to build systems that are scalable and replicable, and with the right people, we can build something that will last for future generations."

"I'VE ALWAYS BELIEVED THAT IF YOU'RE DOING THE RIGHT THING AND PEOPLE SEE YOU, IF THEY NEED HELP, AT SOME POINT DOWN THE ROAD, THEY'LL GO, 'THAT'S SOMEBODY I WANT TO WORK WITH'"

JESSE HURST, IMPEL WEALTH MANAGEMENT

With plans to triple his current client base, Hurst has lofty ambitions for expansion and has taken on board capital to supercharge that process.

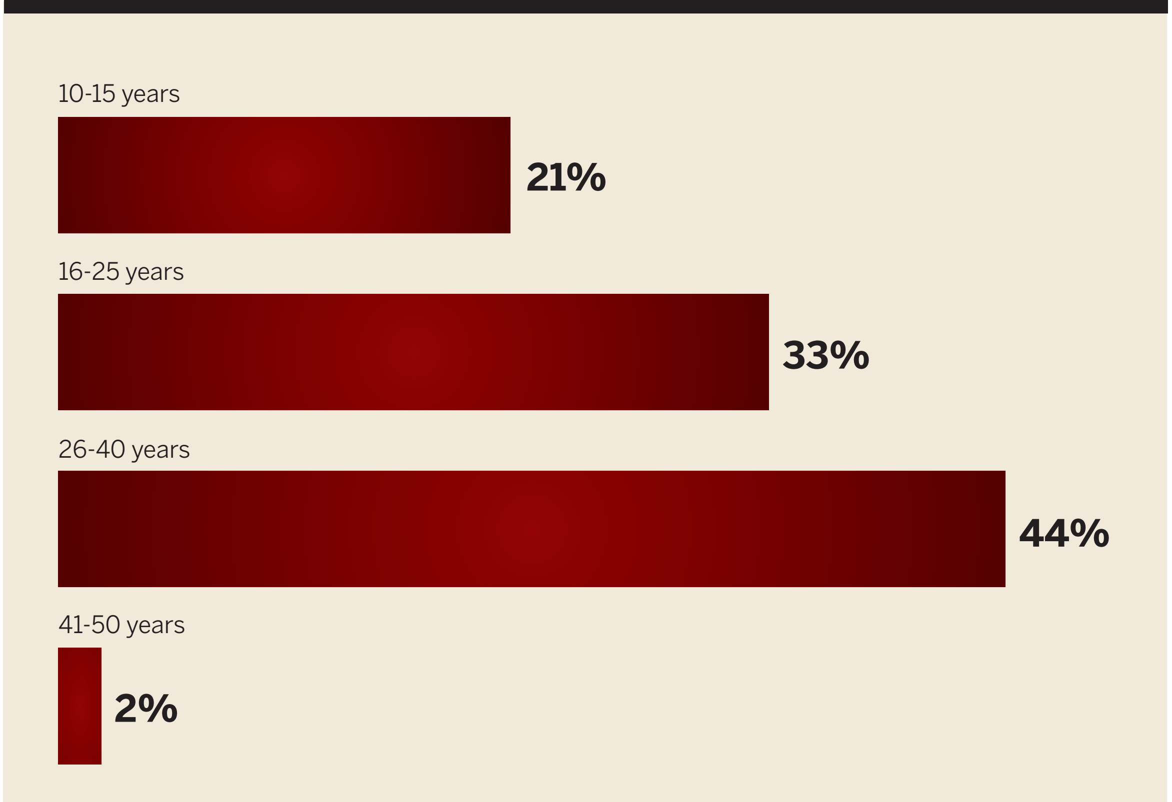
"I partnered with Merchant Investment by selling a minority interest in my practice to this nationally known private equity firm that is focused on helping advisors grow their practices both organically and through acquisitions," he says.

To date, Hurst oversees $300 million in investments for 150 families, many of whom have sought his expert insight and been with him for over two decades.

He says, "It's very rewarding because you know [clients'] families; you know their grandkids. You get to walk with these clients on their life journey."

Hurst, who prides himself on establishing relationships that go beyond the traditional advisor-client dynamic, was named Notable Wealth Manager by Crain's Cleveland Business in 2021 for providing ethical financial management services. He credits much of his success to two guiding principles:

## WINNERS BY YEARS IN THE INDUSTRY



- **Doing good:** "Motivational speaker Zig Ziglar used to say, 'You can get everything you want if you help enough people get what they want,' and I've built my career on that."
- **Building a team:** "You can teach smart people [about] job duties and software, but you can't teach somebody to care; you can't teach somebody to be empathetic. Those kinds of traits you have to hire for."

Under Hurst's direction, Impel also prioritizes having a diverse workforce, something he admits is an ongoing challenge within the finance industry.

To ensure that future boardrooms reflect an increasingly globalized world, Hurst, in collaboration with Cetera Financial Group, created The Diversity in Financial Planning Scholarship. Currently offered at 10 universities across the country, the bursary promotes diversity and inclusion in the financial planning profession.

Over the last 30 years of his career, Hurst has also served on 14 boards and chaired nine of them. From his involvement at Weathervane Playhouse, a local organization that runs after-school programming for at-risk youth, to chairing the International Soap Box Derby, Hurst has long been committed to providing opportunities for young people.

"Putting on a play is fine, and so is racing down a hill, but helping kids stay off the streets and learn new skills – those are things I can get behind," he says.

**HUGH MEYER, HIGHLINE WEALTH PARTNERS**
*Director – private wealth*

Data can be interpreted in a variety of ways, but some statistics speak volumes.

Meyer has steered Highline over the past four years, achieving:

- 35% growth in AUM
- an increase in the firm's value to $375 million

For Meyer, much of his success is made possible by his ability to build and solidify client relations.

"The more you communicate with your end clients, or the people you're servicing, the more that raises the chances of success in building a long-term relationship," he says. "That's always something I've done throughout my career."

**"I'M LUCKY TO BE WHERE I AM IN MY LIFE. WHETHER IT'S THROUGH MY WORK OR A NON PROFIT, IT'S MY JOB TO HELP AS MANY PEOPLE AS I CAN, BUT ALSO TO TEACH OTHERS HOW THEY CAN HELP OTHER PEOPLE AS WELL"** HUGH MEYER, HIGHLINE WEALTH PARTNERS

Leveraging social media is one of the strategies Meyer uses to promote his professional services and share his expertise. The advisor frequently blogs on LinkedIn about demystifying retirement for professionals, and his content is well received, experiencing over 5,800% growth in engagement over the past 12 months.

"People want social proof that you can speak intelligently about the work that you do," he says. "My main goal is to reach as many people as I can and try to bring stability and a sense of wellness to their lives."

Meyer, who has been an investment advisor for over 20 years, also takes pride in giving back to underserved youth. As a board member of the American Youth Soccer Organization, he helps facilitate the growth and development of more than 1,000 young soccer players.

He says, "Not enough people who are in positions to help other people do that enough. I've been able to build my network and craft it in a way where it's really centered on building businesses and helping other people."

And earlier this year, Meyer co-founded his non-profit organization, Sport of Dreams, which focuses on collecting and donating sports equipment to underprivileged children in the Los Angeles area.

"Soccer has always had a special place in my heart. I've watched my kids grow up in the community by playing. It's a huge opportunity that, fortunately, my kids have, but not everyone can do it," he says.

**JERRY DAVIDSE, PRESILIUM PRIVATE WEALTH**
*Chief executive officer*

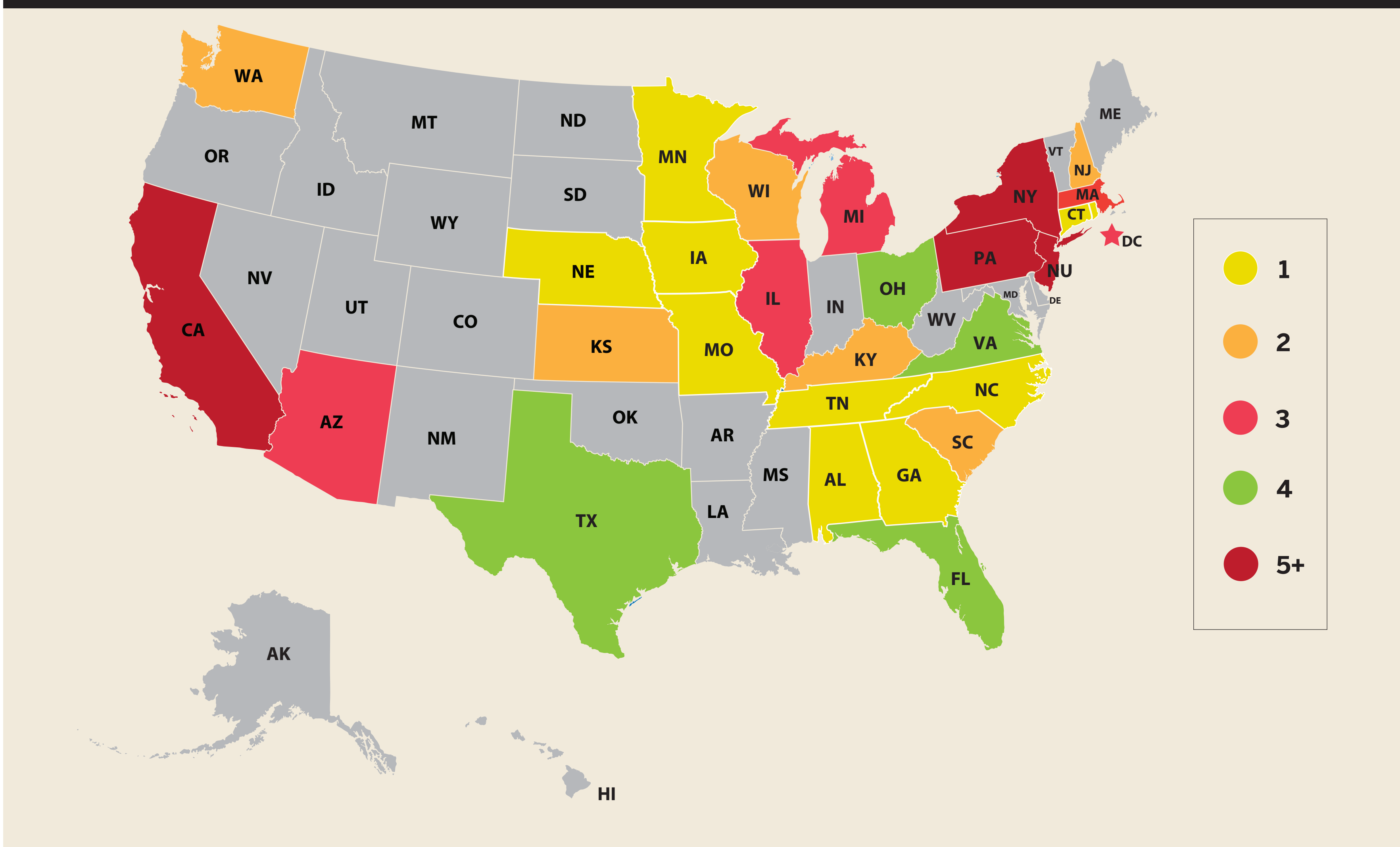
Crafting bespoke financial solutions is a proven track to the top.

