JANUARY 15, 2024

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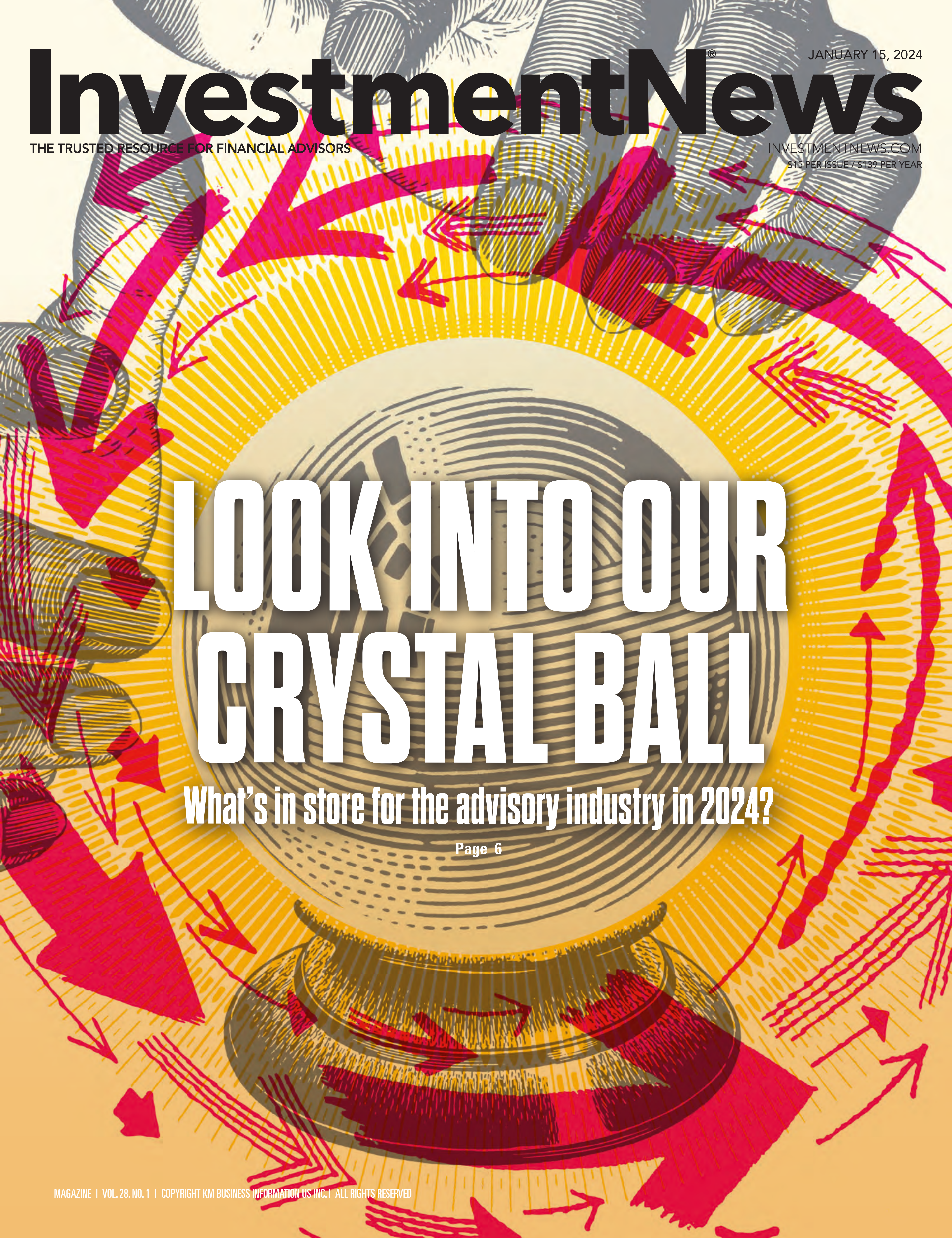

LOOK INTO OUR CRYSTAL BALL

What's in store for the advisory industry in 2024?

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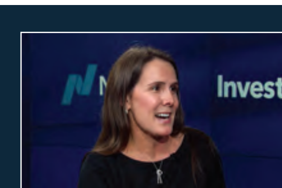

SCAN THIS CODE TO HEAR MARIANNE CASWELL OF PARK AVENUE SECURITIES TALK ABOUT HOW ADVISORS CAN HELP CLIENTS REDUCE FINANCIAL STRESS

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CHECK IT OUT ONLINE

Can the wirehouses stop leaking advisors?

The big wirehouses are no strangers to evolution. The name, of course, speaks to a long-gone time when brokerage firms used dedicated telegraph and telephone lines to make transactions and monitor market prices. The internet blew that up, but wirehouses continued to diversify and offer a range of services and products. They remain pillars of our industry.

However, as Bruce Kelly explores in his outlook piece on page 6, there is a shift well underway among wirehouse advisors, with many leaving for the registered investment advisor channel, disillusioned by what they consider prohibitive pay grids and a lack of flexibility.

This change, in part, reflects an advisor's evolving value proposition. There's more need for financial planning than stock picking, while advances in technology mean it's easier than ever to build your own tech stack and market yourself online. Clients arguably care less about having a storied brand behind them than their advisor's ability to connect with their goals, be a confidante in tough times, and steer them toward the retirement of their dreams.

Put it this way: If you, as an entrepreneurial, ambitious advisor at a wirehouse, get to keep 40 percent of the $1 million in the annual revenue you generate, are you getting $600,000 in value from your employer? Does the support you receive around branding, marketing, real estate, product access, etc., compare favorably to the set-up in the RIA world, where you get the $1 million and pay out the expenses yourself?

Many advisors, it seems, believe they're not being fairly compensated for their client-relationship skills

Many advisors, it seems, believe they're not being fairly compensated for their client-relationship skills and are opting for the latter. But let's not be one-eyed; RIAs aren't for everyone, and predicting the death of our big financial institutions is foolish. For a start, many advisors place a higher value on the security, intellectual capital, and robustness provided by large firms. You may also be at a stage in life where going it alone is simply not appealing.

There's also an argument that the top RIAs are growing so fast that they're going to become de facto wirehouses, with their own set of rules and restrictions. Be careful, too, not to discount the ability of big institutions, with all their resources, to adapt and change. As Bruce Kelly explains, tens of thousands of advisors still operate within this structure, benefiting from the name and significant marketing dollars.

But questions persist: How will the RIA landscape develop as more and more advisors seize independence, and, crucially, how will the wirehouses react to losing more top revenue producers? What's clear is that the big institutions need to show advisors a rosier picture of the future to stop the current bleed of talent.

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

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InvestmentNews

2024 CALENDAR OF EVENTS

Take a look at our calendar of events and make sure not to miss out on any!

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RIA CONNECT
NEW YORK

APRIL 16, 2024 | CONRAD NEW YORK DOWNTOWN

InvestmentNews
women advisor summit
CHICAGO

MAY 23, 2024 | JW MARIOTT CHICAGO

INA
INVESTMENTNEWS AWARDS
24

JUNE 20, 2024 | 583 PARK AVENUE, NEW YORK

InvestmentNews
RETIREMENT INCOME SUMMIT

OCTOBER 2024 | CHICAGO

InvestmentNews
women advisor summit
NEW YORK

NOVEMBER 6, 2024 | TRIBECA360, NEW YORK

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WOMEN to WATCH

NOVEMBER 6, 2024 | TRIBECA 360, NEW YORK

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RIA CONNECT
CALIFORNIA

NOVEMBER 2024 | SAN DIEGO

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RIA LABS

VIRTUAL EVENTS

- **RECRUITING, GROWTH AND DEVELOPMENT** – FEBRUARY 27, 2024
- **CUSTODY ALTERNATIVES** – JUNE 25, 2024
- **PRACTICE VALUATION** – SEPTEMBER 24, 2024
- **DIRECT INDEXING** – DECEMBER 10, 2024

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NEARLY 50% REGRET COLLEGE MAJORS

A recent report from Dreambound found people have considerable regrets when it comes to college.

45%
of American adults wish they studied something else in college

38%
of Gen Z Americans regret their college major

50%
of millennial Americans regret their college major

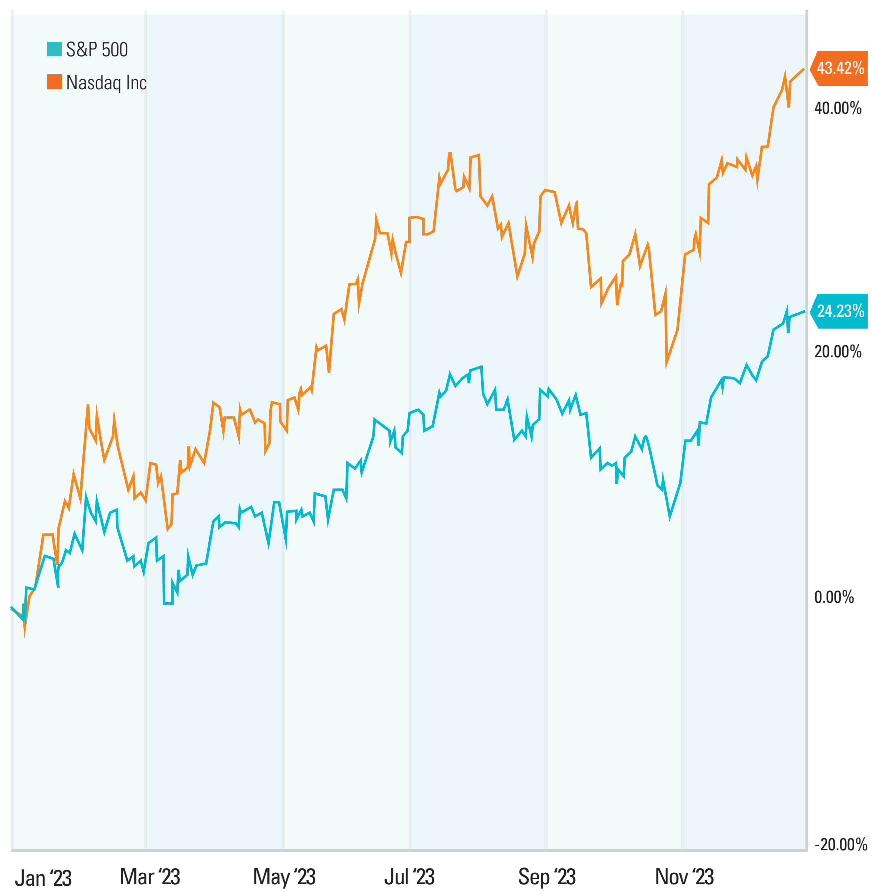
46%
of Gen X Americans regret their college major

37%
of baby boomer Americans regret their college major

Source: Dreambound, 2023

STOCKS CLOSED 2023 NEAR RECORD HIGHS

The S&P 500 finished at 4,769.83 points, up 24.23% and just shy of record highs in December. The Magnificent Seven – Amazon, Apple, Google, Meta, Microsoft, Nvidia, and Tesla – were the companies that stood out in propelling the S&P 500's upward trajectory. The Nasdaq finished at 15,011.35 points, up more than 43%.



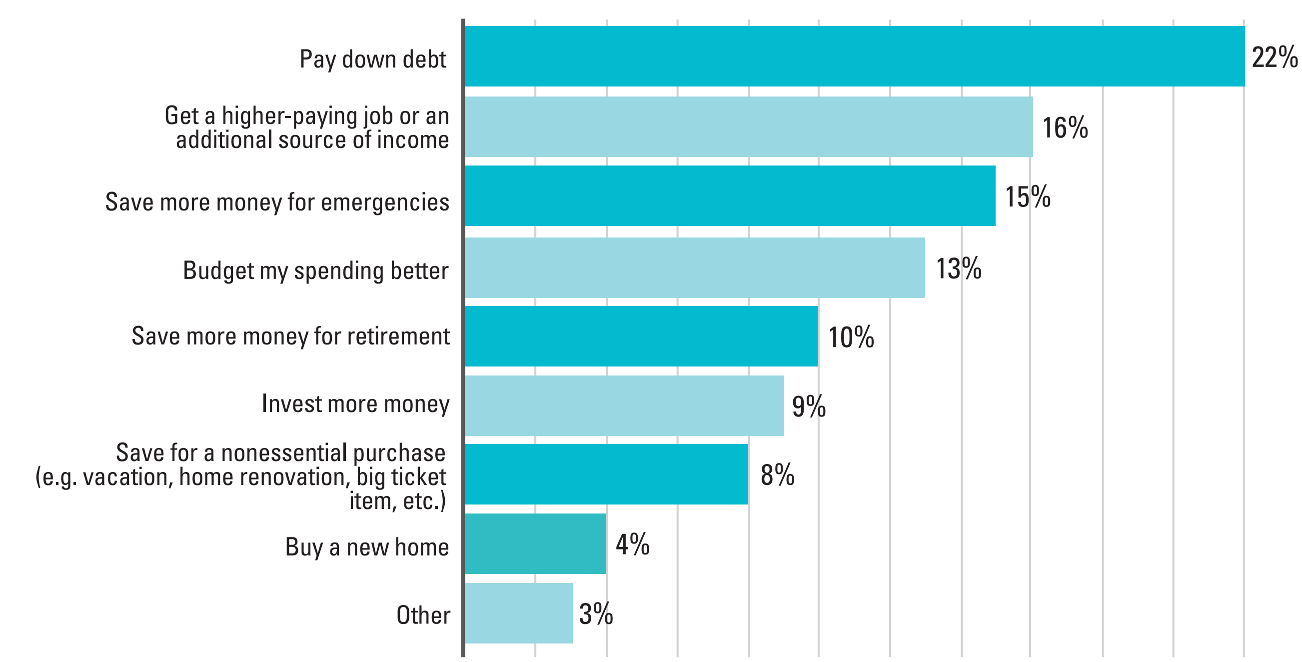
Source: YCharts, January 2024

TOP 10 WEALTHIEST BILLIONAIRES IN WORLD

After his controversial takeover of X, formerly Twitter, in late 2022, Elon Musk remains in top spot at the end of 2023. Included here are the nine other richest people in the world.