After spending years working for larger firms, Davidse formed Presilium in 2022, driven by the impetus of offering a high degree of personalization to clients. It's been a startling success, with the firm already having over $400 million in AUM.

## METHODOLOGY

In August 2023, *InvestmentNews* invited wealth professionals from across the country to nominate their most exceptional leaders for the inaugural Hot List. After receiving hundreds of nominations, *InvestmentNews* narrowed the list down to 100 movers and shakers whose contributions have helped shape the wealth industry over the past 12 months. From innovators at the forefront of change to leaders who are transforming the way the industry does business, this year's Hot List represents the best the industry has to offer.

## HOT LIST 2023 BY STATE




# "I love being able to help our clients and their families, but there's a huge portion of the population that is never going to have that kind of financial guidance. Every opportunity that I get, I try to do things to help"

JERRY DAVIDSE, PRESILIUM PRIVATE WEALTH

"I wanted to give clients the best possible experience; I wanted full control of owning our own RIA," he says. "I wanted to be able to design everything from scratch, from the investment platform to financial planning to the way that we communicate with clients."

For Davidse, simplicity is the most efficient pathway to prosperity. Reflecting on his firm's investment strategies, the CEO says, "Clients are much more likely to stick with [investment plans] if they believe in the strategy. I have found that more complicated investment strategies tend to underperform, are more expensive, and are more difficult to implement. We use a basic index strategy, and it's worked well for our clients."

While Davidse keeps his investment strategies straightforward, as a seasoned marathon runner, he never backs away from a challenge.

"When you get to race day, that's typically the easy part. It's all the long runs you did by yourself that no one sees [that are] difficult. And it's the same as for Presilium," he says. "It's a lot of the behind-the-scenes things that we do every day for clients that make a really big difference."

Davidse's hard work and vision have paid off, as he was recognized:

- as one of the Top Wealth Advisors in Pennsylvania by Forbes (2021–22)
- as an RIA to Watch by AdvisorHub (2023)

As a testament to his commitment to the wider industry, Davidse creates a weekly educational video on the firm's YouTube channel to share his unique skill of making complex financial planning and investment topics easy to understand.

In addition to providing wealth management services for retired corporate executives and other successful individuals, he recognizes the importance of using his influence to positively affect the next generation of young professionals, both at home and abroad.

As an active board member of KIPP Philadelphia, a non profit charter school, Davidse helps prepare local students in educationally underserved communities for success through college. After taking a trip to Cambodia with Habitat for Humanity, he became inspired to work with the Cambodian Rural Students Trust. Since then, the CEO has worked to ensure that students across the country's Siem Reap region gain access to free education.

# HOT LIST 2023

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# HOT LIST 2023

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Chairman, CFP Board
Moisand Fitzgerald Tamayo

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Envestnet

**Daniel Lash, CFP, AIF**
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Gateway Financial Partners

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**Hayley Wood Bates**
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Signature Estate & Investment Advisor

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**Ivan Illán, AIF, CFS**
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Aligne Wealth Advisors Investment Management (AWAIM)

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Next Generation Trust Company and Next Generation Services

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Chairman and Chief Executive Officer
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Athene

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Wells Fargo

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**Jamie Hopkins**
Founder and President
FinServ Foundation

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Chief Executive Officer
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**Ken Schapiro**
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# HOT LIST 2023

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**Ted Halpern**
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**Teresa Rasmussen**
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Thrivent Financial

**Terrence Murphy**
Chief Executive Officer
Clearbridge Investments

**Tim Buckley**
Chairman and Chief Executive Officer
Vanguard

**Timothy O'Neill**
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**Tom Haught**
Chief Executive Officer and President
Sequoia Financial Group

**Wayne Bloom**
Chief Executive Officer
Commonwealth Financial Network

**William Sealey**
Wealth Manager
Sealey Investment Group

**Zack Hubbard**
Director of Financial Planning and Participant Engagement
Greenspring Advisors



# MICHIGAN ADVISOR RUNS FOR HOUSE SEAT

As a financial advisor for more than 30 years, Diane Young has seen fiscal and retirement policies affect her clients. If voters in Michigan's 10th District elect her, she'll have a role in shaping the decisions Congress makes

BY MARK SCHOEFF JR.

**IN OVER THREE** decades as a financial advisor, Diane Young has answered clients' questions about taxes and Social Security. She's running for Congress to influence those issues.

"There I can actually impact policy changes," said Young, managing partner at Arrowroot Family Office in Rochester Hills, Michigan.

She's seeking the Democratic nomination in Michigan's 10th House District in the northern suburbs of Detroit. She hopes to challenge incumbent Republican Rep. John James, who first won the seat in 2022.

A long-time Democratic fundraiser and former party candidate for state legislature and local offices, Young wants to go to Washington.

"It's time for me to step up," she said in an interview when she was in the capital for candidate training at the Democratic Congressional Campaign Committee, the campaign arm of House Democrats. "I think I have a voice to represent the working-class people in our district and I have the skill set."

Young developed her skill set over the years as an advisor. She had to establish good relationships with her clients to know how best to help achieve their financial goals, a process similar to communicating with constituents.

"I am a true-blue financial planner," she said. "I do that detailed fact-finder [work]. It's all about listening."

That mindset is one that's missing now in Washington, Young said. Although Congress avoided a government shutdown just before Thanksgiving, dissension among House Republicans has stymied long-term appropriations bills. Political tension recently led to a physical altercation in the House and threats of violence at a Senate hearing.

"On every board that I've been on – and I've served

CONTINUED ON PAGE 24

## TOUCHING THE THIRD RAIL: POLITICS

Financial advisors often avoid talking about politics with their clients. They don't want to say the wrong thing that will sour a long-term relationship or repel a prospect.

Diane Young, managing partner at Arrowroot Family Office, can't sidestep political conversations. She's running for Congress as a Democrat. Rather than hurting her practice, her political activity has given it a boost.

"My business has grown because a lot of Democrats go, 'Oh, I didn't know I could have a Democrat as a financial planner. I didn't know they existed,'" Young said, adding, "Most of my personal clients are Democrats."

Her Republicans clients at least grudgingly accept that she's a Democrat.

on many boards – I'm a very calm, cool, collected leader and good at moving a meeting forward while listening to stakeholders and getting to the root of the problem … and finding our common themes that we can work together on,"Young said. "We can do it. I think if we send more workhorses to Congress instead of show horses, we can get more stuff done."

She highlights her profession on the hustings.

"As a financial planner for over thirty years, she knows the financial problems Michigan families face and how decisions in Washington affect our lives," her campaign brochure states.

> **"If we send more workhorses to Congress instead of show horses, we can get more stuff done"**
>
> DIANE YOUNG, MANAGING PARTNER, ARROWROOT FAMILY OFFICE

Young headed what was at one time, she said, the second-largest woman-owned registered investment advisory firm in Michigan, The Athena Financial Group. It became a fiduciary-only RIA in 2016 after having operated as an independent broker-dealer since its founding in 2004.

She sold the firm to Arrowroot in 2021 in what she said was the first "Zoom merger" in the advice sector. The principals didn't meet face-to-face until six months after the deal was done.

Young grew up in Romeo, Michigan, in the northern part of the district, which borders Lake St. Clair. It encompasses Warren – home to the General Motors Global Technical Center — and Sterling Heights. Stretching across parts of Macomb and Oakland counties, the population includes auto workers and executives, university professors and administrators.

The DCCC is targeting the district in the party's effort to take control of the House from Republicans, who hold a 221-213 advantage. Young is competing against five other Democrats in the primary, including Carl Marlinga, who lost by 1,600 votes to James in 2022.

Young promises to protect Social Security and Medicare, streamline the tax code "to give middle-class families a break and ensure everyone pays their fair share," defend reproductive choice, and address climate change and gun safety, according to her campaign literature.

Many people misunderstand the wealth taxes that Democrats support, Young said. For instance, some of her clients think that proposed estate taxes would affect them when, in fact, they don't have nearly enough assets to trigger the levies.

"When Republicans frame it, they'll say the Democrats want to raise taxes on the wealthy," Young said. "Yeah, we want to do it on the extremely wealthy. But a lot of people think they're the real wealthy. No, you're not. You're not even in the same universe. Having someone who can communicate that to people is really important."

The economic disparity in the United States is "like what can happen sometimes right before revolutions," Young said. "We need to make sure that our wealthy citizens are investing back into our country like we used to so that we have good schools, good roads, good military, strong borders."

Young criticized James for being "an opportunist" who is out of touch with the district.

"He doesn't meet with [constituents]," she said. "He doesn't do real town halls. He does tele town halls by conference phone. The people here need someone who really understands them. They deserve that."

A James spokesperson did not respond to a request for comment.

Now that she's sold her firm and her children are grown, "the timing is really good for me to do this public service," said Young, 58. But running for Congress presents a difficult new challenge.

"This is the hardest thing I've done, and I started a business on a folding table and a phone book," Young said. "It takes every ounce of your brain all day long. This is more time-consuming mentally and physically than anything I've ever done in my life. I love it, though. I love meeting the people and love learning about their businesses and hearing about their problems. I've been solving problems. Now I can solve different problems."

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Award winners from the *InvestmentNews* Women to Watch event at Tribeca 360, New York City

# WORKING TO MAKE AN IMPACT

## 34 women, 13 companies received awards and honors at *InvestmentNews*' Women to Watch event last month

BY BRUCE KELLY

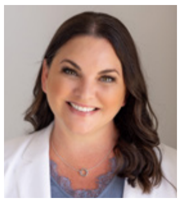
Like mother, like daughter.

Rita Robbins was unable to attend the annual *InvestmentNews* Women to Watch awards in November to receive the Alexandra Armstrong Lifetime Achievement Award. But her daughter, Ali Arnold, stood in for her mother, founder and president of Affiliated Advisors, a giant branch office in the Osaic Holdings Inc. network.

"My mom is so incredible, and having followed her into the financial services industry, I'm so grateful I've had her in my life," Arnold, a vice president of global marketing at Citi, said after the award ceremony. "She's had the opportunity to make such an impact on so many other people, and that makes me grateful."

The Alexandra Armstrong Lifetime Achievement Award is named for financial planning pioneer and leader Armstrong, who has spent more than five decades helping women plan strong financial futures and promoting the financial advice business as a top career for women. The award is given to one outstanding woman annually in the financial advisory and investment sphere.

In total, 34 women and 13 companies received awards and honors at the event on Tuesday, Nov. 7, in lower Manhattan for their work across the financial advice and planning industries, in categories ranging from Female Trailblazer of the Year to Portfolio Manager of the Year.



**"Seeing women supporting other women, regardless of where they are in the industry, is inspiring"**

COLLEEN BELL, PRESIDENT OF INNOVATION AND EXPERIENCE, CAMBRIDGE INVESTMENT RESEARCH INC.

The other Women to Watch winners were Kay Lynn Mayhue, Female Trailblazer of the Year; Colleen Bell, Allyship Champion of the Year; Brittney Olinger, Rising Star Advisor of the Year; Christine Cappabianca, Portfolio Manager of the Year; Thrivent, Employer of Choice; and Raymond James & Associates, Excellence in Gender Diversity & Inclusion.

### WOMEN NOT ADMITTED

When Robbins was an operations manager at a Paine Webber branch on Long Island in the 1980s, the firm held staff meetings at a country club that didn't admit women, she told *InvestmentNews* in an interview this fall. No one seemed to care except her.

Fast forward about 40 years, and Robbins has established herself as a pioneer for women in financial advice. She founded Affiliated Advisors in 1994, marking perhaps the first woman-owned super office of supervisory jurisdiction in the broker-dealer sector.


Employees at Raymond James & Associates, above, which won the Excellence in Gender, Diversity & Inclusion award, with *Investment-News* chief revenue officer Dane Taylor, far right. Below left, Rita Robbins' daughter Ali Arnold collects the Alexandra Armstrong Lifetime Achievement Award on her mom's behalf and, below right, Colleen Bell, Allyship Champion of the Year.





From left: Rising Star Advisor of the Year Brittney Olinger, Alexandra Armstrong addresses the audience, and Kay Lynn Mayhue, Female Trailblazer of the year, at right, with Lindsey Lewis of the American College of Financial Services

## 2023 WOMEN TO WATCH WINNERS

**Alexandra Armstrong Lifetime Achievement Award**
**Rita Robbins**
Founder and president, Affiliated Advisors

**Female Trailblazer of the Year**
**Kay Lynn Mayhue**
President, Merit Financial Advisor

**Allyship Champion of the Year**
**Colleen Bell**
President of innovation and experience, Cambridge Investment Research Inc.

**Portfolio Manager of the Year**
**Christine Cappabianca**
Portfolio manager, Impax Asset Management

**Rising Star Advisor of the Year**
**Brittney Olinger**
Advisor, Koss Olinger

**Employer of Choice**
**Thrivent**

**Excellence in Gender Diversity & Inclusion**
**Raymond James & Associates**

Women are a natural fit for the financial advice profession because they're good at listening and explaining and do so with minimal ego, traits many clients seek, she said. "I'd like to bring that to the forefront – that we understand this is not the 'Wolf of Wall Street' anymore. We're helping families prepare for their futures and educate their children and take care of their parents when they become old and ill. It's a physiological truth that women are wired to be nurturers."

Meanwhile, the Women to Watch award winners felt honored for their work and roles in the financial advice community. Female financial advisors have long been outnumbered by men in the industry.

**'EMPOWERED WOMEN'**

"I really do believe it takes all of us to bring other people into our firms and industry," said Colleen Bell, president of innovation and experience at Cambridge Investment Research Inc. "I've always had great mentors, like Eric Schwartz and Amy Webber, and I need to pay that back to pay it forward. Empowered women can empower the world. The goal is to bring other people up in the industry.

"This event is about the community we have created," Bell said. "There are many people here tonight who I see at many industry events, and we become friends – even people who work at different firms. Seeing women supporting other women, regardless of where they are in the industry, is inspiring."

"This is such an honor," said Kay Lynn Mayhue, president of Merit Financial Advisors. "I believed in and supported myself throughout my career, and now I get to do that for others. There are so many people who pushed me when I needed a nudge and pulled me up when I needed a hand. Now I get to focus my time on helping others reach new heights!"

"I mentioned up on stage that my youngest asked me, 'Why are you going to New York?' and I mentioned it was a women's event for financial services," Mayhue said. "And my daughter said, 'Well, that's weird.'

"I can't wait for the industry to get to a time and place when it is actually weird or odd to have an all-female awards dinner," Mayhue added. "A time when there is true diversity and female leaders in our industry are equal to their male counterparts."

"It means a lot to me, but I think it means even more to me being a representative of my company," said Brittney Olinger, a financial advisor at Koss Olinger. "We're an independent firm that's a three-generation-strong company out of Gainesville, Florida, and it was our first female partner who put me up for this award. She and all the other partners have been a massive proponent of bringing more women into our space and into our sector, so I'm just really, really honored. I wasn't expecting it.

"It's been a wonderful night, just getting the opportunity to speak and spend time with the women at my table tonight," Olinger said. "Hearing their experiences was incredibly inspiring. I don't get very many opportunities to be surrounded by this many industry leaders. I'm very grateful to *InvestmentNews* for giving us this platform – not only to be recognized, but [to have] the opportunity to meet others who have contributed so much to our industry."

"I love my job, and I'm getting honored for doing something that I love," said Cappabianca, vice president and portfolio manager for systematic strategies at Impax Asset Management. "It's great to show that kind of example to my kids, that you can have a job that is an intersection of your skills and passion.

"Women's equality is becoming an increasing theme, particularly in the investing style I do. That includes gender lens investing, and thinking about what kinds of gender equality make a company thrive. The environment is really exciting to be around. It's something I'm passionate about."

"We have amazing women and amazing volunteers who put in so much of themselves to make sure our program – the mentorship opportunities and career opportunities – exist," said Samantha Trebesch, senior vice president and head of advisor inclusion networks and sustainable investing at Raymond James. "And they raise up every single woman who comes to the firm."

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# ADVISOR FOCUSES ON GETTING 'A RETURN ON LIFE'

Many wealth management firms lean toward alternatives, but what really separates Taylor Kovar from the pack is his firm's approach to relationships

BY EMILY DOUGLAS

For a CEO and founder of a money management company, Taylor Kovar sounds surprisingly uninterested in money. As the leader of Kovar Wealth Management, it's not that he doesn't care about financial matters; it's just that Kovar cares more about what money means, especially in marriages.

"We've transitioned to being really focused on the family dynamic and really a return on life, rather than return on investment," he said. "I don't want to work with jerks. I want to work with people who want to be happy."

Given Kovar's personal history, it's not hard to see where this philosophy comes from. He didn't come from money.

"I was raised dirt poor," he said. "My blue-collar parents didn't know anything about money, and didn't teach me anything about money."

But it's amazing what love can do. For Kovar, it was falling in love with a girl – "the most beautiful girl I had ever seen," he said – who was much smarter about money than he was. It inspired him to get out of debt and learn how to manage money and invest. He realized that, against all odds, he liked the subject matter.

And Kovar discovered he had some talent in it. He went to school for it and, after graduating at the height of the Great Recession, landed at Merrill Lynch. It didn't take Kovar long to realize it wasn't a good fit.

"When I joined them, I realized they invest money differently from the way I like to invest money, and I couldn't even work for people like my parents because they didn't qualify for [Merrill Lynch's] minimum threshold," he said.

So Kovar struck out on his own, where he could implement his vision of wealth management. He emphasizes alternatives over traditional stock investments, focusing on private business, real estate, and timber.

But mostly what sets Kovar, and the firm that bears his name, apart is his focus on relationships. Usually when wealth managers talk about relationships, they're talking about sales – but for Kovar it's more literal. He wants to help couples with their relationship to money and, consequently, their relationship with each other.

"We've created books and courses and marriage conferences – and we have a marriage and family therapist on staff," he said. "We have kids' financial literacy stuff and we're really big on building happy families."

"We typically see opposites attract, just like in almost anything else," Kovar explained. "And so we have fivemoneypersonalities.com. We encourage people to take the free test on there, and then encourage your spouse to take it, too. Then we give you resources to communicate better with your spouse based upon each of your unique money personalities."