FINANCIAL HARDSHIP WORSENS IN 2024

As a new year begins, many are looking to improve their finances, but a study from Bankrate shows it's a struggle. Here are the main financial goals people cited for 2024:



*Percentages are of US adults who have financial goal(s) for 2024

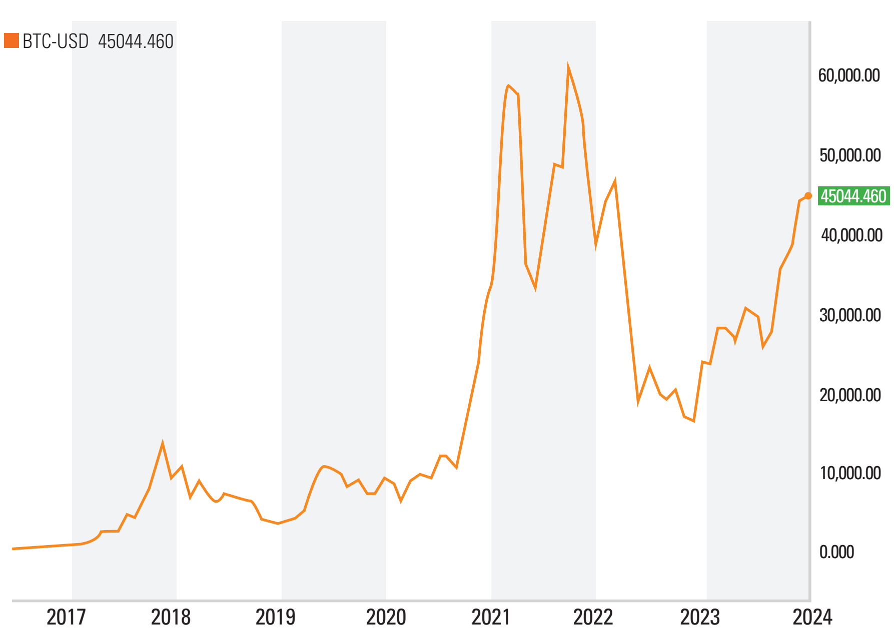
Source: Bankrate, November 2023

Rank	Name	Total net worth	$ Last change	$ YTD change	Country/ Region	Industry
1	Elon Musk	$229B	-$3.36B	+$92.0B	United States	Technology
2	Bernard Arnault	$179B	+$126M	+$17.0B	France	Consumer
3	Jeff Bezos	$177B	-$1.40B	+$69.9B	United States	Technology
4	Bill Gates	$141B	+$217M	+$31.5B	United States	Technology
5	Steve Ballmer	$131B	+$243M	+$45.0B	United States	Technology
6	Mark Zuckerberg	$128B	-$1.53B	+$82.5B	United States	Technology
7	Larry Page	$126B	-$347M	+$43.5B	United States	Technology
8	Larry Ellison	$123B	-$879M	+$31.1B	United States	Technology
9	Sergey Brin	$120B	-$326M	+$40.6B	United States	Technology
10	Warren Buffett	$120B	-$518M	+$12.3B	United States	Diversified

Source: Bloomberg Billionaire Index, January 2024

IS BITCOIN'S POPULARITY INCREASING?

Bitcoin's prices have been slowly rising, and the cryptocurrency broke records in 2024, surpassing $40,000 on January 7. Bitcoin's price trends appeared to mimic those of the stock market from November 2021 through June 2022, suggesting that the market was treating it like a stock. It similarly followed this trend through most of 2023.



Source: Yahoo Finance, January 2024

AMERICAN DEBT

US consumer debt is returning to pre-pandemic levels and, despite the cost of debt, people's finances are "in quite good shape," Jared Bernstein, a Biden administration economic expert, recently said. But data from the New York Federal Reserve show otherwise.

Debt type	Total average balances	Percentage of total consumer debt
Credit cards	$1.03 trillion	6.04%
Student loans	$1.57 trillion	9.20%
Personal loans	$356 billion	2.09%
Housing debt (includes both mortgage and HELOCs)	$12.35 trillion	72.39%
Auto loans	$1.58 trillion	9.30%

Source: Federal Reserve Bank of New York and the Federal Reserve Board

OUTLOOK

WIREHOUSES TO CONTINUE BLEEDING ADVISORS IN 2024

As the migration to independent broker-dealers and RIAs continues, concerns about the Big Four's compensation plans may be contributing to the outflow

BY BRUCE KELLY

This will be another year of transition at the four wirehouses – Merrill Lynch, Morgan Stanley, Wells Fargo Advisors, and UBS – as each seeks to find stability after last year's significant changes.

The greatest instability each of the four firms faces is the continued diaspora of its financial advisors, the most productive and profitable in the wealth management industry. Financial advisors at the four large firms routinely generate more than $1 million on average in fee and commission revenue annually and work with the wealthiest group of clients.

But they continue to leave the wirehouse firms, which spend handsomely on marketing to new clients, to work at registered investment advisors or independent broker-dealers, where financial advisors take home a much bigger chunk of the revenues they produce but have to pay for their own offices and other expenses.

According to *InvestmentNews* research, the RIA channel saw a net gain of 856 financial advisors over the first nine months of last year, with independent broker-dealers posting a net gain of 685.

Wirehouses, meanwhile, continue to bleed financial advisors, with a net decrease of 612 over that same period. It's been that way since the credit crisis of 2008; the Big Four have seen a steady drip of financial advisors leaving, helping fuel the boom in the RIA market.

2024 will be little different, particularly in the wake of the series of changes last year.

"The wirehouses are dying, but we just don't have a date yet to put on the tombstone," said Danny Sarch, an industry recruiter. "One challenge is their financial advisors are leaving to other channels, and another is figuring out how to replace them."

"In general, the executives at the top of these firms are bright and committed to their businesses," Sarch said. "But they also are generally a bit older and may be managing toward bonuses over the next few years as opposed to the long-term consideration of the wealth management franchise as a whole.

"The mindset is, how can I survive another year at the top, instead of the next decade," he added.

"The wirehouses are dying, but we just don't have a date yet to put on the tombstone"

DANNY SARCH, LEITNER SARCH CONSULTANTS

WELLS DIASPORA

The financial advisor diaspora has been an ongoing issue for Wells Fargo Advisors.

At the end of 2022, Wells Fargo Advisors reported a financial advisor head count of 12,027, or roughly 3,000 less than in 2016, when the news first hit that Wells Fargo bank employees had secretly created millions of unauthorized accounts in the names of customers without their consent. The bank was fined $185 million and then-CEO John Stumpf resigned abruptly.

The firm has changed senior management in the past few years and shifted its strategy to drive more growth in its independent broker-dealer and RIA business, creating an easier path for its advisors to move to that business rather than leave for a competitor.

That emphasis should continue in 2024.

"We really do believe that five years from now, the independent channel will be our biggest channel," Barry Sommers, CEO of Wealth and Investment Management, said in an interview last year with Bloomberg News.

TURNOVER AT THE TOP

Meanwhile, Morgan Stanley and Merrill Lynch last year saw senior leaders change roles or leave, raising questions about the tactics and strategies for the wealth management businesses at each bank.

In the aftermath of the credit crisis, Morgan Stanley's departing CEO, James Gorman, placed a

big bet on retaining financial advisors and adding services and technology for their benefit. And Merrill saw wealth management head Andy Sieg, who had been trying to jumpstart its training of young financial advisors, jump to Citigroup last year.

Ted Pick replaced Gorman as CEO of Morgan Stanley this month.

In 2010, when Gorman was co-president of Morgan Stanley, before taking the reins as CEO from John Mack, the percentage of the bank's pre-tax profit from its wealth and investment management group was about 26 percent. Now it's up to 52 percent. Will Pick increase the firm's reliance on wealth management or refocus on investment banking and trading?

At Merrill, Sieg's role was absorbed by Lindsay Hans and Eric Schimpf, who were named co-presidents of Merrill Wealth Management, reporting to Bank of America CEO Brian Moynihan.

Change was a constant throughout last year for UBS' 6,000 or so financial advisors in the United States as the Swiss bank worked through a giant merger. UBS Group said in June it had completed its acquisition of Credit Suisse Group and then announced the various teams that will lead the bank's businesses, including global wealth management. Iqbal Khan is president of global wealth management at UBS. Jason Chandler remained head of Americas wealth management, which has been his position since the start of last year.

COMPENSATION PLANS

"Adding to the feeling of instability is the compensation plan at each of the Big Four firms," Sarch said. "The trend is down, and the firms change it each year."

For example, Morgan Stanley's 15,000 financial advisors will have to work harder in 2024 and generate more revenue to earn the same amount of take-home pay as they did this year. The wirehouse is raising its incentive compensation grid by 10 percent next year.

That means that financial advisors who produced revenue near $1 million this year will have to increase that by 10 percent, or generate $1.1 million in fees and commissions, to take home the same percentage of revenue as they did this year.

"At least Gorman had a plan to keep financial advisors in place, and introduced deferred income, making it more expensive when they leave for an RIA," Sarch said. "But that was years ago, and no one right now is as forward-thinking as he is."

bkelly@investmentnews.com

NET CHANNEL CHANGES IN FIRST 9 MONTHS OF 2023

Independent broker-dealers	685
RIAs	856
Wirehouses	-612
Merrill Lynch	-298
Morgan Stanley	-55
UBS Financial Services	-87
Wells Fargo Clearing Services	-171

Source: *InvestmentNews* Research

OUTLOOK

RIAs TO HAVE A ROLLICKING YEAR

In the wake of Fisher Investments deal chatter, 2024 will likely be studded with significant RIA transactions

BY BRUCE KELLY

Mergers and acquisition chatter in the registered investment advisor market started off at a substantial volume in 2024 as reports of Fisher Investments potentially seeking a buyer kicked off the new year. Fisher Investments, with $236 billion in client assets, denied the reports.

But the discussion of a mega-RIA like Fisher Investments possibly being up for sale is an indication that 2024 will likely be studded with significant transactions that further transform the RIA marketplace from a collection of boutique, mom-and-pop businesses just 20 years ago into some of the assets that are most coveted by Wall Street's private equity investors.

As of this writing, the analysts and investment banks haven't yet released their year-end tallies of RIA deal flow for 2023. After getting off to a slow start last year, RIA deals surged over the summer.

According to investment bank Echelon Partners, in the quarter ended September 30, RIA buyers announced 86 transactions, surpassing the 65 announced in the second quarter by 32 percent. That was a rebound to levels not seen since early 2022, according to Echelon.

The Fisher Investments' chatter points to the potential for another period in which deals and dealmakers shine, one veteran industry executive noted.

"We'll continue to see deals in the RIA space this year – just think about what happened in 2023," said Larry Roth, managing partner at RLR Strategic Partners. "Focus Financial Partners went private, CI Financial had its name changed to Corient, and other large networks or aggregators may be recapitalizing."

"And then you have the private equity investors selling percentages of the firms they own to other PE investors to take some money off the table and gain some time to consolidate operations," Roth said. "It should be another lively year for RIA M&A."

"Fisher Investments is a very high-quality, efficient business," he added. "I can't imagine the valuation for that firm."

The price tag for Fisher Investments could be several billions of dollars.

Giant RIAs like Fisher keep climbing in value. Last year, private equity manager Clayton Dubilier & Rice said it was acquiring the publicly traded Focus Financial Partners, an RIA aggregator, and taking it private for the price of $7 billion. Focus Financial Partners controls $300 billion in RIA assets, or roughly 27 percent more than Fisher Investments.

> **"Independent broker-dealers are making more of a push into the larger-scale, RIA platform play"**
>
> ALOIS PIRKER, INDUSTRY CONSULTANT

RIA valuations are tricky, however, and are based on several factors, not just assets. Fisher Investments is known for targeting so-called massaffluent customers, or those with assets of $500,000 or more, and fees may be higher for clients with fewer assets than those with $10 million or more, industry executives noted.

"I'm not sure what the average account size is at Fisher Investments, but the margins for a mass-affluent business are better than a high-net-worth business," Roth said.

Last year saw perhaps the most important deal in the history of the RIA industry: Goldman Sachs Group's sale of its registered investment advisor business, Personal Financial Management, with more than $20 billion in assets and a few hundred advisors, to Creative Planning.

For the giant investment bank, it was a retreat from the mass-affluent market. Goldman Sachs purchased the business, formerly United Capital Financial Partners, for $750 million in 2019. Now it was selling a former RIA aggregator, United Capital, back to a homegrown mega-RIA, Creative Planning, which is privately held and tightly controlled by Peter Mallouk.

The RIA industry, comprising thousands of firms that remain independently owned and dozens of Wall Street-backed buyers known as aggregators, had been waiting years for such a watershed moment in which a mega-RIA bought another giant firm.

Now that it's come to pass, look for other such deals to occur, particularly as independent broker-dealers like LPL Financial, Osaic, and Cetera Holdings continue to expand through acquisitions.

"Independent broker-dealers are making more of a push into the larger-scale, RIA platform play," said Alois Pirker, an industry consultant. "Look at Focus Financial and the interesting journey it went through, from private company to public back to private. Now the new owners have taken out the management team and are consolidating operations."

Focus Financial "tried to go public but after few years fell a bit flat," Pirker said. "Now the IBDs are interested in owning RIAs, the business is coming full circle. RIAs inevitably will be a larger focus of regulators, and the independent broker-dealers know how to deal with them.

"RIAs are turning more into the large broker-

dealer business model," Pirker said. "For example, take home-office capabilities in trading. Just like Merrill Lynch did years ago, the RIA firm doesn't want its advisors spending time on picking stocks but are looking for a chief investment officer to build model portfolios."

Meanwhile, 2024 is likely to see more investors in large RIAs and IBDs seek new investment or re-

"The margins for a mass-affluent business are better than a high-net-worth business"

LARRY ROTH, RLR STRATEGIC PARTNERS

capitalize their firms to bolster balance sheets for acquisitions and paying down debt, industry executives said. Notable reinvestments occurred last year, including Genstar Capital reinvesting in Cetera Financial Group and Mercer Advisors adding a new investor, Atlas Partners.