For a long time, money was the main reason couples divorced. And while now it's often social media that's driving couples apart, understanding how your spouse sees money is still important. Kovar knows from experience. After dating for seven years, he and his wife were on the verge of divorce after their second year of marriage. After realizing that they saw money in entirely opposite ways (he was a risk taker, she was a security seeker), they could communicate about their problems more easily.

**"If I'm having a meeting and I know that you're a saver, then I know I'm not going to recommend a private equity investment ... I'll suggest something long term"**

TAYLOR KOVAR, CEO, KOVAR WEALTH MANAGEMENT

The first step for Kovar's couple clients is understanding which money personality each of them has. This is a concept that another financial planning couple had developed. Once they retired, they gave their blessing to Kovar to use the concept, and he ran with it.

As Kovar explains, everyone is born into one of five money personalities: spenders, savers, security seekers, risk takers, and flyers. The first two are pretty common and self-explanatory. Security seekers like to see their money in their account to feel safe. Risk takers are typically entrepreneurs, and fliers are rare. They don't care about money really at all.

The five money personalities are also helpful for Kovar and his advisors. If he understands the personalities of his prospective clients, he can better tailor his recommendations.

"If I'm having a meeting and I know that you're

> “My blue-collar parents didn’t know anything about money, and didn’t teach me anything about money”
>
> TAYLOR KOVAR, CEO, KOVAR WEALTH MANAGEMENT

a saver, then I know I’m not going to recommend a private equity investment,” he said. “Because I understand where they’re at, I’ll suggest something long term, like a bond fund. It’s safe and secure. It really helps you to communicate better with the client before they even walk in the door.”

And, so far, a lot of people are walking in the door.

Although recruiting is a challenge in this environment, Kovar seeks individuals who are not just looking to make a buck but also genuinely want to help people – and this philosophy has led to rapid expansion as they find like-minded professionals in the industry.

Kovar’s plans are ambitious. With a focus on nationwide expansion and a goal to recruit 100 advisors by the end of next year, he’s determined to bring his unique approach to wealth management to a broader audience.

“I really feel that we’re that we’re going to start rocking – fingers crossed.”

*emily.douglas@keymedia.com*

Taylor Kovar and his family

INDIVIDUAL RETIREMENT ACCOUNTS

# Holiday gift tax planning for IRAs

Individual retirement accounts cannot be gifted during the owner's lifetime. Once funds are withdrawn from an IRA, they are generally taxable. But funds outside of IRAs can be used to beef up retirement savings for children, grandchildren, and even parents, and can be done free of gift tax. Gifting can also save family income taxes on Roth IRA conversions.

IRA ALERT
ED SLOTT

## ANNUAL EXCLUSION GIFTS

For 2023, anyone can give up to $17,000 to any other person. There are no limits on the number of people you can make gifts to under this provision. These gifts are not only tax-free, but they don't count toward the estate/gift tax exemption, which for 2023 is $12.92 million per person, or $25.84 million for a married couple.

Often when people are planning family gifts at year-end, they think they're limited to the annual exclusion amount. But gifts above the annual exclusion amount still aren't taxable until they exceed the generous estate/gift tax exemption amounts. This means the $12.92 million/$25.84 million exemption amounts can also be used for lifetime gifting in ways that expand the funds available for retirement tax planning.

## GIFTING HAS SEVERAL TAX BENEFITS:

- The gift reduces the estate value by removing the property from the estate.
- The gift removes the income the property would have generated, lowering current and future income taxes.
- The gift removes the appreciation on the property from the estate.
- The gift is tax-free to the recipient.

For this discussion of gifting, I am referring to cash gifts, not highly appreciated property, which can qualify for a step-up in basis after death. The step-up in basis eliminates the capital gain on the lifetime appreciation when received by the beneficiary.

Those are the gifting basics, but the big tax benefits are in how these gifts can be used in conjunction with retirement accounts.

## ROTH IRA CONTRIBUTIONS

Parents and grandparents can gift children (or anyone else) funds to make annual IRA or Roth IRA contributions. The 2023 IRA contribution limit is $6,500 ($7,500 if age 50 or over), which is well below the annual gift exclusion amount. That would make a nice stocking stuffer.

## ROTH CONVERSIONS

Gifts can also be made to children, grandchildren, or anyone else to pay the tax on their Roth conversions.

Our current low tax rates can allow great leverage with these gifts. For example, a gift of the $17,000 annual exclusion amount (for 2023) can allow a child to convert $77,273 to a Roth IRA at the 22% marginal rate ($77,273 x 22% = $17,000). Even more can be converted for someone in a lower tax bracket. Even at the 24% marginal rate, that $17,000 can convert $70,833 ($70,833 x 24% = $17,000). (Of course, any state income taxes would also have to be considered here.) That's big bang for the buck. Grandparents in particular love this, knowing that their gift will have an immediate return and will help provide a big boost to a grandchild's Roth retirement savings.

Remember that a gift for this purpose isn't limited to the annual exclusion amount. Gifts beyond that amount can be made, with the only downside being that they will cut into the very high lifetime exemption. Larger gifts can create much larger Roth conversions, although the higher the child's tax rate, the less can be converted using the gifted funds.

**Gifts can also be made to children, grandchildren, or anyone else to pay the tax on their Roth conversions**

This gifting strategy can work particularly well for adult children who have much larger IRAs that can be either completely or partially converted. While the gifts are tax-free, remember that the larger the conversion, the larger the tax bill. Tax planning for the child should thus take their projected tax rates into account.

### GIFTING UP THE FAMILY TREE

Normally, estate planning involves parents or grandparents making gifts to children or grandchildren to reduce the parent or grandparent's estates. But good retirement tax planning can also be done by reversing the process and gifting up the family tree. This can be very helpful for IRA beneficiaries, since inherited IRAs can't be converted to inherited Roth IRAs, leaving beneficiaries stuck with taxable inherited IRAs just when they might be in their own highest earnings years.

Say Jane is in a high tax bracket and is the beneficiary of her mother's $500,000 IRA. Mom is taking large taxable required minimum distributions each year. Mom has other funds and doesn't need her IRA money, but takes annual RMDs because she must. When Jane inherits Mom's IRA, she will likely be subject to the 10-year rule, so all those inherited IRA funds will have to be withdrawn and taxed by the end of the tenth year after death. At Jane's projected tax rate, that could erode a good portion of the inherited IRA, especially if (as is likely) future tax rates increase. And Jane wouldn't have the option of converting the inherited IRA.

Let's change the tax equation by having Jane give Mom enough to convert Mom's entire IRA to a Roth IRA. Even if that pushes Mom into a higher tax bracket, say 37%, a gift of $185,000 would be enough to pay the conversion tax ($500,000 x 37% = $185,000). (Again, any state income taxes would also have to be considered.) Of course, the tax bill (and the required gift) would be less if Mom is in a lower bracket. Even if Mom's bracket is high, the tax bill could be reduced a bit if Mom does a series of smaller annual Roth conversions to have the entire IRA converted over a few years.

The benefit to Mom is that she gets a free Roth conversion, and is no longer subject to annual RMDs, so her tax bill will be lower each year. She doesn't need the funds, and now that they're in her Roth IRA, they can continue to grow income-tax-free for the rest of her life, and 10 years beyond to Jane.

The benefit to Jane is that now she will inherit a tax-free Roth IRA with all that accumulation, and the tax was paid at Mom's lower tax rate (compared to what Jane's rate might be in the future). When Mom dies, Jane is still subject to the 10-year rule, but the Roth IRA distribution to her at that time will be income-tax-free. In addition, since Jane has inherited a Roth IRA, there are no annual RMDs required for years one through nine of the 10-year term. Of course, remember to make sure that Mom names Jane as her Roth IRA beneficiary!

Now go one better: Even though Mom's IRA will be income-tax-free to Jane, based on future estate exemption levels, Jane may be in a taxable estate tax situation, and the inherited Roth will be included in her estate. For that reason, Jane may not want to inherit Mom's IRA.

In that case, have Mom name her grandchildren (Jane's children) as her Roth IRA beneficiaries, bypassing Jane's estate completely.

These outcomes can all flow from gifts made now under the generous gift tax levels. This kind of tax planning can spread holiday cheer for decades!

Happy holidays to all.

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


RETIREMENT PLANNING

# Social Security in 2024 and beyond

As I write my final column for *InvestmentNews*, I'll end the year the way I began: looking ahead to scheduled changes in Social Security benefits and Medicare premiums for the coming year and putting long-term financing concerns about the nation's bedrock retirement program into perspective.

MARY BETH FRANKLIN

ONRETIREMENT

The good news is more than 66 million Americans will receive an income boost next year, thanks to a 3.2% cost-of-living adjustment that takes effect in January, increasing the average Social Security benefit by more than $50 per month.

Medicare Part B premiums, which pay for doctors' fees and outpatient services, are usually deducted directly from monthly Social Security benefits. Part B premiums will increase by about $10 per month to $174.70 per month in 2024, leaving most Social Security recipients with a larger net benefit than this year.

And some higher-income retirees who were on the cusp of paying the dreaded Medicare high-income surcharge this year may avoid it in 2024 as the income thresholds that trigger monthly income-related adjustment amounts, or IRMAA surcharges, increased by $6,000 for single taxpayers and $12,000 for married couples who filed a joint tax return.

**Congressional inaction on Social Security reform is creating a crisis of confidence in this crucial retirement system**

Individuals with a modified adjusted gross income of less than $103,000 in 2022 and married couples with a MAGI under $206,000 in 2022 will pay the standard Medicare Part B monthly premium in 2024. Higher-income Medicare enrollees will pay more, ranging from about an extra $70 per month per person to an extra $420 per month per person on top of the standard Part B premium of $174.70 per month.

While monthly cash flow of Social Security income and Medicare premiums may be an immediate concern for many retirees, the long-term finances of the Social Security program are a major worry for both current and future beneficiaries. And those concerns may be prompting some people to claim benefits early, resulting in permanently reduced benefits that could jeopardize their future retirement security.

The 2023 Social Security Trustees Report projects that the combined Old Age, Survivors, and Disability trust fund, currently used to pay for a portion of current Social Security benefits, will be depleted in about 10 years.

"If Congress has not acted by 2034, we will be faced with an automatic 20% cut in benefit to people already receiving benefits, the need to immediately increase Social Security taxes by 25%, or some combination of benefit cuts and tax increases," a new issue brief from the American Academy of Actuaries warns. "Earlier reform action would allow for tax increases and benefit reductions to be phased in gradually and provide individuals more time to plan and adjust to the changes."

The implications are clear: congressional inaction on Social Security reform is creating a crisis of confidence in this crucial retirement system.

Three-quarters of adults aged 50 and older worry that Social Security will run out of funding during their lifetimes, according to the 2023 Nationwide Retirement Institute survey of more than 1,800 Americans. Separately, the 2023 Schroders US Retirement Survey found that just 10% of non-retired Americans say they will wait until age 70 to receive their maximum Social Security benefits, while 40% of non-retired Americans plan to claim Social Security before their full retirement age, resulting in permanently reduced benefits for the rest of their lives.

That's unfortunate, said Sri Reddy, president of Principal's retirement and income solutions, since Social Security, with its annual cost-of-living adjustments and guaranteed income for life, "is the only thing that gives you a perfect hedge for inflation." Claiming reduced benefits early due to potential long-term funding concerns "is an irrational fear," Reddy said.

Financial advisors are left to create retirement income plans for their clients using benefit estimates that they aren't sure they can count on in the future. What's an advisor to do?

Assure clients that even in the unlikely scenario that Congress fails to act before the trust funds are exhausted, that does not mean Social Security will be bankrupt. There would be enough ongoing FICA payroll tax revenue to fund about 80% of promised benefits. If history is any guide, it is unlikely that Congress would cut benefits for current or near retirees.

For younger clients, advisors should stress-test their retirement income plans. What would happen if their Social Security benefits – not their entire monthly retirement income – were reduced by 20%? Would it devastate their plan? If so, what steps can they take now to save more for retirement?

It has been my honor and pleasure to serve *InvestmentNews* readers for more than a decade. Thank you, and goodbye. **(Questions about new Social Security rules? Find the answers in Mary Beth Franklin's 2023 ebook at MaximizingSocialSecurityBenefits.com.)**

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# Industry

FOCUS

## 'To stand out, I needed to innovate'

**FOR JASON M. KATZ**, the driving force in his life and career is an entrepreneurial impulse. And as managing director of wealth management and private wealth advisor at UBS, it's been a key factor in his overarching success.

This drive was evident at a young age, when Katz took to running the concession stand and school store at his high school.

"I've always been driven by an entrepreneurial spirit," he told *InvestmentNews*. "And when I got to college, I used to design and sell T-shirts door to door."

However, Katz soon followed his father into the commercial real estate world as a college intern. And he said this period was a crucible for both his professional development and the start of his own journey of self-discovery.

"One of my biggest takeaways was that as much as I adore my father – he's a great mentor and my best friend – I think we both determined that I needed to stake my own claim. He felt that I had so much talent when it came to being entrepreneurial, I should be in an environment with no glass ceilings," he said.

Katz's initial steps in this world were as a stockbroker, starting at Bear Stearns and then becoming a financial advisor at Paine Webber, which subsequently became UBS. Here, he distinguished himself early in his career with his unique approach to client outreach. In an era dominated by cold calls and stock pitches, Katz chose to cultivate relationships with influential figures like sports agents and estate attorneys, thus broadening his network significantly.

> "[My father] felt that I had so much talent when it came to being entrepreneurial, I should be in an environment with no glass ceilings"
>
> JASON M. KATZ, PRIVATE WEALTH ADVISOR, UBS

"I realized early that to stand out, I needed to innovate beyond the conventional cold-calling strategies," he explained.

And this pioneering mindset extended to seminars and speaking engagements, a domain where he again defied norms.

"Why bring in external speakers when I could forge a direct connection with the audience myself?" Katz posited, highlighting his strategy of personal engagement. This experience sharpened his presentation skills, and he now represents UBS in the financial media with a regular weekly appearance on Fox Business News.

Recognizing the strength in diversity, Katz was a pioneer in assembling a team of specialists in various fields of finance. This team, comprising certified financial planners, investment analysts, and other specialists, enabled him to offer a full spectrum of financial services.

"My vision was to create a team that could address any aspect of a client's financial life," Katz said, emphasizing his comprehensive approach to wealth management.

Now, Katz oversees an impressive team of 18 investment professionals, managing assets totaling around $4.5 billion. In his dual role as chief investment officer and senior portfolio manager, Katz's approach is holistic, covering everything from financial planning to asset management. His clients are a mix of athletes, entertainers, financial professionals, corporate executives, and traditional high-net-worth investors.

But it's Katz's philosophy on team dynamics in finance that's particularly enlightening. He advocates for a diverse team with specialized skills, rather than a homogeneous group.

"Diversity in expertise is key," he said. "You want a team where each member brings a unique skill set, not just replicas of the same profile."

Looking to the future, Katz envisions a continued focus on empowering his team members, fostering their growth while he concentrates on high-net-worth portfolios. This strategy not only optimizes his decision-making capabilities but also promotes the professional development of his team. "Empowering my team to excel in their areas of expertise not only benefits them but enhances our service to clients, attracting more high-caliber business."

## National RIAs to merge to create $11.2B firm

**TWO NATIONAL RIA** firms, Curi Capital, with $1.6 billion in AUM, and RMB Capital, with $9.6 billion in AUM, will combine as part of a wider deal that sees Curi Holdings Inc. acquire a majority stake in RMB, with the transaction expected to close by the end of the year. Terms have not been disclosed.

The merger will create an entity managing around $11.2 billion. Curi CEO Dimitri Eliopoulos will be chief executive of the combined Curi RMB Capital.

The firms' leadership teams will remain, along with their 180 employees, with plans to hire additional staff in 2024. Curi also recently merged with Constellation Inc.

## $3B San Diego-based firm joins Commonwealth

**MAMMINI CO.**, a San Diego-based firm that oversaw nearly $3 billion in client assets at Lincoln Investments, has affiliated with Commonwealth Financial Network. Mammini has a team of eight, led by owner and president Mike Mammini, including four advisors, one of whom is Mammini's son, Mitch.

The firm, founded more than 30 years ago, focuses on working with labor unions and corporate sponsors of retirement plans. Mike Mammini said affiliating with Commonwealth will give the firm the fuel to grow, particularly in the trust fund and retirement plan markets. "We see big value in Commonwealth's institutional knowledge, the full investment research team, and the accessible support of being eight miles away from the San Diego home office."

# Regulation

## Big banks face larger burden from SVB collapse

**THE U.S. GOVERNMENT** approved a plan to saddle the biggest banks with much of the tab for refilling the nation's bedrock deposit insurance fund.

The Federal Deposit Insurance Corp. green-lit the key parts of a proposal the regulator made in May to replenish the fund. It typically only covers up to $250,000 in an account but was used to make whole uninsured depositors who were hit by the banking turmoil this year. The FDIC now estimates the move cost the fund about $16.3 billion.

Big banks will pay steeper fees, an annual rate of about 13.4 basis points, which will be collected over eight periods.

## Brokerage, two reps to pay $1 million for violations

**A BROKERAGE AND** two of its registered representatives agreed to pay the SEC a little more than $1 million for violating Reg BI by churning client accounts.

The SEC charged Richard Michalski and Michael Murray, two reps for Laidlaw & Co., with recommending an investment strategy to six retail customers from July 2020 through October 2021 that resulted in excessive trading.

"The strategy involved frequent in-and-out trades that placed the broker's interest in generating commissions and fees ahead of the customers' interest in making a profit," the SEC stated in the order.

Both representatives worked out of Laidlaw's New York City branch.

FOCUS

# Senate Democrats take aim at 'buy, borrow, die' with latest billionaires tax

**SENATE DEMOCRATS INTRODUCED** a bill last Thursday that they say would close loopholes that allow the ultrawealthy to avoid taxes – an idea that investment advisors said would be difficult to implement but that does start a conversation about closing the wealth gap.

The lawmakers are taking aim at what they call a "buy, borrow, die" strategy that billionaires use to shield their assets from taxation. The wealthy buy assets, such as stocks and real estate, that increase in value, then borrow against the rising value of those assets to fund their lifestyles. When they die, they pass them on to their spouse or children while sidestepping taxes.

The Billionaires Income Tax Act would require that tradable assets, such as stocks, be marked to market and taxed annually, regardless of whether they're sold, according to a summary of the bill. Nontraded assets, such as real estate or an interest in a business, would be taxed when they're sold and would have an

## Finra keeps pace with SEC marketing rule

**FINRA FILED A** proposal last month with the SEC that would allow brokers to use projections of performance or targeted returns when touting securities, asset allocations, or investment strategies to an institutional investor or non-public offerings to qualified purchasers, who must have $5 million or more in investible assets. The amendments give brokers more leeway when marketing to the two groups.

Finra is seeking SEC approval for the changes following last year's implementation of the SEC's marketing rule, which overhauled how RIAs can advertise their firms.

The SEC rule also allows for performance advertising if advisors adhere to certain prohibitions.

## Ex-hedge fund boss fights SEC with big backers

**IN 2013**, hedge fund manager George Jarkesy said he didn't recall more than 800 times during questioning at the SEC about deceiving investors. A judge at the agency said he was so evasive his testimony was all but worthless.

A decade later, Jarkesy may have the last laugh. The Supreme Court is now using his case to consider stripping the Securities and Exchange Commission of a key weapon in its arsenal – the ability to go before its in-house judges to seek multimillion-dollar penalties. The court heard arguments last Wednesday, with a ruling likely by June.