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TOP 5 FEE-ONLY RIAs BY AUM

	AUM ($B)	NUMBER OF CLIENTS
Cambridge Associates Boston, Massachusetts	$276.031	586
Fisher Asset Management Plano, Texas	$192.398	269,289
Hall Capital Partners San Francisco, California	$46.676	187
Jasper Ridge Partners Fort Worth, Texas	$33.066	51
Moneta Group Investment Advisors St. Louis, Missouri	$30.651	37,339

OUTLOOK

WILL TECH STOCKS BE 'MAGNIFICENT' AGAIN IN 2024?

History shows the market's big winners rarely dominate two years in a row

BY GREGG GREENBERG

What a difference a year and a nickname make.

The "Magnificent 7" conquered the investing landscape in 2023, more than doubling in value collectively. Like the "FANG," "meme," and "dotcom" crazes before it, what started as a cheeky moniker assigned to a handful of streaking stocks morphed into a must-own investment strategy all its own. Over the course of last year, the AI-powered septet of Amazon (up 81 percent), Apple (48 percent), Google (58 percent), Meta (194 percent), Microsoft (57 percent), Nvidia (239 percent), and Tesla (102 percent) were elevated into the seven wonders of the investing world.

By comparison, the S&P 500 – of which the Magnificent 7 make up more than 30 percent in terms of market cap – rose 24 percent last year, while the equal-weighted S&P 500 rang up 12 percent in gains for the entirety of 2023.

With all due respect to the "Nifty 50" of Wall Street yore, that's just nuts!

Whether the Magnificent 7 will be able to achieve those monumental gains in 2024, or even come close, remains to be seen. History has shown that the market's big winners rarely dominate two years in a row. As a result, the probabilities don't favor a repeat performance, especially now that the secret is out and their earnings multiples are up. Way up.

Nvidia, for example, finished the year trading at 65 times its trailing 12-month earnings.

So if it's not the Magnificent 7 leading the way in 2024, what will it be?

"The Magnificent 7 had such a huge run-up because there was a large imbalance of buyers versus sellers. But as the year went on, that supply-demand imbalance dried up," said Eric Amzalag, CEO and founder of Peak Financial Planning.

Amzalag believes healthcare and consumer staples stocks will be the big winners in 2024. Maybe not enough to earn their own pet name, but they will certainly see healthy gains in his opinion.

"If rates are lowered in 2024 as the consensus is forecasting, then these investment groupings, along with long-duration Treasuries, stand to benefit a lot," he said.

Scott Bishop, managing director at Presidio Wealth Partners, attributes the extreme outperformance of the Magnificent 7 to exuberance (irrational or otherwise) over artificial intelligence. Nevertheless, now that AI is no longer the shiny new object mesmerizing the investing public, he expects those big-cap behemoths, as well as the rest of the S&P 500, will underperform in 2024 compared to 2023.

"I think the economy may slow down and some sectors may do materially better than others," Bishop said. "Some of the lesser-performing sectors like energy and industrials may outperform on the next leg up."

"Bonds got crushed in 2023, so that is a good place to look for outperformance"

MATT CHANCEY, MICEL FINANCIAL

GO LONG LNG, RIGHTEOUS REITS

Jonathan Swanburg, president of TSA Wealth Management, points out that past performance may not be indicative of future returns, but, anecdotally speaking, the worst asset classes of one period tend to be some of the best performers of the next and vice versa. In his view, that means real estate investment trusts could be the new FANG (short for Facebook, Amazon, Netflix, and Google) in the coming year.

"2022 and 2023 were both bad for the REIT market so if I were placed in a casino and forced to pick a US asset class positioned to outperform in 2024, then REITs would be a decent choice, especially for investors that see interest rates falling over the course of the year," Swanburg said.

Matt Chancey, certified financial planner with Micel Financial, has another acronym on his mind: LNG, aka liquified natural gas, especially with export terminals coming online.

He's also a big believer in bonds, where he believes "yields have a better chance of going down than up."

"I always try to ask myself, 'What got crushed this year that could bounce back next year?' In 2009 and 2010, it was bank stocks. In 2020 it was airlines, cruises, and travel," said Chancey. "Bonds got crushed in 2023, so that is a good place to look for outperformance."

ALL THAT GLITTERS IS NOT CRYPTO

Gold certainly shined in 2023, rising an impressive 13 percent in response to a variety of factors including central bank buying and an uncertain geopolitical environment. Those gains could accelerate in 2024, perhaps even to "magnificent" levels, according to some advisors, as the Federal Reserve begins its rate-cutting program.

"While many still debate between a recession or a soft landing, it's worth noting that gold has averaged 20.2 percent returns during the past seven US recessions," said Eric Sterner, chief investment officer at Apollon Wealth Management.

Within client accounts, Sterner allocates commodities exposure via ETFs or mutual funds to increase the diversification of the overall portfolio. He says the allocation can reach up to 7 percent based upon the client's objectives and risk tolerances.

Sterner added that he is keeping a close eye on bitcoin, which rose 150 percent in 2023, but he wouldn't recommend it as a substitute for gold – just yet.

"I believe more regulation should be developed and implemented to oversee cryptocurrencies before I would recommend those investments in any client portfolio," said Sterner.

Similarly, Eric Beyrich, co-chief investment officer at Sound Income Group, expects gold prices to rise in 2024 as interest rates fall, global uncertainty remains elevated, and concerns over the integrity of fiat currencies grow.

Like Sterner, he doesn't see bitcoin as a substitute for gold because of its lack of intrinsic value. He does, however, see it as a vehicle for those investors who proverbially want to "go for the gold."

"We view it as a speculative digital creation that appreciates or depreciates based on supply and demand dynamics. If people want to speculate on bitcoin, that is their choice. We are in the income-generating investment business and try to avoid speculations, to the extent possible," Beyrich said.

ggreenberg@investmentnews.com

2023 RETURNS

111%	43%	24%	15%	14%	13%	(-.7%)	(-11%)
"Magnificent 7"	Nasdaq Composite	S&P 500	Russell 2000	Dow Jones Industrial Average	Comex Gold	iShares 20+ Treasury	Nymex Crude

NewsAnalysis

OUTLOOK

WHAT TO EXPECT WHILE YOU'RE EXPECTING THE FIDUCIARY RULE

Although there will almost certainly be a legal challenge, don't count on it going away, lawyers say. Here are some big issues to watch for

BY EMILE HALLEZ

It will be months before the Department of Labor publishes the final version of its fiduciary rule, but one thing advisors and their firms should expect is that it will be effective for some time.

It will almost certainly face legal challenges, but the DOL has never been in such a strong position to defend against those – it's had years of practice, and it built the new rule with the benefit of hindsight, lawyers say. Even if the presidency changes parties in 2025, a new administration opposed to the rule would have its work cut out for it.

> **"The DOL worked diligently to craft something that was prepared for challenges"**
> BONNIE TREICHEL, ENDEAVOR RETIREMENT

The proposed rule "was carefully architected to try to be litigation-proof," said Jason Roberts, CEO of the Pension Resource Institute. The preamble of the rule made clear that the DOL effectively reverse-engineered the defeat of the Obama-era fiduciary rule, which the 5th Circuit Court of Appeals shot down in 2018, he noted.

"The DOL worked diligently to craft something that was prepared for challenges – or at least they specifically called that out throughout the preamble to the proposal," Bonnie Treichel, chief solutions officer at Endeavor Retirement, said in an email. "And, not extending the comment period was an effort to allow for enough time to receive, review comments, and still get out a final rule and implement ahead of a timeline with a potential change in administration at the beginning of 2025."

Although the older version of the rule resembles the proposed one, it's notable that the 2018 court defeat was barely secured, Roberts said.

"There were numerous court challenges through that process, and the DOL won every single one of them, until it didn't. It even won [in] the underlying 5th Circuit," he said.

The appellate decision was 2–1 against the DOL, which the court found had exceeded the rulemaking authority granted to it by Congress.

"There was a long period of time where the rule was in place," Roberts said. "Even if somebody is hoping for a similar [court] result … it's risky from a financial and compliance penalty perspective as well as from a reputational perspective to not comply with a rule that is on the books."

Whatever the industry gets in the final version of the rule to be published this spring is what it gets. And if the widespread opposition to the proposed rule is any indication, the financial services industry largely won't like it.

Broker-dealers, registered investment advisors, and insurance companies have been digesting the myriad facets of the rule to prepare themselves to quickly update their policies and procedures and client-facing disclosures after the final version is published, Roberts noted. Advisors will have to follow their firms' compliance guidelines, and preparing to do so will be a theme this year.

After being published in late spring, the rule will likely have a 60-day effective date, although firms will likely have 90 to 180 days to comply with some parts of it, he said.

WHAT TO WATCH FOR

A premise of the rule is that retirement account holders, including those rolling over their funds into an individual retirement account, should receive conflict-free advice that's in their best interest. The financial services industry has mostly contended that the rule would have the opposite effect for people with modest savings levels who don't have the means to pay asset-based fees or flat fees and have received advice from brokers paid through commissions on the products they sell. Currently, consumers are protected by the Securities and Exchange Commission's Regulation Best Interest and various state insurance regulations, opponents of the DOL's rule have said.

Fiduciary advocates have strongly disputed that. Political support for the rule is also divided by party lines.

Those likely to be most affected by the rule are independent insurance agents, who, for the first time, could be subject to the Employee Retirement Income Security Act if they recommend annuities for retirement account assets.

"If you're the independent producer, there is no

firm standing behind you," Roberts said. "The buck stops with them, whereas if you're with the firm, you follow whatever the firm requires."

Independent agents will thus be looking to the carriers, independent marketing organizations, and, in some cases, broker-dealers they work with for help with complying, he said.

2016 version of its rule, Roberts said. At that time, the agency provided examples of policies that firms could use to prevent financial incentives causing agents to favor one product over another in the same category, he noted.

"That's going to be biggest lift for not only financial institutions but also product sponsors," he said, adding that he hopes the DOL will clarify what it wants.

"If you're the independent producer, there is no firm standing behind you"

JASON ROBERTS, PENSION RESOURCE INSTITUTE

It's not known whether the DOL will walk back much, if anything, in the final version of the rule, and it might be risky to assume that it will. But the agency will likely clarify some aspects of the rule that commentors pointed to.

PTE 20-02

Roberts and Treichel both pointed to proposed amendments to Prohibited Transaction Exemption 20-02 that address incentives and differential compensation.

"There is a list of things that would be disfavored, including appraisals, performance and personnel actions, bonuses, and differential compensation," Treichel said. "This seems to require clean-up in the final or else would be squarely under attack as being too prescriptive."

The DOL could be alluding to the anti-conflict policies and procedures it made under the Best Interest Contract Exemption in the now-defunct 2016 version of its rule, Roberts said.

Additionally, a provision that would require firms to provide clients with on-demand access to their books and records, for the sake of verifying that they comply with the prohibited transaction exemption, is an onerous one that Roberts said the DOL may walk back slightly. Such a requirement would increase staffing costs and invite litigation, he noted.

OTHER AREAS

One interpretation of language in the DOL's proposed rule is that it would categorize conversations between plan participants and human resources professionals as investment advice, even when there's no compensation associated with that, Treichel said. The DOL could clarify that interpretation in the final version, she said.

Additionally, there have been questions about what has become known as the "hire me doctrine," which the DOL may also clarify and define versus simpler investment education, Roberts said. The issue is whether advisors are pulled into fiduciary status when hired if their "hire me" pitches to retirement investor prospects include individualized investment strategies.

BIGGER ISSUES

A "sleeper issue" with PTE 20-02 is that the DOL is set to require firms to produce their policies and procedures, if asked, within 10 days. The agency could use that tactic to quickly gauge how seriously firms take the regulation, and if they don't have the documents at all, it would be an invitation for a full investigation, Roberts noted. That is the strategy the DOL has used in reviewing the annual Form 5500 filings made by retirement plan sponsors. In that case, the agency has reviewed 5500 filings of the largest retirement plan sponsors, and it could similarly seek documents from big broker-dealers, he said.

Another aspect that could be a big headache for broker-dealers involves documentation of commissions from IRA recommendations that required an exemption. In the past, a lack of documentation found during a DOL investigation was referred to the IRS, which imposed excise taxes, Roberts said. But under the proposed rule, firms that identify such errors outside of a DOL investigation would be required to contact the IRS and pay, he said.

"It serves to enforce violations that it wasn't actively auditing," he said. "You've got to automatically pay IRS when you find a violation. That's a big deal."

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OUTLOOK

REG BI ENFORCEMENT POISED TO TAKE NEXT STEP

Brokers have been wondering whether they're complying correctly with the standard of conduct. Enforcement cases this year may shed more light than ever before

BY MARK SCHOEFF JR.

Ever since Regulation Best Interest went into force, financial advisors have been waiting to see how it would change the oversight of investment advice. They may get more insight this year.

The Securities and Exchange Commission implemented the broker-dealer standard of conduct in June 2020 during the Covid pandemic. The agency essentially gave financial firms a year's grace period in which it expected a "good-faith" effort to come into compliance with the rule, which prohibits brokers from putting their revenue interests ahead of their clients' interests in investment returns.

Starting in mid-2021, the SEC brought enforcement cases against firms that failed to file – or were delayed in filing – their Form CRS, a disclosure document that was part of the Reg BI rule-making package. In mid-2022, the SEC took its first substantive enforcement action in a case involving sales of risky bonds that were not a good fit for the customers who bought them.

But critics said that case – and others that have been brought since then by the SEC and the Financial Industry Regulatory Authority Inc. – could just as easily have been pursued under the previous suitability standard that Reg BI replaced. For instance, several of the enforcement actions have involved churning, a regulatory target that existed long before the advent of Reg BI.

The time may have come for an enforcement case that could only have been brought under Reg BI, said Sander Ressler, owner and managing director of Essential Edge Compliance Outsourcing Services.