Backed by Elon Musk and Mark Cuban, Jarkesy contends that defendants in SEC cases have a constitutional right to make their case to a federal jury. A win for Jarkesy would reduce the SEC's leverage to extract expensive settlements.

additional levy tacked on that captures the amount of gains that were tax-deferred while the asset was held.

The policy changes would apply to people who have more than $1 billion in assets or more than $100 million in income for three consecutive years. That would encompass 700 taxpayers, according to the bill summary.

The goal of the legislation is to ensure that the country's wealthiest people pay their fair share of taxes to support Social Security, Medicare, and other programs.

"Right now, the average billionaire can wriggle their way into a measly 8% tax rate while a nurse or firefighter making $45,000 is paying a 22% tax on their wages," the bill's author, Democratic Sen. Ron Wyden of Oregon, said on the Senate floor last Thursday.

### PRACTICAL CHALLENGES

But the remedies in the bill won't work as well as the lawmakers intend, said Brian Seay, founding partner of Capital Stewards. For instance, it may spur the wealthy to distribute assets to heirs sooner.

"Founders, executives, and investors could simply move assets to their children's names earlier in the lifecycle of a company to avoid hitting the threshold," Seay said.

Another problem facing the attack on buy-borrow-die is the difficulty in valuing assets, said Ryan Johnson, founder of Hundred Financial Planning. "Until you go to sell [the asset], you can't be sure what the value is."

> **"The average billionaire can wriggle their way into a measly 8% tax rate while a nurse or firefighter making $45,000 is paying a 22% tax on their wages"**
>
> SEN. RON WYDEN, D-ORE.

The legislative prospects for the bill are uncertain. It may not be able to pass the Senate despite a 51-49 Democratic advantage in the chamber, and the Republican House likely would reject it.

Johnson foresees a political stalemate.

"I would be surprised if Republicans and Democrats would agree on the nitty-gritty of when someone would be ineligible to take advantage of [the buy-borrow-die] strategy," he said.

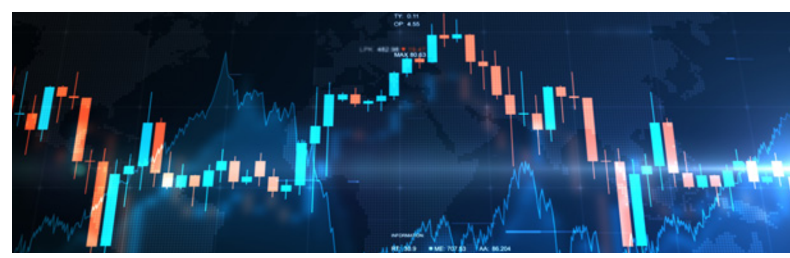
# BofA fined $24M for spoofing in Treasuries market

**BOFA SECURITIES WILL** have to pay $24 million for hundreds of instances of spoofing in the Treasuries market, the Financial Industry Regulatory Authority Inc. announced last Thursday.

Spoofing is fraudulent trading that is meant to deceive other market participants into trading at a time, price, or quantity that they otherwise would not have.

Over the course of six years, from October 2014 to February 2021, a former supervisor and a former junior trader at BofA Securities engaged in 717 instances of spoofing in Treasury securities.

Finra said that in the years leading up to September 2022, BofA Securities didn't have a supervisory system designed to detect all spoofing in Treasury markets. The firm failed to implement a supervisory system until November 2015, and that system was only designed to detect spoofing by trading algorithms, not manual spoofing by traders.



# SEC says Kraken is running an unregistered crypto exchange

**THE SEC IS** accusing crypto exchange Kraken of securities law violations, less than a year after unveiling a $30 million settlement with the firm over other alleged misconduct.

"We allege that Kraken made a business decision to reap hundreds of millions of dollars from investors rather than coming into compliance with the securities laws," Gurbir Grewal, the SEC's enforcement chief, said in a statement.

In 2020 and 2021 combined, Kraken had more than $43 billion in revenue from trading-based transactions, the complaint alleged.

In a post on X, Kraken said it disagreed with the SEC claims and planned to "vigorously defend" its position.

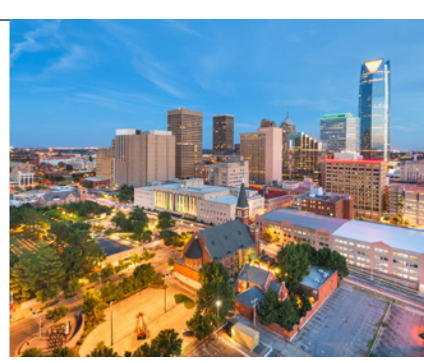
# Oklahoma sued over anti-ESG law

**AN OKLAHOMA PENSIONER** is challenging a state law that targets financial firms, including BlackRock Inc. and JPMorgan Chase & Co., for their climate change policies.

Don Keenan, a former state employee, is seeking a temporary restraining order against Oklahoma treasurer Todd Russ and the state over the 2022 law enacted by the Republican legislature.

"The state's decision to use its retirees' retirement funds as political fodder in its quixotic quest to prove a point is patently unconstitutional and violates federal law," Keenan's lawyer said in the lawsuit.

The anti-ESG rhetoric is a hot-button political issue that has been debated in statehouses across the U.S.



# Industry divided over remote inspection proposals

**DIVERGENT OPINIONS HAVE** risen in the wake of the SEC's approval of Finra rule proposals that would establish a three-year pilot program for remote inspections and allow a broker's home to be designated as a non-branch office.

The pilot program proposal builds on a temporary rule for remote inspection that has been in place since November 2020.

"The new rules reflect today's hybrid work environment while still providing critical investor protections," Finra said in a statement.

The Public Investors Advocate Bar Association criticized the SEC's approval of the remote inspection proposals.

"They're good for fraud but bad for [investors] keeping their money," said PIABA president Joe Peiffer.

## More Americans are tapping their retirement accounts

**RETIREMENT SAVINGS MAY** be an essential pillar of financial planning, but new stats from Fidelity Investments show that average account balances decreased in the third quarter of 2023, while withdrawals and loans increased.

For IRAs and 401(k)s, average balances were down 4% from the previous quarter, while the average for 403(b) accounts was down 5%. The portion of participants making hardship withdrawals increased from 1.8% in the second quarter to 2.3% in the third quarter.

However, Gen Z, the youngest adult cohort, appears to be embracing retirement savings, with a 63% rise in IRA accounts year-over-year and overall dollar contributions up 51%.

## MetLife to pay $4.5M settlement

**METLIFE WILL PAY** $4.5 million to settle a lawsuit over the company's 401(k) plan, according to court records.

That amount will resolve a 2021 case alleging that the insurance company violated its fiduciary duty to plan participants by including in-house products on the 401(k) menu rather than ostensibly superior funds from competitors. MetLife indicated last month it had reached a settlement in principle, but the details of the agreement were only just made public.

The settlement will apply to the plan's participants and beneficiaries who held MetLife index funds between July 19, 2015, and Dec. 31, 2021.

FOCUS

# Planning ethos shaped by grandfather's health crisis

**TROY SHARPE**, CEO of Oak Harvest Investment Services, says his interest in investments – and in retirement planning in particular – took root in his childhood. Having been raised by his grandparents, he witnessed his grandfather's health crisis, which occurred shortly after he stopped working.

"My grandfather was five weeks into retirement when he had two aortic aneurysms," he says. Sharpe spent every day in the hospital with him, witnessing firsthand the challenges of health care in retirement. This experience was both an emotional and financial eye-opener, highlighting the gaps in the existing system of financial planning for retirees.

It ultimately led Sharpe to scrutinize the retirement planning industry more closely.

"I realized that many firms lacked foresight in planning," he said. "It was all about managing the money with no real comprehensive strategy."

Armed with a finance degree, he set about founding Oak Harvest Investment Services – with a focus on plugging those gaps for clients looking at retirement planning.

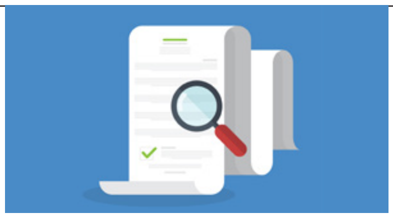
"It's not just about the investments," Sharpe explained. "Once you enter the distribution phase of retirement, the strategy changes. It's about understanding the impact of today's decisions on future security."

Sharpe underscores the importance of addressing the emotional aspects of financial decisions in retirement – not just the monetary.

"From our side, one of the big challenges is helping clients stick to the plan through ups and downs," he said.

> **"[Regulation] does create a more costly environment to operate, which in turn can hurt consumers, especially lower-asset clients"**
>
> TROY SHARPE, CEO, OAK HARVEST INVESTMENT SERVICES

## CEO says proposed bank rules could affect pensions



**GOLDMAN SACHS GROUP INC.** chief executive David Solomon argued recent proposals by regulators to force banks to hold more capital won't make the world's financial system any safer and could affect everything from flight prices to pensioners' retirement savings.

The proposed rules – which the Federal Reserve, the Federal Deposit Insurance Corp., and the Office of the Comptroller of the Currency unveiled in July – would require the biggest U.S. banks to set aside more capital for a variety of different businesses. Solomon said the proposals would have an impact on pension managers' abilities to lend out their securities.

## US pensions to gorge on corporate bonds

**A QUIRK IN** retirement plan accounting is making corporate pensions look particularly flush now, giving them more incentive to cut risk by dumping equities and buying bonds.

Corporate bond yields, used to value companies' pension payouts, have jumped since early last year, effectively allowing fewer dollars now to fund future obligations. That oddity in pension accounting has helped leave retirement plans with 104.2% of the funding they need as of the end of October, data from the Milliman 100 Pension Funding Index shows.

That's the greatest level of overfunding since October 2022, according to the index, which looks at aggregate funding ratios for the 100 biggest corporate pensions. Funding levels have been climbing for more than a decade, aided by the surging stock market.


"We build relationships and help them stay the course."

Oak Harvest's approach to retirement planning is not just about building wealth but also about understanding and managing the tax implications of retirement income.

"You're forced to start taking money out of your retirement accounts at a certain age, and all that income is taxable," Sharpe said. "Once you hit a certain age, all that income is taxable. So if you're not planning properly leading up to that point, you could find yourself in a bit of a tax nightmare."

However, the journey is not without its challenges. As Sharpe says, regulation is a significant factor for the industry.

"There's always an extra form to sign, an extra phone call to make. It becomes more burdensome from a cost and time standpoint," he said. "We don't necessarily disagree with the spirit of what they're trying to do. Just in practice, there are unintended consequences. It does create a more costly environment to operate, which in turn can hurt consumers, especially lower-asset clients."

An additional challenge advisors face is communicating the change in the economic environment and presenting expectations clearly to clients. The shift from a zero-interest-rate world to "higher for longer" presents additional difficulties related to the impact on financial markets, volatility, and expected asset returns. Most consumers don't fully grasp that higher interest rates directly decrease the value of future cash flows and therefore asset prices.

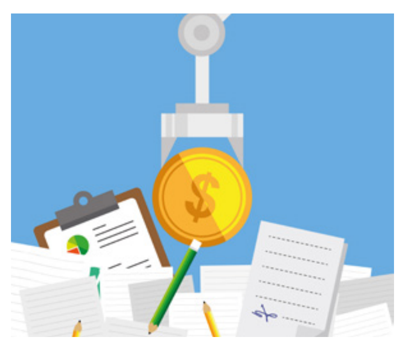
# These clients will make retirement planning a breeze

**GOLDMAN SACHS ASSET MANAGEMENT** collaborated with behavioral finance research firm Syntoniq to discover what motivates and influences Americans to save for their retirement, based on a survey of more than 5,000 working and retired people.

Those who have an easier time preparing for retirement display four key traits: high optimism, high future orientation, high financial literacy, and having a reward orientation rather than a risk orientation.

Respondents displaying the highest levels of these traits typically had larger retirement savings, were less stressed about managing their savings, and were better able to manage competing priorities. Highly optimistic respondents are more likely to report that their retirement savings are on track or ahead of schedule (83%), compared to 41% with low optimism.

# Retirement plan contributions slipped in 2022: Survey



**CONTRIBUTIONS TO RETIREMENT** plans declined last year from the record rates seen in 2021, according to a survey of 401(k) plans by the Plan Sponsor Council of America.

However, the study showed that participation remains strong, even if down from the record highs seen in recent years. The survey showed nearly 90% of eligible employees had 401(k) accounts in 2022, and 85.6% made contributions in 2022.

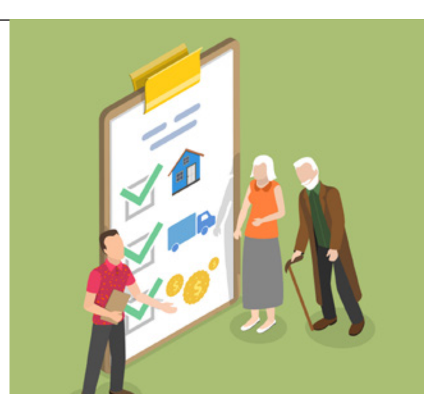
The combined employer and employee contribution rate was 12.1%, down from 15.3% in 2021. While the average employer contribution slipped to below 5% of pay, an impressive 96.2% of companies still made planned matching contributions, the survey said.

Roth after-tax contributions are now available in 90% of plans, the study showed. Moreover, the availability of automatic enrollment increased in 2022 and it's now used in 64% of plans.

# Inheritance trumps entrepreneurship

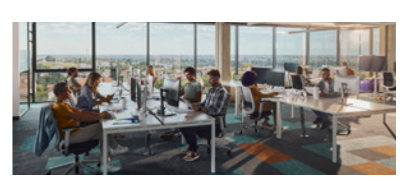
**THE MUCH-TALKED-ABOUT** Great Wealth Transfer is underway among the richest families, according to a new report.

The UBS Billionaire Ambitions report found that billionaires acquired more wealth in the last year from inheritance than from entrepreneurship, the first time this has been the case in nine editions of the annual research.



"This is a theme we expect to see more of over the next 20 years, as more than 1,000 billionaires pass an estimated $5.2 trillion to their children," said Benjamin Cavalli, head of strategic clients at UBS Global Wealth Management.

# Workers say wages have not kept pace with inflation



**LESS THAN ONE-THIRD** (29%) of American workers say their wages have kept up with or exceeded inflation in 2023, down slightly from last year.

While 11% are not sure, the other 60% who participated in a new poll from Bankrate.com say they have been left out-of-pocket by the sharp rise in the cost of living, with older, hourly, and lower-income workers most likely to have lost out.

The stats show that 73% of boomers and 72% of Gen Xers have seen a cut in their income in real terms as a result of inflation, while this falls to 52% among millennials and 44% for Gen Z.

# Fintech aims to shake up how alts firms connect with wealth managers

**DISRUPTING HOW ALTERNATIVE** asset fund managers connect with wealth managers is the target of a new feature from a global fintech firm.

Bite Investments has added the capability to its Bite Stream platform, enabling asset managers to link directly with the global wealth management channel without the need for intermediaries.

For wealth managers and advisors, the platform will offer direct access to private market funds, expanding diversification and personalization opportunities, and thus meeting client demand for alternative investments.

Bite Investments' CEO William Rudebeck said the firm's new solution helps address the oversized advantage that larger wealth managers have in accessing alternative assets at low cost.

# How having kids can make clients richer

**ACCORDING TO DATA** and evidence from researchers and financial advisors, having children forces people to confront their financial lives in ways they hadn't before. That usually translates into increases in saving and decreases in discretionary spending.

Among people with children, the percentage of those saving 6% to 9% of their income is more than double that of those without kids. Advisors say having kids often resets financial priorities, which leads to more wealth building.

Daniel Goodman, founder of Good Better Best Financial Planning, said people often lean into the positive financial habits they already have when having kids and that can shift long-term planning.

FOCUS

# Firm founder cites industry's treatment of women

**THE CAREER** of Cathy Curtis, founder and CEO of Curtis Financial Planning, has been marked by a deep commitment to breaking barriers and fostering financial independence among women.

Speaking to *InvestmentNews*, Curtis said her inclination toward finance was ignited early in life, shaped by her upbringing in a middle-class family and exposure to affluent lifestyles in San Francisco. That early realization of the disparities in wealth seeded in her a desire for more.

"I went to a school in a district in San Francisco where a lot of wealthy families went," she said. "And I was exposed to lifestyles that I was not living as a young girl – that fascinated me because when you're in your situation, you don't realize that there's something better unless you go out and see it."

Her father, a businessman, played a crucial role in shaping her career path. Curtis fondly remembers sitting with him, handling "important papers" and acting as if she had her own business instead of playing with dolls. This imitation game was more than child's play; it was the foundation of her future in business.

Curtis' journey diverged from that of her siblings, most of whom pursued careers in health care. Her path led her to the financial sector, driven by a blend of admiration for her father and a personal aspiration for a better life. However, it wasn't long before Curtis recognized a glaring disparity in the field — the underrepresentation and undervaluation of women, especially in wealth management.

This observation spurred her to establish her own firm, focusing primarily on female clients. The decision to pivot

## "I watched men get the advantage in so many ways. And I got really tired of that myself, which is why I branched out and started my own firm"

CATHY CURTIS, FOUNDER AND CEO, CURTIS FINANCIAL PLANNING

# Envestnet rides boom in model portfolios

**ENVESTNET IS HELPING** steer billions of dollars into tailor-made strategies for financial advisors, part of what's known as the model portfolio boom.

By providing a platform that offers around 2,000 customized products from some 150 asset managers, Envestnet is tapping into rising demand from retirement accounts and the like for bespoke portfolios – combining stocks, Treasuries, credit, and more.

BlackRock recently projected that the model portfolio realm could grow to a $10 trillion business over the next five years from around $4 trillion currently. The investing giant has benefited by packaging its own products into the off-the-shelf strategies, while Envestnet serves as a tech-powered intermediary.

# Regulatory concerns restrict AI usage

**MOST YOUNG FINANCIAL** advisors say AI will enable them to do their jobs better, but also say their firms restrict the use of the nascent technology, in part because of regulatory concerns.

Sixty-four percent of advisors polled said generative AI would be a help to their practice, and 57% said it would be helpful to the investment advice sector, according to the 2024 Connected Wealth Report: AI & the Next-Gen Advisor. Twenty-one percent of respondents see AI as a threat to their careers and 31% perceive it as a threat to the advice sector. The average age of the responding advisors was 36.5 years.

CATHY CURTIS

toward a niche of women clientele, at a time when few others were focusing on this demographic, was a defining moment for her business, which soon "exploded."

"I watched men get the advantage in so many ways," Curtis said. "And I got really tired of that myself, which is why I branched out and started my own firm. It was natural for me to focus on women, who were sort of ignored by the wealth management community at the time."

In addition to her role as a financial advisor, Curtis takes pride in her work as an educator, author, teacher, and podcaster. She finds immense satisfaction in empowering young women, particularly women of color, through financial education programs such as workshops and courses.

"A lot of women either don't get the opportunity to learn it or they have no interest in it," Curtis said. "When I see these – particularly young – women's eyes open, like, 'Oh, this is something that I can do for myself and maybe build more wealth in my own life,' it's extremely satisfying."

Her dedication to financial literacy extends to various spheres, including her role as an adjunct professor at Mills College and her involvement in nonprofit work. Curtis emphasized the lack of financial knowledge among many, noting that it has always surprised her "how little people know about personal finance." Her efforts in education are not just about imparting knowledge; they're about opening doors to financial independence and confidence.