"Regulators are looking at [Reg BI] very closely," Ressler said. "This is going to be something that is going to be front and center in terms of regulatory actions in 2024."

REG BI CARE OBLIGATION

Ressler anticipates an enforcement case that is based on Reg BI's care obligation, which requires that a broker understand the potential risks, rewards, and costs of a recommendation and whether it is in the customer's best interests based on those factors. The broker also must consider reasonably available alternatives.

Whether brokers look at the investment landscape to see whether there are better and less expensive investments for customers is where regulators may zero in, Ressler said. For instance, they may look at whether a broker is evaluating a non-traded real estate investment trust against other non-traded REITs rather than against other private placements generally.

"Regulators are going to take a much heavier hand when it comes to reviewing apples-to-apples product comparisons and where firms may not be comparing like products," Ressler said.

> **"Regulators are going to take a much heavier hand when it comes to reviewing apples-to-apples product comparisons"**
>
> SANDER RESSLER, ESSENTIAL EDGE COMPLIANCE OUTSOURCING SERVICES

Other experts aren't as sure the SEC will pursue a seminal Reg BI case this year.

"I think it's difficult to predict," said Kurt Wolfe, counsel at Quinn Emanuel Urquhart & Sullivan. "We have been expecting a wave of Reg BI cases for a couple years, and we just haven't seen it, especially from the SEC. They don't seem to be focusing on it."

The Reg BI actions that the SEC and Finra have pursued haven't relied on obligations that are unique to Reg BI, which means regulators aren't signaling exactly what they want to see in terms of compliance.

"They are the types of cases that would have been filed with or without the rule," said Amy Greer, a partner at K&L Gates. "Firms are left to comply as they believe the regulation requires. All we know is what regulators expect for Form CRS."

The SEC has published three guidance documents about Reg BI that cover account recommendations, conflicts of interest, and care obligations.

'KIND OF WINGING IT'

Some firms are doing a better job of complying with Reg BI than others. But no one knows for sure

whether regulators will agree with those who think they've got it right.

"We're all still kind of winging it," Ressler said.

In recent testimony before House lawmakers, Finra CEO Robert W. Cook said Reg BI sets a national standard of care with specific compliance obligations for disclosure, conflicts of interest, and care. By requiring that brokers act in the best interests of their clients, it sets regulatory expectations for them that are similar to those that apply to investment advisors, who continue to be held to a fiduciary standard.

"Most importantly, the SEC has created a uniform framework across broker-dealers and investment advisors where substantially similar obligations are owed to both," Cook said at the December hearing. "From an investor perspective, that's important. It shouldn't matter where you go for your advice – you get the same protection."

At the end of last year, Finra announced a $6 million settlement with LPL Financial in an action that included violations of Reg BI. It wasn't the kind of uniquely Reg BI case that Ressler foresees coming this year, but he said it was a forceful reminder that the days of Reg BI leniency have passed.

"They're not giving mulligans," Ressler said.

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"We have been expecting a wave of Reg BI cases for a couple years, and we just haven't seen it"

KURT WOLFE, QUINN EMANUEL URQUHART & SULLIVAN

REGULATORS HINT AT REG BI EXPECTATIONS

Although there hasn't been a bellwether enforcement case that indicates regulatory expectations about complying with Regulation Best Interest, the Securities and Exchange Commission has consistently made the broker standard of conduct a focus of its examinations. In its 2024 priorities document, the SEC indicates it will zero in on disclosures about conflicts of interest, conflict mitigation practices and processes for reviewing reasonably available alternatives, among other areas, in recommendations involving complex, high-cost, and illiquid investment products. Brokerages should pay attention, said Kurt Wolfe, counsel at Quinn Emanuel Urquhart & Sullivan. "At some point, they're going to stop giving you a detailed how-to list and start bringing enforcement action," he said.

IN Profile

HOW DEPTHS OF 9/11 TRAUMA PROPELLED PLANNING CAREER

Dr. Nicole B. Simpson was in Tower Two when the planes hit the World Trade Center, altering the course of her personal and professional life forever

BY EMILY DOUGLAS

Dr. Nicole B. Simpson, CEO at Harvest Wealth Financial, will never forget where she was on the morning of September 11, 2001.

"That day forever altered the course of my life," Simpson told *InvestmentNews*. "On 9/11, I was on the 73rd floor of the World Trade Center – I was in the building when the World Trade Center was attacked.

"When Tower One was hit, I was in Tower Two. The building began to sway back and forth, the lights flicked off and on – I didn't really understand what was transpiring. None of us did. I walked over to my partner's window and I remember seeing burning paper – it looked like a ticker-tape parade when the Yankees had won. And I don't know why that stood out to me, but I felt very anxious to leave."

After beginning to descend the steps from the 73rd floor, Simpson heard announcements saying that people didn't have to evacuate. Once she reached the 44th floor, Simpson was about to board the elevator to return to her office when she suddenly decided not to.

Then Tower Two was hit.

"It forever changed my life," Simpson said. "Because I really went through what we go through when we endure trauma. It was a very traumatic experience that impacted me physically, emotionally, and economically. Having had some diagnosis as a result of 9/11, I was now as this young financial planning practitioner in the position of living what it is that I advise my clients to do. And so, firsthand, I knew the experience of earning six figures and then going down to $18,000 a year while I was sick."

REBUILDING HER CAREER

The road to recovery was a long and arduous one. And while 9/11 was a national tragedy, one that everyone can emotionally connect to, for Simpson her trauma propelled her further into the world of financial planning.

"I had to shift, I had to re-budget, reprioritize,

Dr. Nicole B. Simpson

and rebuild what I thought that I had built in the first decade of my career," she said. "And so this experience, along with what I believe my expertise had been, was very helpful to encourage other individuals. It was about that period of time that I realized how emotionally connected we are to money."

Combining all these experiences, these realizations – while difficult – was something that supercharged both Simpson's career and her commitment to helping others through financial trauma.

"When we endure trauma, the first thing is dealing with that experience itself. But what comes thereafter is, how can I manage that catastrophic event or occurrence in my life – whether it be untimely death, whether it be disability, whether it be loss of a vocation or job or income," she said. "How do I manage that financially? The road to recovery includes all of those things – which is why today I really focus on the fact that while we don't know what's going to happen, we want to be prepared as best we can for the unknown and the inevitable."

While the events of 9/11 were traumatic for Simpson, they also served as a reminder of the importance of integrating personal values and beliefs into her work. This helps empower individuals and communities to understand and manage their finances on a more relatable level.

"After 9/11, one of the things that I recognize is, as a Black woman, I have a responsibility to my culture and community," she said.

What was most devastating for Simpson that day was the disparity in action plans when it came to different communities.

"It felt like the wealthy had an evacuation plan in place before the world even knew," Simpson said, noting that some people in downtown Manhattan that day were able to take boats to New Jersey or Staten Island. "When I was in the heart of the World Trade Center, I didn't have an option or a way out of New York City. Many people that look like me did not find themselves in that position, either.

"And so, I recognized that education was critical for my culture and my community. And I thought that it was important to really make sure individuals knew how invaluable information was – so I started teaching at that point," she said.

EDUCATIONAL EFFORTS

Simpson began teaching in her church, in schools, and even in prisons – teaching people about the power of their gifts and their skills. All this additional work has raised Simpson's name in the industry, earning her respect from her peers and clients. And she was still doing all this while dealing with the after-effects of 9/11.

"I'm just trying to teach and work and at the same time build a book of business – it can be challenging.

Name:
Dr. Nicole B. Simpson

Position:
CEO

Company:
Harvest Wealth Financial

Founded:
2007

Recognition:
Women to Watch Trailblazer of the Year (Excellence Awardee); named in *InvestmentNews* Hot 100; host of the podcast "Dare 2 Dream" and author of *The Quiet Shift: Navigating through the Emotional and Economic Impact of Aging Parents in the Family*, both of which received third place in the BookFest Awards

And I was still dealing with the recovery from trauma. However, I think that my transparency, authenticity, and my willingness to share the bumps in the road financially and emotionally helped other individuals as well," she said. "And so while it was a necessary investment, one that I continue to this day, I think everyone has [fared] better as a result of it. Because now we're more educated and individuals are actually implementing the advice that I started giving so many years ago."

Looking to the future, Simpson has already been recognized as one of Investopedia's Top 100 Advisors for 2023 – as well as acknowledged with an honorable mention for a Lifetime Achievement Award with Invest in Others. And she's dead set on continuing this trajectory of success.

"The way I see things in 2024 is that building a foundation from a financial planner's perspective is critical for life success," she said. "It's not just about the money this year – I believe there's also dealing with legacy planning and intergenerational wealth. We're in a period of time now where baby boomers are transitioning resources to Generation X – and it's impacting our children too.

"I began to recognize a challenge in our culture and community that was dealing with long-term care – the impact that it has on us both economically and emotionally. My agenda moving forward is to continue to talk about the importance of intergenerational wealth and how to ensure that the family stays together emotionally when dealing with the aging parent in the family. How financially all of us can be impacted."

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"When Tower One was hit, I was in Tower Two. The building began to sway back and forth, the lights flicked off and on – I didn't really understand what was transpiring. None of us did"

DR. NICOLE B. SIMPSON, HARVEST WEALTH FINANCIAL

Column

INDIVIDUAL RETIREMENT ACCOUNTS

Planning for the largest IRA balances ever in 2024

The stock market reached all-time highs in 2023, with year-end balances in individual retirement accounts and 401(k)s hitting the highest ever for many. That's great news, of course, but it also opens up some IRA tax-planning moves that advisors should make clients aware of right away.

IRAALERT
ED SLOTT

LARGER RMDS FOR 2024

The record year-end stock values will mean larger required minimum distributions, because the RMDs will be based on the December 31, 2023, account values, even if those values decline later. This means higher taxes, and clients should be prepared for that.

This also goes for beneficiaries who are subject to RMDs. Estimated taxes for 2024 may need to be adjusted. Tax preparers should let clients know that next year's tax bills could be higher due to larger RMDs, and make sure they understand the ripple effect those RMDs can have through stealth taxes (additional taxes and related costs due to increased income).

While larger RMDs can mean higher tax bills, this may be a blessing in disguise because we still have historically low tax rates for two more years (2024 and 2025), before rates are scheduled to increase in 2026. The higher RMDs force more IRA funds out, and that's good if they can be withdrawn at lower rates compared to what rates might be in the future.

2024 ROTH CONVERSIONS

Larger IRA balances may be a sign that too much is building up in tax-deferred accounts, increasing the eventual tax debt that will be owed to Uncle Sam. Higher balances, subject to higher rates, will leave clients and their beneficiaries with less later. Roth conversions can be especially effective right now not only to take advantage of current lower tax rates but also to reduce these growing taxable IRA balances. (Of course, Roth conversions should ideally be done before RMDs begin since RMDs cannot be converted.)

Under the post-SECURE Act rules, most beneficiaries who inherit an IRA will no longer qualify for the stretch IRA, and instead will have to pay all the tax due by the end of the 10th year after death, under the 10-year rule.

Converting now to a Roth will relieve the beneficiaries of that tax bill. In addition, Roth IRA beneficiaries, while still subject to the 10-year rule, are not required to take annual RMDs during the 10 years. This allows all the accumulation by the end of the 10th year to be withdrawn income-tax-free. That can mean big tax savings for beneficiaries who may be in their own highest earnings years.

In addition, a beneficiary can't convert an inherited IRA to an inherited Roth IRA, so inheriting a Roth IRA can lower the overall estate and income tax bills for both the clients and their beneficiaries. (Under a quirk in the tax code, an inherited 401(k) can be converted to an inherited Roth IRA.)

Larger market values also mean larger estates for those invested in the market both inside and outside of their IRAs. Paying the income tax now on a Roth conversion can reduce estate values by the amount of tax paid. While the 2024 federal estate tax exemption has increased to a staggering \$13.61 million per person (or \$27.22 million per couple), many clients are subject to state estate taxes where the exemptions may be much lower, exposing these growing estates to unexpected state estate taxes.

QUALIFIED CHARITABLE DISTRIBUTIONS

For those clients who are already charitably inclined, seeing larger year-end IRA balances might encourage them to

give more. Qualified charitable distributions are the perfect vehicle for those who qualify. QCDs are available only to IRA owners and IRA beneficiaries who are at least 70½ years old. Thanks to SECURE 2.0, the annual $100,000 limit has been increased slightly for 2024 to $105,000, as a result of inflation indexing.

Larger IRA balances may be a sign that too much is building up in tax-deferred accounts, increasing the eventual tax debt that will be owed to Uncle Sam

QCDs must be done as direct transfers from the IRA to a qualifying charity. IRAs are the best assets to give to charity since they are loaded with taxes. Since QCDs can be done at age 70½, there is a slight gap before RMDs begin at age 73. During this pre-RMD period, QCDs can reduce IRA balances at zero tax cost. That can lower future RMD income, saving taxes when rates might be higher.

Most people no longer receive tax benefits for the charitable gifts they make since, according to the IRS, around 90 percent of taxpayers take the standard deduction. QCDs can replace that lost tax benefit, not in the form of a deduction but as an exclusion from income. An exclusion from income is better than a tax deduction because an exclusion lowers adjusted gross income, which in turn can maximize other tax benefits, credits, and deductions. It can also reduce Medicare IRMAA charges.

The strategy for using QCDs is best accomplished by doing them early in the year (for those subject to RMDs). While most people think of giving in December, for QCDs, January is the new December.

Doing the QCD first, before any RMD is taken, allows the QCD to satisfy the RMD, up to the QCD amount (which can't exceed the $105,000 annual limit). If the RMD is taken first (before the QCD), a QCD done later cannot offset that RMD income.

The market is up, and IRA tax-planning antennas should be up as well to take advantage of opportunities to save future taxes now.

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

MOISAND HELPS AMPLIFY CFP BOARD'S VOICE IN FIGHT FOR FIDUCIARY ADVICE

In one of his last actions as CFP Board chairman, Daniel Moisand testified at last month's hearings on the Department of Labor's latest advice proposal

BY MARK SCHOEFF JR.

ONE OF DANIEL MOISAND'S final acts as chairman of the Certified Financial Planner Board of Standards Inc. was to convey the organization's strong support for the Department of Labor's latest investment-advice rule proposal.

He was one of the witnesses during two days of hearings in December about the measure, which would apply the fiduciary standard of care under federal retirement law – the Employee Retirement Income Security Act – to a wider range of financial advisors making investment recommendations to retirement savers or plans.

The DOL proposal would redefine the term "fiduciary" so that it applies to investment advisors, brokers, and insurance sales professionals who are in a relationship of "trust and confidence" with investors. Of those groups, only investment advisors currently adhere to a fiduciary standard. The agency has said it is trying to establish a consistent regulatory framework to protect investors from conflicted advice.

Increasing the fiduciary reach is something that Moisand, 56, has advocated throughout his more than three-decade career as an advisor. It's an effort that, in his view, is crucial not only to protect investors but also to establish financial planning as a profession like accounting or law.

> "I don't see how you build the profession on any standard other than the fiduciary standard"
>
> DANIEL MOISAND, MOISAND FITZGERALD TAMAYO

"I don't see how you build the profession on any standard other than the fiduciary standard," said Moisand, partner and senior advisor at Moisand Fitzgerald Tamayo in Orlando, Florida.

Moisand served as chairman of the CFP Board in 2023. His term ended not long after his appearance at the December 13 DOL hearing. He was there to give the organization's full-throated endorsement to the DOL proposal.

The CFP Board adopted its own fiduciary standard for the credential in 2018. It requires that CFP holders act as fiduciaries at all times when they are providing investment advice. That means that anyone holding the mark – advisors, brokers, insurance agents – is held to a fiduciary standard.

When the CFP Board was considering the fiduciary mandate, it was warned that imposing a fiduciary standard would decrease interest in the

mark and result in a decline in CFPs. Instead, CFPs increased, and will exceed 100,000 at some point this year.

"The number of CFP professionals has grown by about a third … in just five years," Moisand said at the DOL hearing. "This is across all business models, including registered representatives of broker-dealers, investment advisor representatives, and those with insurance licenses. All of these CFP professionals are providing financial advice to their clients, while committing to the CFP Board to act as a fiduciary. Our requirements have not adversely impacted their business."

Financial industry opponents say the DOL fiduciary proposal will make advice more expensive because of additional regulatory costs and legal exposure and price it out of reach for investors with modest assets.

DOL critics question the board's backing of the measure. Marc Cadin, CEO of Finseca, a financial industry trade association, said the organization is promoting fee-only advice. He said that advisory account minimums put them out of reach for many investors who are better served in brokerage accounts.

"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," Cadin said in a recent interview.

Moisand emphasized that the CFP designation is compensation-neutral, as it applies the fiduciary standard to a range of compensation models that all come with potential conflicts of interest.

"Commissions can be a problem; they don't have to be," he said. "Fee-only can have conflicts, too."

Skeptics of the CFP Board's fiduciary standard point out that there's no guarantee that mark holders will act as fiduciaries. Although the CFP Board does have an enforcement arm, it does not have investigatory capabilities. The board responds to complaints made by customers and clients regarding CFPs with whom they're working.

"I am very confident that if a complaint is filed, it is not ignored," Moisand said. "The issue is we don't get very many complaints, so it may look like there's not much enforcement. I'd put our disciplinary program up against any other credential in the world."

In addition to his recent term as CFP Board chairman, Moisand has held several other leadership positions with financial planning organizations. He's also served as president and chairman of the Financial Planning Association and is a former member of the board of the Foundation for Financial Planning, which focuses on pro bono planning.

During his testimony at the DOL hearing, Moisand helped tell the CFP Board's story of a credential that is increasing in popularity even as the fiduciary requirement raises the bar for using the mark. He pointed out that nearly 10,000 people sat for the CFP exam last year.

"That just shows how the marks have become the standard for financial planning," Moisand said. "Our [fiduciary] standard reflects the expectations of the public, even if the public can't quite articulate the standard they're looking for."

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CFP BOARD WEIGHS IN ON PUBLIC POLICY

While the Certified Financial Planner Board of Standards Inc. sets and enforces the mark's educational, experience, and ethical standards, it also is trying to influence advice regulation. The organization draws parallels between the fiduciary standard attached to the credential and the Department of Labor's latest proposal to increase the number of financial advisors who must meet a fiduciary standard when making recommendations to retirement savers. For instance, both standards address rollovers. "There's good reason for the fiduciary duty to apply to one-time advice," Daniel Moisand, CFP Board chairman, said at a December 13 DOL hearing. "For many retirement investors, the decision as to whether and how to roll over employer-sponsored retirement assets will be the single most important financial decision they will ever make."

NumbersGame

ADVISORS ARE UPBEAT ON THE MARKET OUTLOOK FOR COMING YEAR

Recent *InvestmentNews* survey shows sectors where advisors plan to increase investments include actively managed ETFs and US fixed income

DEVIN MCGINLEY

NUMBERSGAME

Economists, according to the well-worn joke, have predicted nine of the last five recessions. That track record did not improve in 2023.

Despite dire predictions at the year's outset that rate hikes and a concurrent tech sector slowdown would bring down the economy in 2023, no recession came to pass and the S&P managed a 24 percent rally over the year, albeit from a low point.

Advisors, for their part, are split on whether the economy will ultimately slow down this year, according to data from a recent InvestmentNews survey. But they are much more confident in the markets than they were a year ago.

Of US-based financial advisors surveyed during the fourth quarter, only 45 percent expected the economy to improve over the next year, while 42 percent expected it to worsen. That compared with 55 percent and 23 percent, respectively, over the prior quarter but represented a modest improvement from a year ago.

The market outlook was comparatively rosy. Two-thirds (67 percent) of advisors expect the S&P to grow over the next year, while only 19 percent expect it to decline. That compares with 55 percent and 29 percent, respectively, going into 2023.

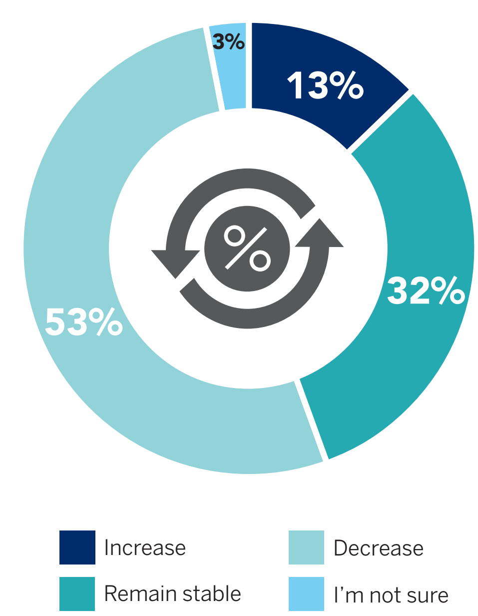
That jibes with the general consensus among economists. Though nobody is forecasting the best of times, few are calling for an all-out downturn.

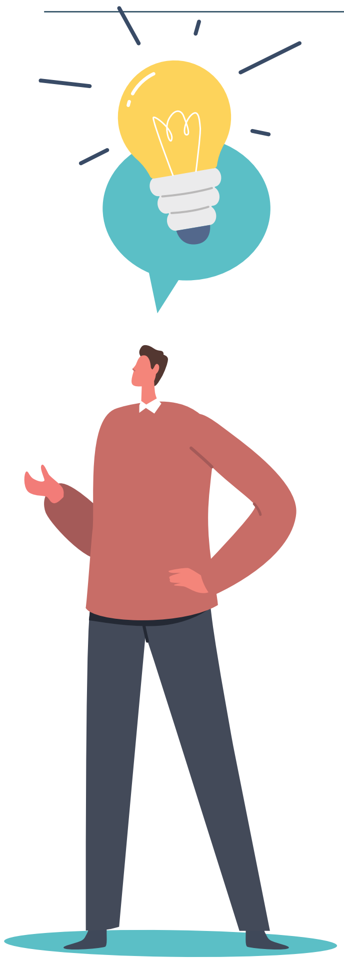
Goldman Sachs pegs the odds of a recession over the next 12 months at 15 percent, down from 65 percent a year ago. Bank of America's economists, meanwhile, raised the possibility of market records in predicting a so-called soft landing, the scenario in which the Fed reins in high recent inflation without derailing economic growth entirely.

Of course, the caution that permeates economists' forecasts – and the split among advisors on the economic outlook – reflects the rarity of the soft-landing scenario, as well as the uncer-

FIXED INCOME

How do you expect interest rates to change in the next 12 months?





Though nobody is forecasting the best of times, few are calling for an all-out downturn

tainty presented by two global conflicts and major elections scheduled at home and abroad over the next year.

JUICED BY LOWER RATES

The market optimism is easier to explain. After inflation and interest rate hikes over the past two years that hadn't been seen in a generation, lower interest rates anticipated by the Fed – as well as by a majority (53 percent) of advisors surveyed – should juice stock markets.

The areas set for the most increased investment on net were actively managed ETFs, with 40 percent of advisors anticipating more exposure and only 4 percent expecting less; US fixed income, with 44 percent of advisors anticipating more exposure and 8 percent expecting less; individual stocks, which 28 percent of advisors expect to use more and 7 percent expect to use less; and liquid alternatives, which 22 percent of advisors expect to use more and only 3 percent expect to use less.

The least in-demand areas of investment over the next year, according to the survey, were European equities, where 24 percent of advisors will reduce their exposure and only 13 percent will increase it; Asian equities, where 21 percent of advisors plan to reduce investment and only 10 percent expect to increase it; Japanese equities, where 19 percent of advisors will reduce exposure and 10 percent will increase it; and ESG funds, which 15 percent of advisors will use less of, only 6 percent will use more of, and a majority (52 percent) will eschew altogether.

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Sector**Focus**

SOCIAL SECURITY

FINANCES OF SOCIAL SECURITY ARE A DISASTER IN THE MAKING

With the program's trust funds scheduled to be depleted by 2034, the threat is real, but so is the impasse in the nation's capital

BY EMILE HALLEZ

It's one of the biggest fiscal problems the US is facing, one that politicians undoubtedly could remedy but likely will not fix anytime soon: Social Security.

The forthcoming train wreck has been decades in the making, and, despite how painfully visible it is, people paying into the system today may not see the benefits they've been promised when they retire. Almost certainly, that will affect today's younger workers more than those in or near retirement.

The future of the program is so cloudy because talking about ways to get it back on track is politically unpopular at the present. While politicians, including President Joe Biden and former President Donald Trump, have pledged to protect Social Security, there have been few willing to explore the necessity of raising retirement ages, reducing future benefits, or hiking taxes.

"This keeps getting kicked down the road," said Mary Beth Franklin, a former *InvestmentNews* contributing editor who specializes in Social Security. "We know something has to be done, and when you have the presumed leaders of both parties saying they'll do nothing, it doesn't give Congress any cover."

That also doesn't give financial advisors much clarity in the assumptions they use to help younger clients plan for retirement. For those who are retired or near retirement, advisors "can confidently assume that those benefits will continue to be there," Franklin said. But for people many years from claiming Social Security, "you might want to say, 'let's stress-test your retirement income plan,'" with a scenario that could include a 20 percent or so reduction in future benefits.

"If it's a real problem, let's start doing things in advance to get you in a better situation for the future," she said.

HOW DID WE GET HERE?

The Social Security trust funds are expected to be fully depleted by 2034, at which point Congress would have to put emergency measures in place to ensure full benefits are paid out.

Driving the trust funds' exhaustion are several factors, the most significant of which is increased life expectancy. In addition, average income levels have been creeping higher, so the slice of total pay that's subject to Social Security taxes is smaller.

There's also a surge of baby boomers heading into retirement – an issue that Congress saw coming back in 1983, when it enacted a major patch to fix the system. At the time, Democrats and Republicans both strongly backed legislation to start taxing up to 50 percent of Social Security income. Ten years later, a measure to increase to 85 percent the portion of benefits that could be taxed barely eked by, with then-Vice President Al Gore casting a tie-breaking vote.

Since then, potential overhauls to the system have only become more politically unpopular. In no small part, that's because Social Security income is viewed differently than other government programs in that it is an earned benefit.

"It is framed differently from welfare," said Andrew Biggs, a senior fellow at the American Enterprise Institute who served as principal deputy commissioner of the Social Security Administration under President George W. Bush. "This sort of moral framing of benefits is of paramount importance in understanding why Social Security is so difficult to fix. People have been made promises."

Unfortunately, those promises involve a mismatch between money put in and the benefits to be paid out. For people born in the 60s, the benefits being promised are 37 percent higher than the taxes paid during their working years, plus interest, Biggs said.

"You have this disconnect where people have this strong moral feeling … yet they never paid enough to finance those benefits," he said. "Other countries don't have these problems in part because they don't frame their Social Security programs quite the same way – they don't emphasize the 'earned benefit' part."

The taxable wage base for the Federal Insurance Contributions Act, or FICA, has an earnings cap of $168,600 this year, Franklin noted. When the taxable nature of benefits was changed in 1983, the assumption was that the system could be funded as long as 90 percent of wages were taxed for Social Security, she said. However, as average income has increased, only about 83 percent of wages are taxed, and the income cap would need to be raised to about $250,000 to meet the 90 percent level the system once had, she said. And even that would cover only some

of the system's shortfalls.

"So many people make so much more than the taxable wage base," Franklin said. "You have this imbalance."

And even though lifespans are longer, the full retirement age is being increased by only two years, to 67.

RAISE TAXES OR CUT BENEFITS?

Any changes to the system will be unpopular, even if necessary. And whatever form that takes will require bipartisan support to pass, Biggs said.

"I don't think that either party, even if they have the presidency, the House, and the Senate, can reform Social Security on its own," he said.

Democrats tend to favor raising taxes, but fixing Social Security that way would require the largest single tax hike in history, he said, and most progressives might not favor such a big increase being used solely for Social Security.

"Parties almost need to be rescued from themselves at this point," Biggs said.