"There are lots of reasons why a woman may not end up with as much as a man in a similar situation," she told *InvestmentNews*. "And so the more I can empower women to understand that and to advocate for themselves, the more impact I have on the world.

"Acting in a way that your clients would be proud of or happy to see and letting them get to know a little bit about you personally and how you live your life can help them, too," Curtis said. "I have that in mind as I'm going about my life and my business."

# Despite myths, TAMPs help advisors save time

**THERE ARE** a lot of myths surrounding turnkey asset management platforms, and advisors might be missing out on what TAMPs have to offer, according to one provider. TAMPs have been making waves within the industry and increasingly are seeing their assets grow, in part because they offer advisors independence and flexibility, ultimately saving them time. "The one thing a TAMP can do that's a challenge every day, when advisors go to their offices, is time is finite," said Sara Paulson, division manager for Central U.S. at AssetMark. "If you find the right TAMP partner, we're able to provide you with more time in the day."

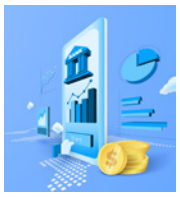
# One-third of female advisors may quit in next 12 months

**THE WEALTH MANAGEMENT** industry's efforts to attract and retain females aren't working fast enough for many women, who feel unsupported.

CFP Board stats show the percentage of women CFP professionals has only increased by 0.2% to 23% over the last decade. Carson Group's State of Women in Wealth Management considers what can be done to attract, retain, and support female advisors.

Ninety-two percent of women respondents said that underrepresentation is a problem, along with making the industry more attractive to young people. Leaders are also vital to ensuring that advisors, whatever their gender, feel fulfilled, supported, and satisfied in their wealth management careers.

# Consumers like these wealth apps best, J.D. Power says



**BIG BANKS ARE** beating their competitors when it comes to customer satisfaction with wealth management and planning apps, a report from J.D. Power said.

Overall, full-service wealth management clients are happiest with the mobile apps and websites at Citi, J.P. Morgan Private Client Advisors, Fidelity, U.S. Bank, and Wells Fargo Advisors.

But those firms aren't ahead by much. The highest rating among full-service apps and sites went to Citi, at 798 out of 1,000, and the lowest was for Vanguard, at 741.

Craig Martin, executive managing director at J.D. Power, said advisors need to spend more time working with their customers on how they engage digitally.

# Before the ball drops on 2023: advisors' year-end checklist

**HOLD ON**, financial advisors! There's still work to be done. Rob Schultz, senior partner at NWF Advisory, puts required minimum distributions and tax-loss harvesting front and center on his year-end client checklist, while Brett Walters, financial planner at TBH Advisors, helps clients make last-minute gifts to charity.

It's also time to review investment portfolio performance with clients. Jason Gerber, managing partner for Prime Capital Investment Advisors, discusses the potential recession with clients, along with the impacts of political conflicts and the upcoming presidential election. Finally, advisors should look at their organic growth for a sense of how compelling and sticky their value proposition is.

FOCUS

# ‘Good people are doing good things’ with DAFs

Kathryn O’Hara of Altair, right, and a colleague volunteering at Cara Chicago, which builds employment pathways for people who have experienced homelessness and poverty

**DONOR-ADVISED FUNDS** are not only increasing in popularity, but they’re also one of the many things helping clients save money.

While they provide a lot of benefits, like tax deductions, those shouldn’t govern the ultimate decision to donate. In fact, those should come second.

“The intention has to be that you want to give a charitable gift in the first place, and that is really the true motivation,” said Kathryn O’Hara, director of financial planning at Altair Advisers.

While O’Hara’s focus is financial planning, she encourages all the firm’s clients to participate in charitable giving.

“For many of our clients, we go through and put together a plan and develop a capital sufficiency analysis,” she said. “And we can help our clients stress-test the impact of making a large charitable gift and what makes sense to give. Secondary to that model would be the income tax implications of that.

“But yes, the tax benefits are substantial and can be very meaningful to somebody,” she added.

> “There’s still a lot of good people who want to do a lot of good things. And each little gift makes a big impact”
>
> KATHRYN O’HARA, DIRECTOR OF FINANCIAL PLANNING, ALTAIR ADVISERS

O’Hara helps clients determine the amount of assets they want to put into their DAF. She then determines the type of fund that is best for them to use, depending on their financial situation.

When clients gift cash to their DAF, they can get a charitable deduction equal to 60% of their adjusted gross income. With appreciated stock, not only do they avoid paying capital gains tax, but they can also receive a charitable deduction equal to 30% of their adjusted gross income.

“If you’re looking to make a more substantial gift and there’s some appreciated stock, we find clients have positions they’ve been holding on to for many years that have built up a considerable gain, and that’s a great way to fulfill that philanthropic gift while also avoiding capital gains,” O’Hara said.

She said that DAFs are increasingly seeing a lot of interest because of the conversations around the tax benefits but also because of how readily available they are. It’s also easy for clients to contribute to a DAF.

“We spend a lot of time, too, helping them select the charities and think through where their gift would be really meaningful,” O’Hara said. “And for individuals who may not have the financial means to be able to make a monetary gift, anybody can give a gift of time.”

When it comes to geopolitical conflicts occurring around the world, she said people’s heartstrings are being pulled, causing them to feel more inclined to give.

“There’s a lot of good people out there, there really are,” O’Hara said. “Despite what we see and the bad things that we hear, there’s still a lot of good people who want to do a lot of good things. And each little gift makes a big impact.”

# Should advisors go for the gold in 2024?

**GOLD HAS BEEN** a bright spot in client portfolios so far in 2023, rising more than 10% and offering investors something tangible – even in ETF form – in an increasingly uncertain geopolitical environment.

So should financial advisors go for the gold again in 2024?

“I’m bullish on gold in 2024 for several reasons, including stubborn inflation, geopolitical tensions and conflicts, and the Fed near, or potentially at, the end of its hiking schedule,” said Eric Sterner, chief investment officer at Apollon Wealth.

Another possible boost for gold, Sterner said, is a potential global economic slowdown as a result of central banks around the world having aggressively hiked interest rates over the past 18 months. “Once the Fed initiates rate cuts, the U.S. dollar will most likely depreciate, which, in turn, could be yet another tailwind for gold,” he added.

# S&P 500 to reach record high, BofA predicts

**CENTRAL BANKS AROUND** the world will start to ease back on interest rates and inflation will continue at a slower pace, but what other key themes are likely in 2024?

Bank of America economists and strategists have made their predictions for the year ahead, with a mixture of highs and lows and a general overview that rates and prices will ease, with rate cuts in multiple economies expected by midyear – which will also avoid a global recession.

Among the highs are U.S. equities, which will reflect the lower rates, but also what the Fed has already done and how corporates have reacted and adapted. A bullish forecast from Savita Subramanian, head of U.S. equity and quantitative strategy, calls for the S&P 500 to reach an all-time high of 5,000 by year-end.

# Global bonds accelerate

**GLOBAL BONDS ARE** soaring at the fastest pace since the 2008 financial crisis.

A Bloomberg gauge of global sovereign and corporate debt has returned 4.9% in November, heading for the biggest monthly gain since it surged 6.2% in the depths of the recession in December 2008.

November's rally is being driven by increasing speculation that the Federal Reserve and its global peers have largely finished hiking interest rates and will start cutting next year. Fed Governor Christopher Waller helped bolster that view when he said the current level of policy looks well positioned to slow the economy and bring down inflation.

# UBS chair warns about bubble in private credit


**UBS CHAIRMAN** Colm Kelleher warned against growing risks in private credit as the market continues to boom.

"There is clearly an asset bubble going on in private credit," Kelleher said at the FT Global Banking Summit in London. "There are many other asset bubbles building. What it needs is just one thing to trigger a fiduciary crisis."

Private credit has become an increasingly sought-after funding tool for buyout firms as banks have pulled back amid a spike in interest rates and a drop in investors' risk appetite. Some banks are concerned about this shift, as underwriting these types of loans – and then selling them to other investors – is a strong source of revenue for them.

# How do you value crypto assets?

**WITH THE RISE** in investors holding crypto assets in recent years, it can be challenging for investment professionals to value them accurately.

To help advisors navigate the evolving landscape, the CFA Institute has created a guide to the most relevant valuation models and tools to support analysis of crypto assets, in connection with smart contract platforms, decentralized applications, and bitcoin.

"This guide provides a framework for investment professionals to undertake a thorough analysis of the valuation drivers of crypto assets, including fundamental characteristics such as cash flows, growth rates, and tokenomics," Rhodri Preece, senior head of research at the CFA Institute, said in a statement.

# When it comes to responsible investing, language matters

**A RECENT CLIENT** survey provides a shocking reminder that the words advisors use have tremendous power over investors' financial lives.

In 2023, RBC Wealth Management asked, among other things, whether clients were likely to talk to their advisors about "responsible investing" in the next year. Sixty-three percent of women said they were likely to do so, as did 45% of men. Then it asked the same question about "ESG investing."

Enthusiasm plummeted. Clients were four times less likely to have the same conversation. They said ESG investing confused them, and they questioned what it would add to their portfolio. Yet just over half — 56% — said they were interested in ESG integration for their investment portfolios.

# $10B flows into US emerging market ETFs in 2023

**INVESTOR CONFIDENCE IS** finally returning to emerging markets as equities and bonds rally, luring fresh capital into exchange-traded funds that revolve around the asset class.

Net deposits in U.S.-listed ETFs that invest across developing economies – as well as those that target specific countries – totaled $766.1 million in the week ended Nov. 24, building on gains of $1.57 billion in the previous week, according to data compiled by Bloomberg.

That's helped inflows into emerging-market ETFs top $10 billion so far this year. "EM today is perhaps a beneficiary of a more optimistic global recovery narrative that plays into needing more commodities and securing resources," said Juan Perez, director of trading at Monex USA.