Further dampening the political urgency is that the benefits of any action taken today won't be realized until long after most incumbents are out of office.

Among those vying for the Republican presidential nomination, Nikki Haley has campaigned on the promise of fixing Social Security. She hasn't proposed details but has alluded to benefits cuts for people who currently are just starting to pay into the system.

Meanwhile, Trump recently floated the idea of covering Social Security shortfalls with revenue from federal oil and gas leases. Such a plan would pay for less than 4 percent of Social Security's gap, based on revenue from current oil and gas leases, according

"I don't think that either party, even if they have the presidency, the House, and the Senate, can reform Social Security on its own"

ANDREW BIGGS, AMERICAN ENTERPRISE INSTITUTE

> **"No one is going to be satisfied with 80 percent of promised benefits, which is why we need lawmakers to step up and offer solutions"**
>
> MARY BETH FRANKLIN, FORMER CONTRIBUTING EDITOR, *INVESTMENTNEWS*

to an analysis by the Committee for a Responsible Federal Budget. Leasing all possible land available for oil and gas would also not cover the Social Security trusts' shortfalls, that group concluded.

"In this political environment, it doesn't matter if it's unplausible," Biggs said.

GOVERNMENT INACTION

If Congress does nothing, the benefits paid out will be cut to about 80 percent of the levels promised to people in 2014, Franklin said.

"I guarantee no one is going to be satisfied with 80 percent of promised benefits, which is why we need lawmakers to step up and offer solutions," she said. "The challenges are enormous, but this is probably one of the most important duties that our lawmakers have. People should be angry that they're not addressing it."

A partial fix could include means testing, which would make the system benefit lower-income families more than wealthier ones who don't rely on Social Security to make ends meet.

"I personally think that is a bad reason, because part of the reason Social Security is so popular … is the fact that virtually everybody pays into it and everybody gets a benefit from it," Franklin said.

Raising the retirement age – as Haley and other Republicans have suggested – could also help, but only to a point, Biggs said. For example, raising the age to 69 would address only about a fifth of the system's funding shortfall, he said.

But adjusting the benefits so that Social Security does more for lower-income retirees could be necessary, he said. A couple retiring today at 67 who earned mid-level wages could get more than $56,000 combined annually in benefits payments, which is more than double the $22,000 elderly poverty threshold, he said.

And the maximum annual Social Security benefit of $45,000 is too high, as those who receive it simply don't need it, Biggs said.

"Every developed country has basically the same issues we have" with aging populations, he said. "The other programs tend to pay more generous benefits on the lower end. It's a stronger safety net than [US] Social Security … There's just no purpose of having to pay some rich guy $45,000 a year."

If no changes are made to fix the system ahead of the 2030s, we should expect a big tax increase and debt financing, which has limits, Biggs noted.

PLANNING FOR UNCERTAINTY

Many Gen X clients don't want to rely on Social Security, and some aren't counting on benefits in the future, said Marguerita Cheng, CEO of Blue Ocean Global Wealth.

As part of her data-gathering process for financial planning, she encourages clients to start online Social Security accounts so that they can see their exact benefits, she said.

"I approach these conversations with sensitivity because I know the political environment can be so polarizing. The conclusion is that I tell clients Social Security isn't simply a monthly check. It's a valuable income stream. The decision to claim is not just financial, but also personal," Cheng said in an email. "While we don't know the specific details of how [Social Security] will change, financial planning can help us be better prepared."

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SPONSORED CONTENT FROM SEI

Client engagement strategies, growth, and retention in the down markets

Key insights from Gabriel Garcia on adapting to demographic shifts and enhancing client experience in a changing market

BY MANAL ALI

The path to growth for financial advisory firms is multifaceted. It requires a keen understanding of the shifting demographic landscape, a balanced focus on client acquisition and retention, and a commitment to leveraging technology and innovation. Additionally, preparing for future challenges, such as the changing advisor workforce, is crucial.

Gabriel Garcia, Head of RIA Client Experience, Business Development, and Strategy at SEI, is part of the team sponsoring critical research and insights in the *InvestmentNews* Advisor Benchmarking Study. The Benchmarking Study offers financial advisors comprehensive practice management studies and benchmarking reports, presenting invaluable insights into industry trends and performance metrics.

Garcia highlights, "The top three things clients are looking for is peace of mind, goal attainment, and life fulfilment. Communication strategies and ensuring there's a plan to meeting those expectations is critical. The elixir to all of this is growth, right?"

The study revealed in 2023 an average growth of 8 percent in client relationships among advisory firms. Garcia, however, points to the misleading nature of such a figure, noting, "The detailed data reveals that individual advisors within these firms are on average acquiring approximately 0.62 clients per month, which translates to a little over seven clients per year. While at an aggregate level, this might contribute to a significant percentage growth for the firm, these averages and medians can be somewhat misleading. From a performance standpoint, an acquisition rate of 0.62 clients per month could be considered suboptimal.

"Improving this rate from 0.62 to one client per month represents a 40 percent increase. While this might initially seem like a daunting task, it is quite achievable with the right strategies."

Key to this growth is diversifying client acquisition methods beyond traditional reliance on referrals. While referrals have historically been a primary source of new clients, expanding marketing initiatives and exploring new avenues for client engagement can significantly widen the pool of potential clients.

By broadening their outreach, advisors can effectively increase their client base, thereby enhancing the overall growth and vitality of their practice.

NAVIGATING DEMOGRAPHIC SHIFTS

The industry, traditionally reliant on baby boomer clientele, is now at a pivotal point. As boomers transition from wealth accumulation to wealth distribution, advisory firms must pivot their focus to younger generations – Gen X, millennials, and the emerging Gen Z. Firms should focus on directly engaging with younger demographics, as independent clients. This approach is a more strategic initiative for becoming the preferred advisor for these upcoming generations, rather than solely relying on their connection to current clients' children.

Gabriel Garcia, Managing Director, RIA Client Experience, Business Development and Strategy

Garcia says, "Firms must intentionally diversify their relevance to different demographics. Expectations surrounding the wealth transfer from baby boomers may not materialize as anticipated, due to their increased longevity and shift from accumulating to spending their wealth.

"This wealth transition, involving the children of current clients, presents a challenge. Statistics reveal that 90 percent of inheritors don't retain their parents' advisors. Consequently, it's debatable whether aiming to become the children's advisor in anticipation of a $70 trillion wealth transfer is practical."

THE ROAD AHEAD

The perception of financial advisors is often limited to their investment expertise, but their role encompasses much more, especially in guiding clients toward achieving their goals and staying on track with their financial plans. The primary focus for advisors should be on these aspects, as they are directly controllable, unlike external market forces.

Garcia says, "Tying it back to the top three things investors look for should be at the forefront of an advisor's value proposition. Behavioral science suggests that people tend to underperform financially when left to manage their investments independently, due to emotional decision-making. Therefore, the emotional value advisors bring by helping clients navigate through turbulent times is of paramount importance."

The trend toward hiring more staff in service support and operational roles, particularly evident among top-performing firms, is a strategy to manage increased client loads effectively. These top firms are handling 40 to 50 percent more clients than their peers, indicating a high level of efficiency and client engagement. However, reaching a point of maximum elasticity in terms of client management capacity indicates the need for these firms to consider expanding their teams to sustain growth and service quality. The major barrier to further growth is this capacity limitation, emphasizing the need for strategic hiring to create additional bandwidth for client management and acquisition.

In flourishing markets, AUM typically experiences robust growth, whereas in downturns, there are declines. In 2022, the average financial advisory firm in the study experienced a net decline of 7.4 percent in its AUM. The 7.4 percent drop in AUM, although notable, isn't particularly alarming, according to Garcia, considering these market conditions. Positively, firms have been attracting new clients and increasing their share of wallet from existing clients, which somewhat offsets the AUM decline's impact on revenues.

However, Garcia notes, the decline in AUM does present a potential future concern. Notably, there's a shift in where new clients are originating, with 37 percent now coming from other independent advisory relationships, a significant increase from the historical norm. This trend suggests a possible rise in attrition rates, which could become a considerable challenge for the business, moving beyond mere market navigation to strategic business management.

While new client acquisition is crucial, retaining existing clients is equally important. The data shows that a significant portion of new clients are switching from other advisory firms, indicating a competitive landscape where client loyalty can no longer be taken for granted.

"This challenging time is where firms need to think about their marketing, their branding, and their presence in their community. When the turbulent markets calm down and we re-enter the upward market trends, there will then be an availability of new investors – clients who may have terminated their advisor or who rode out the tough period and were dissatisfied because their advisors weren't implementing the key engagement strategies and being goals based," says Garcia.

Information provided by Independent Advisor Solutions by SEI, a strategic business unit of SEI Investments Company (SEI).

'MY GENERATION IS FAIRLY TRAUMATIZED'

New York City advisor explains why he focused on millennial clients when 'nobody else would invest in them'

BY EMILY DOUGLAS

Douglas Boneparth has carved out a reputation for addressing the unique monetary challenges millennials face. As president of Bone Fide Wealth and a millennial himself, he views it as his calling.

"One of the more unique things about me as a financial professional is how long I've been doing this," Boneparth said. "I grew up the son of a certified financial planner, so I've practically spent my entire life in or around wealth management."

At the age of 19, he began working in his father's practice, but it was an epiphany while attending business school in the evenings that led to Boneparth finding his niche. "I thought I'd start focusing on my peers," he explained.

His penchant for helping clients his own age manage their finances has shaped Boneparth's career. And while the term "millennial" can sometimes come with negative connotations, the New York City-based advisor doesn't agree.

"I'm pushing 40," he said. "And somehow people still believe we're 25, with no kids and no job. Meanwhile, I own a house, have a couple of kids – and I'm growing a business. My clients are hitting peak earning years and doing rather well."

Boneparth decided to focus on millennials when he realized they represented an underserved demographic in the financial planning sector. "I thought it was a tremendous opportunity to invest in my peers when nobody else would invest in them."

It's a group that's faced its fair share of challenges, from the Great Recession to the global pandemic – experiences that have left their mark. "My generation is fairly traumatized," Boneparth explained. However, he also highlighted the unique opportunities available to this generation.

"There's never been a better time to be an entrepreneur," Boneparth said. "Technology gives us the ability to create and operate businesses like never before. Barriers to entry have been lowered to a point where they can outweigh some of the challenges that many in my generation have."

But those challenges aren't small. Despite higher interest rates, housing prices haven't come down, while many continue to struggle with the weight of their student loans and the impact of inflation.

"Student loans were one of the main issues I focused on when creating a firm that works with millennials," Boneparth said. "This problem was unique to my generation. However, my main goal as a financial professional is to leave the world a better, more financially literate place than I found it."

PROMOTING FINANCIAL LITERACY IN COUPLES

Spreading financial literacy isn't only a professional goal for Boneparth; it's a deeply personal one that he and his wife, Heather, have taken on together.

> "Student loans were one of the main issues I focused on when creating a firm that works with millennials. This problem was unique to my generation"
>
> DOUGLAS BONEPARTH, BONE FIDE WEALTH

"As of this year, my firm is now a family business," he said. "We write three newsletters – there's one specifically catered to millennials, money, and culture called *This is the Top*. That's become second to our primary newsletter that my wife and I co-author, called *The Joint Account*. This is in anticipation of our second book we're writing together called *The Merge*, where we will navigate the power struggles and money dynamics between partners."

The Joint Account is a testament to their commitment to helping couples navigate the tricky waters of personal finance as a pair. "[It] focuses on helping couples talk about money," Boneparth explained. "We, as individuals, tend to struggle with our own identity with money. We're not generally provided a financial education around money and finance through school. If we're lucky, maybe our parents taught us about it. It's a real shame and a deficiency in our society."

And those deficiencies are only compounded when people come together as a couple, he said. "Not only do we struggle with our own identity with money; what happens when we find someone we love? Now you have two people who don't necessarily have the best foundations or educations when it comes to money, then they get merged together. It creates a larger challenge.

"We want to be able to show effective ways to communicate and merge financial lives together. We want couples to be able to navigate the psychological and behavioral factors that are inherently part of working together financially," Boneparth said. "We also want to create equity in relationships, particularly when it comes to money. It's no surprise that money is the No. 1 reason relationships don't work out.

"It's almost cliché, but why is that?" he said. "Well, it's because we struggle to communicate and collaborate on the issue."

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Douglas Boneparth

Name:
Douglas Boneparth

Position:
President

Company:
Bone Fide Wealth

Recognition:
InvestmentNews 40 Under 40, Class of 2016; CFP Board Ambassador for New York; Investopedia Top Most Influential Financial Advisors, 2018–2023; NexGen director, Financial Planning Association of New York, 2018; CNBC Digital Financial Advisor Council

Industry

JPMorgan posts record net interest income

JPMORGAN CHASE & CO. closed out the most profitable year in US banking history with its seventh consecutive quarter of record net interest income and a surprise forecast that the windfall may continue this year.

NII – the difference between what banks earn on loans and pay out on deposits – came in at $24.2 billion in the final three months of the year, the company said in a statement last Friday. The haul for all of 2024 may rise to about $90 billion, according to the bank, while analysts had been expecting a 2 percent drop.

Elsewhere, Bank of America's earnings fell short of expectations as the bank's numerous charges in the fourth quarter cut into profit and the firm's fixed-income traders posted a surprise drop in revenue.

Cetera CEO sees 'even bigger things' ahead

THE CHIEF EXECUTIVE of Cetera Holdings sees a bright future for its financial advisor wealth hub.

Mike Durbin says that the closing of a reinvestment in Cetera Financial Group by private equity firm Genstar Capital will help drive forward the business.

"Genstar's partnership has propelled growth for Cetera for several years, and we look forward to even bigger things to come in the next chapter together," Durbin said. "This reinvestment provides fresh capital to empower our strategic plans and allows us to thoughtfully reinvest in the Cetera business to drive continued growth and success. We are grateful for this vote of confidence by Genstar and are more optimistic than ever headed into 2024."

FOCUS

Firm's growth based on trust and accountability

"ONCE UPON a time, the center of the universe was actually the floor of the New York Stock Exchange," says George Ball. Given his lengthy, varied career, the chairman of Houston-based investment firm Sanders Morris Harris should know.

Having started out as a summertime clerk on the exchange floor, Ball's career saw him rise as a Navy officer and then pivot into the financial services industry. But he believes New York and its famous exchange are no longer the sole financial hubs of the world – nor are they necessarily the most trusted.

Sanders Morris Harris has succeeded by doing things differently than other firms. Having helped build Sanders Morris Harris into a dually registered broker-dealer and RIA worth almost $1 billion, Ball says it all comes down to trust and accountability.

"While we do many of the same things, we added a model that we've lived by – which is an investment 'in common.' We tell our clients that, wherever it was suitable, we would own the same instruments, the same things as they did – same terms, conditions, and prices, same charges and fees, and nothing different. Plus, if we personally lost a dollar, that would probably be five or 10 times what any of our clients lost."

However, this isn't something that can be done ubiquitously; as Ball explains, advisors need to find a differentiator that inspires confidence in their client base.

> **"We tell our clients that, wherever it was suitable, we would own the same instruments, the same things as they did — same terms, conditions, and prices, same charges and fees"**
>
> GEORGE BALL, SANDER MORRIS HARRIS

Firm expands AUM to $4.9 billion with acquisition

DAKOTA WEALTH MANAGEMENT is acquiring a Minnesota RIA managing $400 million, marking a new milestone in the growing business' footprint.

Adding Ledge Wealth Management gives Dakota a second office in Minnesota and boosts the assets it manages to $4.9 billion. In addition to its AUM, Ledge oversees $200 million more in assets through its 401(k) advisory services business.

Ledge was founded in 2010 as a Cambridge Investment Research affiliate before becoming an independent RIA focused on high-net-worth clients in 2012. Founder and CEO Kurt Durrwachter joins Dakota along with COO and partner, Gina K. Bartell – both will be managing directors – and six associates.

Raymond James' Reilly sees comp soar in 2023

WITH THE S&P 500 stock index jumping 24 percent last year, the financial results that broker-dealers and registered investment advisors will report in coming weeks promise to be stellar.

Another early indicator, the compensation of a key industry executive, Paul Reilly, CEO and chair of Raymond James Financial, reveals that executive pay could also soar.

Raymond James reported in a proxy filing with the Securities and Exchange Commission that Reilly's total compensation hit $34.9 million in the company's fiscal year ending September 30, almost double the $17.6 million in total compensation Reilly took home a year earlier.

GEORGE BALL

"The challenge today is different from what it was many years ago when I started in the business," he says. "But it's also the same. Can you offer a client something better, something more distinct from what everyone else is offering? We've been through a decade where we'll offer you an optimized, diversified portfolio that's rebalanced – and that's a departure from what was done 20 years ago. Now it's just commonplace."

Ball also shares insights into the regulatory landscape, drawing from his experience as a former governor of the American Stock Exchange. He recalls a time when regulation and oversight were primarily conducted by industry insiders, which fostered a sense of moral responsibility and ethical behavior. However, this dynamic has evolved into a tension between the regulators and the regulated, with regulation often being rule-based rather than principle-based.

"I think that there should be a much greater embracing of regulation by principle rather than by rule," Ball suggests. "There's lip service that's been given to regulation by principle, but I think most advisors would say that the oversight is largely rule-based rather than being judgmentally founded. And I think that that hurts investors even more than it hurts advisors."

Ken Fisher potentially seeking 'some liquidity'

ADVENT INTERNATIONAL was reported to have held talks to acquire billionaire Ken Fisher's eponymous Fisher Investments. Fisher Investments, with $236 billion in client assets, said through a spokesperson that the firm was not being sold to Advent International or another firm.

But now it appears that one potential strategy for the 73-year-old Fisher, executive chairman and co-chief investment officer, is to sell a minority stake in the firm to one or more investors, which would allow him to retain control of the firm he launched in 1979 while also taking some chips off the table, according to one senior industry source who asked not to be identified.

Wells Fargo Advisors to sell new bitcoin ETF

WELLS FARGO ADVISORS, with close to 12,000 financial advisors across various business channels, said last Friday it was selling the new spot bitcoin exchange-traded funds, but only when a customer asked for the security in a non-solicited trade or without any prompting from a salesperson.

"Spot bitcoin ETFs are available for unsolicited purchases through an advisor with Wells Fargo Advisors or through our online WellsTrade platform," a company spokesperson wrote in an email.

The firm's fourth-quarter costs came in higher than expected, swollen by severance charges and the bank's contribution to replenish the Federal Deposit Insurance's main fund after bank failures last year. Net interest income came in at $12.8 billion, above expectations.

JPMorgan shares hit new record high

JPMORGAN CHASE & CO. hit a fresh record high for the first time in more than two years.

Shares of the largest US bank gained 1.2 percent to $172.08 on January 3, surpassing the prior high watermark set in October 2021. The New York-based lender has been a top performer in the sector as it posted record results last year, prompting chief executive Jamie Dimon to warn that the bank is "over-earning" in some areas.

JPMorgan rallied 27 percent last year, easily outperforming the KBW Bank Index's roughly 5 percent dip as well as all its big bank rivals. The bank's rebound from its 2022 low pushed its market capitalization to about $500 billion.

LPL Financial takes minority stake in Independent Advisor Alliance

INDEPENDENT ADVISOR ALLIANCE has a fresh injection of capital as LPL Financial has taken a minority stake in the hybrid firm.

IAA supports financial advisors in their independent practice, and the new investment will help to expand the tools and services that make up its ecosystem including its partnership program, which invests capital in partner firms.

The decision to work with LPL was based on shared values of fostering innovation and providing better services for financial advisors.

"Ultimately, it came down to what was in the best interest of our advisors. It's a win-win for advisors when their RIA and broker-dealer are aligned," said Robert Russo, CEO and founder of IAA.

Regulation

Advisors worry about losing independence

A DEPARTMENT OF LABOR regulation designed to ensure companies don't inappropriately deem employees to be independent contractors has independent financial advisors worried the measure may jeopardize their business model.

The DOL released a final rule last Tuesday that targets situations where workers are misclassified as independent contractors and deprived of certain rights and protections, such as a minimum wage and overtime.

While the rule was being drafted, independent advisors, brokers, and insurance agents expressed concerns that it would change their status as independent contractors. A DOL official said the rule doesn't provide a carve-out for financial advisors or any other profession.

Morgan Stanley pays $249 million to end block trade probes

MORGAN STANLEY agreed to pay $249 million to the Justice Department and Securities and Exchange Commission to end a years-long investigation into block trading that rattled the industry.

A non-prosecution agreement with federal prosecutors in Manhattan allows the bank to avoid criminal charges. Its former senior-ranking equities executive, Pawan Passi, who was placed on leave and later left the bank after the probe intensified, will enter into a deferred-prosecution agreement over his handling of confidential information, according to the government.

As part of the total, Morgan Stanley will pay about $113 million to the SEC, the regulator announced last Friday.

FOCUS

Spot bitcoin ETFs will be in SEC's crosshairs

THE SEC HAS at long last approved spot price bitcoin ETFs, though it did not do so entirely willingly and will all but certainly be watching product providers very closely.

Last Wednesday, the regulator issued a statement indicating that it had approved a host of exchange-traded products, a development that came a day after its Twitter account was compromised and posted a false announcement that it had done so.

But the SEC moved forward almost entirely because of the results of a lawsuit brought by one applicant, Grayscale, whose request to convert its bitcoin trust into an exchange-traded product had been denied. An appellate court ruling last year found the SEC didn't adequately explain why it rejected the application.

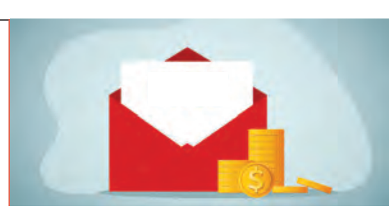
"Based on these circumstances and those discussed more fully in the approval order, I feel the most sustainable path forward is to approve the listing and trading of these spot bitcoin ETP shares," SEC chair Gary Gensler said in a statement.

The decision applies only to ETPs holding bitcoin and doesn't extend to other cryptocurrencies, he said.

"Today's action will include certain protections for investors," Gensler said.

Those protections include required disclosures from product providers and the fact that the ETPs will be traded on regulated securities exchanges, he noted.

Finra hits LPL, Interactive Brokers with fines

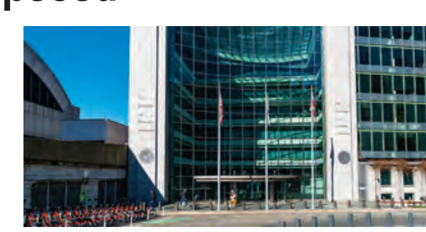


THE FINANCIAL INDUSTRY REGULATORY AUTHORITY closed 2023 with substantial, multimillion-dollar penalties against LPL Financial and Interactive Brokers.

LPL and Finra reached a $6.15 million settlement over the firm falling short on its supervision of thousands of transactions that its financial advisors and brokers completed from 2012 to 2019 with product sponsors. LPL agreed to pay a fine of $5.5 million and restitution of $651,000 to clients. It agreed to the settlement without admitting to or denying Finra's findings.

Finra and Interactive Brokers agreed to a $3.5 million fine for failing to comply on best execution and supervision standards from 2014 through last year.

Lawyers welcome proposed Finra crackdown



THE FINANCIAL INDUSTRY REGULATORY AUTHORITY filed a rule proposal with the SEC this month that would tighten existing rules limiting brokers' ability to lend money to or take loans from clients. Such arrangements can create conflicts of interest and lead to enforcement actions.

One of the proposal's provisions demonstrates Finra's position. It would change the name of the rule from "Borrowing From or Lending to Customers" to "Prohibition on Borrowing From or Lending to Customers."

"Ninety-nine percent of the time, lending to customers or borrowing from them is a bad idea," said Patrick Mahoney, owner of an eponymous securities law firm.

Further, because the SEC is evaluating applications for each product separately, the approval process creates a level playing field, he said.

Even so, Gensler cautioned investors about the "speculative" nature of bitcoin, as opposed to holdings in metals ETPs, for example, which have consumer and industrial uses.

approving the products means it will be watching ETP providers very closely, said Jay Gould, special counsel at law firm Baker Botts.

"I would expect there to be enforcement against some of these guys before too long," based on disclosures, valuation issues, or other potential issues, Gould said. "The SEC is not crazy about

"I would expect there to be enforcement against some of these guys before too long"

JAY GOULD, BAKER BOTTS

"Bitcoin is primarily a speculative, volatile asset that's also used for illicit activity including ransomware, money laundering, sanction evasion, and terrorist financing," he said.

Following the commission votes to approve the applications Wednesday, Commissioner Caroline Crenshaw issued a statement in opposition, saying that the spot markets are "marred by fraud, are heavily concentrated, and lack systemic oversight."

The commission's hesitancy in this. There's probably a constituency that thinks this is not a good use of commission resources or capital, [that] it doesn't create any efficiency in the capital markets – it doesn't add anything to commerce."

However, the public interest in bitcoin is undeniable, and the SEC was all but forced to not stand in the way of spot bitcoin ETP approvals, he said. The agency also doesn't want to effectively cede jurisdiction over spot bitcoin products to other countries that are more eager to regulate them, Gould noted.

Finra watching crypto assets, brokers in 2024

THE FINANCIAL INDUSTRY REGULATORY AUTHORITY last Tuesday issued its annual roundup of concerns related to the retail wealth management industry, and, in an update, the securities industry self-regulator said it was adding developments in "crypto assets" to its laundry list of major concerns for the brokerage industry.

Finra has focused on crypto assets in past reports; in 2023, its report mentioned the crypto market in the context of cybersecurity. But in this year's report, the *2024 Finra Annual Regulatory Oversight Report*, Finra said it was keeping tabs on salespeople and financial advisors who are involved in the marketing and sale of digital assets.

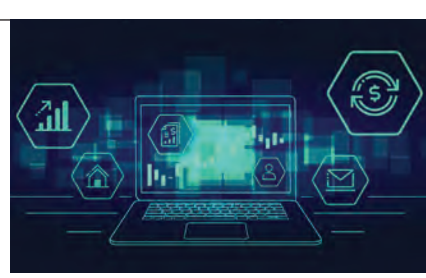
SEC climate agenda stalls

THE SECURITIES AND EXCHANGE COMMISSION'S failure to complete an ambitious climate-related agenda last year is making environmental activists nervous.

Less than a year before a US presidential election that could scuttle the regulator's environmental, social, and governance efforts, the SEC has yet to finish a mandate for public companies to disclose their environmental footprints. In addition, the agency's specialized ESG enforcement task force has brought few climate cases since it was created in 2021.

"There's still a lot of unfinished business to get over the finish line as quickly as possible," said Ben Cushing, director of the Sierra Club's Fossil-Free Finance Campaign.

Idaho regulator seeks range of input on fintech oversight



JOHN YAROS, chief of the Securities Bureau of the Idaho Department of Finance, wants to hear from a wide range of people with an interest in financial technology. Too often, policy discussions can become echo chambers in which regulators, industry participants, and academics talk among themselves, he said.

"All stakeholders like to stay in their little boxes," Yaros said. "We're trying to break them out of those boxes."

He's attempting to do so through an initiative established last year that brings together financial and technology experts who will help Idaho regulators better understand emerging technologies in the financial sector.

Industry seeks carve-out from state's 'junk fees' proposal

THE INSURANCE INDUSTRY wants to be exempted from a Massachusetts proposal that targets "junk fees" in product sales, a stance that echoes its opposition to a Department of Labor investment-advice proposal that also has been promoted as a way to combat "junk fees" related to retirement-savings recommendations.

Late last month, Massachusetts attorney general Andrea Joy Campbell released a proposal that prohibits companies from charging hidden fees – or "junk fees" – that push product sales prices above the level advertised.

But certain parts of the proposal are impractical for insurance firms, said a group of insurance trade associations.

Retirement

Most Democrats support DOL advice proposal in House hearing

MOST DEMOCRATS AT a House hearing last Wednesday expressed support for the Department of Labor's proposed investment advice rule, which has come under fierce attack from Republicans and financial industry opponents.

The retirement security rule would expand the definition of "fiduciary" under federal retirement law and impose that standard on most financial advisors and insurance professionals who make recommendations to company retirement plans and plan participants and to investors in individual retirement accounts.

Earlier last week, 50 lawmakers, including five Democrats, sent a letter to the DOL demanding that the agency withdraw the proposal.

3M to freeze its pension plan

3M IS FREEZING its pension plan, the company announced last Monday, a decision that contrasts with IBM's recent move to add a cash-balance program for its workers.

The US pension freeze at 3M won't occur until 2028 and applies only to non-union workers, the company said. The measure comes as pension plans' funded ratios have reached levels not seen in years, giving the employers that sponsor them an affordable exit through pension risk transfers, in which the assets are moved to insurance companies.

A 3M spokesperson noted that the company 401(k) plan includes a company match.

FOCUS

'How do I blow up the industry?'

VALERIE A. RIVERA is passionate about helping clients she believes have been continuously disadvantaged by systemic social structures that make it difficult for certain groups to build wealth.

"For certain people, especially Black people, practices such as redlining have deliberately stopped many from becoming homeowners and building wealth," said Rivera, founder of FirstGen Wealth in Chicago. "This is not to say they cannot create wealth today and that all is lost. It's essential to acknowledge the starting point is very different depending on the socioeconomic status you're born into."

Redlining is the discriminatory practice of denying mortgages, insurance, loans, and other financial services to residents of certain areas, based on their race or ethnicity.

"[Clients] are navigating spaces, both professionally and financially, that are new territory and haven't been traditionally the most welcoming," she said.

Her clients, like Rivera herself, are mainly in their 30s and 40s – the time of life when the complexities of wealth-building begin to crystallize. These individuals aren't only facing financial adversities but they're also often traversing new social and economic landscapes.

Despite her individual efforts and successes, Rivera is acutely aware of the industry's inertia and its narrow definition of who is deemed worthy of financial planning services.

"The big thing I like to think about is how do I blow up the industry. I feel as if the industry is so narrowly focused on 'this is who we serve' and 'this is who's deemed profitable' and 'this is who makes a good candidate.' I think that because

401(k) settlements went way up in 2023

THE NUMBER OF new class-action lawsuits involving 401(k) plans dropped last year, but settlements reached a record high.

In no small part that was due to massive payouts in cases against Ruane Cunniff & Goldfarb ($124.6 million), General Electric ($61 million), and Verizon ($30 million). But the number of settlements also rose, to 42, compared with 31 in 2022 and 26 in 2021, according to a report last week from Euclid Fiduciary.

In addition to the extraordinarily big settlements, there were a lot of small ones, part of a trend in recent years as more plaintiffs' firms have brought cases seeking quick payouts.

Wrong birthdate led to $130K in penalties, plaintiffs say

BENEFICIARIES OF A family trust sued Wells Fargo over an error they say cost them more than $130,000 in IRS penalties.

In 2001, an advisor to the trust allegedly entered an incorrect birthdate of January 1, 2001, for one of the beneficiaries, who was born in 1939. The error went undetected for years, until a different advisor told the family the required minimum distributions seemed low.

Indeed they were, according to the lawsuit filed last month in US District Court in Louisiana. As of 2021, the trust had distributed about $570,000, though nearly $843,000 should have been distributed. The error was discovered in 2022.

there's such little diversity of different experiences within the profession, it keeps the status quo in place."

As such, Rivera wants to implement a form of coaching – a way of educating areas such as the financial coaching space where advisors deem what they do as not being credible enough, they play a huge role within the greater profession of educating groups of clients that many

"There's such little diversity of different experiences within the profession, it keeps the status quo in place"

VALERIE RIVERA, FIRSTGEN WEALTH

both those inside the industry and clients looking to invest themselves.

"I've heard many advisors say that group coaching isn't profitable, and I just think they haven't come up with a smart enough way to do it," she says. "Even in advisors don't want to work with."

This is not just wealth management – it's a movement. And Rivera, with her blend of passion and pragmatism, is at the forefront, reshaping the landscape one client at a time.

Want to roll Roth IRA over to a Roth 401(k)? You can't, yet

WORKERS WHO HAVE money in a Roth IRA and want to roll the funds into a Roth 401(k) currently have no way of doing so – but a bill introduced last month in the House would change that.

That's necessary, proponents say, as Roth 401(k)s become more widespread as options in employer-sponsored plans and automatic IRA programs funnel more money into Roth IRAs.

"Our bipartisan bill will allow for the consolidation of assets, reduce the potential for duplicative fees, and bolster retirement savings for families across the country," Rep. Darin LaHood, R-Ill., one of the bill's co-sponsors, said in an announcement.

West Virginia tops retirement survey

WEST VIRGINIANS REPORT having between $100,001 and $500,000 in retirement savings, and 12.5 percent say they're "very satisfied" with their nest eggs. West Virginia currently ranks as the state most prepared for retirement, according to a new Forex.com report.

Alaska, Idaho, and Wyoming ranked at the bottom; respondents in those states feel "not at all satisfied" with their retirement savings.

The study also showed more than half (55.7 percent) of Americans haven't started saving for retirement, even though over a third (33 percent) think they need between $100,001 and $500,000 to retire comfortably.

Catholic 401(k) MEP will screen funds for morality

A CATHOLIC VALUES group plans to launch a multiple-employer 401(k) plan that's compliant with the church's teachings.

The Catholic Benefits Association started with the mission of helping employers get exemptions from provisions of the Affordable Care Act, such as having to provide access to contraceptives in healthcare plans. Now it wants to help church-affiliated and for-profit companies avoid exposure in retirement plans to investments that Catholics might find objectionable.

The plan will be a traditional multiple-employer plan, which differs from the newer pooled employer plan structure, as the former requires participating employers to share some connection. In this case, the connection is membership in the Catholic Benefits Association.

Tifin, Franklin Templeton partner on financial wellness

FINTECH TIFIN AND fund company Franklin Templeton are joining forces to launch an AI-powered financial advice platform that plan sponsors can provide to their employees, the companies announced. Tifin @Work will help employees assess their financial situation, provide them with advice, and adjust their benefits to improve their financial outlook.

Tifin will work with Franklin Templeton's workplace retirement distribution business to get the solution to plan advisors and employers.

More and more companies have started providing financial wellness benefits, driven by concerns that workers' worries about their finances could affect their productivity.

Gen Zers more interested in post-death plans than other generations

THEY SPEND HOURS scrolling through TikTok, they're regularly active on Instagram, and yet it turns out they're more prepared than any other generation when it comes to planning their wills and estates.

A recent study from Trust & Will found that while millennials are taking the lead on getting their deathly affairs in order, Gen Zers are the silent leaders when it comes to planning their wills and legacy.

"They're following all this financial content, they're really engaged, and they want to learn because they want to set themselves up for success," said Jack Heintzelman, financial planner at Boston Wealth Strategies. "They don't want to work until age 65, then retire. They want to have meaning in their lives and they want to build themselves up to have flexibility."

Financial advisors launch disruptive RIA co-op platform

WITH AN INCREASING number of financial advisors deciding to take more control of their practices, a new path to independence has been launched by two Los Angeles-based advisors.

With Avise Financial, Katrina Soelter and Leighann Miko aim to provide certified financial planners nationwide with a platform that gives them virtual business administration tools and back-end support without giving up any equity or control of their firm. The co-op approach of the platform gives each member-owner one vote regardless of their AUM or size. The founders are also keen to ensure that their new venture helps address diversity and representation in the wealth management profession.

FOCUS

Using authentic content to attract like-minded clients

DAVID BAHNSEN, chief investment officer and managing partner of The Bahnsen Group, a wealth management firm overseeing roughly $5 billion in client assets, takes a rather unconventional approach to client acquisition.

Instead of relying on traditional methods like referrals and word of mouth, the firm is all about creating valuable content with an authentic voice on a variety of topics, including finance, economics, wealth management, and even politics.

"I don't believe that there's anybody else doing this, let alone doing it at this scale," Bahnsen says. "Our client acquisition approach is unlike anything I've ever seen at any other advisory firm. We lean into very fresh, very unique, sometimes controversial content as a means of attracting like-minded people to our organization."

Bahnsen frequently provides insightful observations across financial media outlets – both traditional television and radio programs and on emerging digital and audio platforms. He hosts a weekly podcast, "Capital Record," where he interviews leaders in business, finance, economics, and religion. He also writes market commentary that is sent to clients daily and pens a longer-form missive, Dividend Cafe, that is published every Friday on DividendCafe.com.

> **"I don't believe that there's anybody else doing this, let alone doing it at this scale"**
> DAVID BAHNSEN, THE BAHNSEN GROUP

It seems to be working. Bahnsen says this method helps his organization really stand out from the crowd.

The Bahnsen Group also prides itself on the suite of services it offers to clients, in addition to wealth management and financial planning, such as comprehensive tax services, family office servicing, and advising on complex legal and real estate matters for ultra-high-net-worth clients. The firm maintains offices in Newport Beach, California; New York City; Phoenix; Austin, Texas; Minneapolis; Nashville; Tennessee; and Oregon.

Advisors reveal top resolutions for 2024

FINANCIAL ADVISORS INTENT on improving their practices have put their new year's resolutions on the record.

Laurie Humphrey, financial advisor at Granite Financial, resolved to incorporate values-based planning more consistently into her practice. Dr. Preston Cherry, founder and president of Concurrent Financial Planning, said he'll be using J.D. Power's research to benchmark his clients' financial experience. Mike Parry, director of Wealth Planning at Liberty Wealth Advisors, added that his focus for practice management and business development for 2024 will be on building out his social media presence.

Top trends shaping advisor business growth

SOME OF THE newest technology and some of the oldest pillars of wealth management are among the essential trends for advisor growth in 2024, according to Envestnet.

Key trends involve fully integrating technology and ensuring that the tools and solutions being used are enhancing the advisor and client experiences. Among the priorities are integration of client engagement tools and improvement of custody workflows; taking a holistic approach and providing value beyond investments, such as estate planning, tax advice, life insurance, and health planning; and using artificial intelligence and data to provide personalized service, enhance client interactions, and improve efficiency.

DAVID BAHNSEN

"I think it's pivotal right now that one be able to deliver to clients the experience that they've been promised," Bahnsen says. "Our mousetrap over the years has been fine-tuned above and beyond what I ever dreamed possible."

Bahnsen is also the author of several books, including *The Crisis of Responsibility*, which offers a distinct assessment of the 2008 financial crisis that diverges from the typical right-wing vs. left-wing narratives. He emphasizes the role of cultural breakdown in morality, honesty, and responsibility in Main Street, not just Wall Street or government.

"*The Crisis of Responsibility* was really intended to provide a very different evaluation of the financial crisis that we all went through as opposed to the political narratives that had formed in the aftermath of the financial crisis," Bahnsen says.

Meanwhile, his most recent book, *There's No Free Lunch: 250 Economic Truths*, serves as an economic devotional, reminding readers of the fundamental principles of free enterprise. The book targets a wide audience, including investors, advisors, laypeople, and professionals. Bahnsen believes that understanding the basics of economics is crucial, especially for those in the finance industry.

Complex services are top of mind for HNW clients

THE WEALTH INDUSTRY may very well be one where it's good to be a people person. However, several advisors say that when it comes to ultra-high-net-worth clients and their financial goals, they're looking for more from their advisors than just typical investment or financial planning services.

A study released by Cerulli found that service offerings, mainly delivered through third-party providers, now outweigh factors related to personal relationships.

"Among planning services, all HNW practices now offer financial planning as a primary or secondary service," according to the *US High-Net-Worth and Ultra-High-Net-Worth Markets 2023* report. "Estate planning (70 percent) and tax planning (45 percent) have been two of the fastest-growing service areas as advisors prepare their clients for impending wealth transfers and transitions."

More women on Wall Street is new year goal

HERE'S HOPING 2024 is a big year for women on Wall Street. Nearly one-third (30 percent) of the financial advisors who earned their certified financial planning credential during 2022 were women, according to the CFP Board's Center for Financial Planning. Meanwhile, the 2023 *InvestmentNews* Benchmarking Study showed 39 percent of support advisors (the lowest-level advisory role) were women, 30 percent of lead advisors were women, and only 18 percent of partners were women.

Katherine Jollon Colsher, president and CEO of Girls Who Invest, said that it's her goal to rectify this stagnant situation. Colsher is also counting on the group's 2,500 alumni to pave the way for women.

Finding the right clients remains top priority

RINGING IN A new year comes with a lot of planning, preparation – and dread. 2023 was no doubt a time of evolution for the financial planning industry, with advisors increasingly seeking AI-aided autonomy to help increase assets under management.

Several advisors said finding the right new clients was key to this growth. Andrew J. Evans, CEO and founder of Rossby Financial, an RIA platform, believes that to have any sort of growth, advisors will have to take the reins and compete hard against others. Stephen Norton, president at Saybrook Wealth Group, meanwhile, was concerned about how he is going to scale his practice.

Prospecting for clients the 'old-fashioned way'

ADVISORS LOOKING FOR new ways to prospect for new clients this year should be prepared to be disappointed. It seems most advisors prefer to stick with what they're already comfortable with – networking and referrals.

While there are lead-generating platforms that assist advisors with identifying prospective clients, from SmartAsset to Catchlight and FP Alpha's Prospect Accelerator, several advisors say the platforms aren't working. Jeff Ferrar, chief operating officer and managing director at Procyon Partners, says they provide only OK-quality leads. The two biggest areas his firm gets leads from, Ferrar says, are good old-fashioned referrals from happy clients and referrals from professional centers of influence.

FOCUS

Understanding the 'why' behind the investment

JENNIFER KENNING

ALIGN IMPACT, under Jennifer Kenning's leadership, operates on three core beliefs: the possibility of market-rate returns in impact investing, the transformative potential of these investments for people and the planet, and the importance of rigorous financial and impact analysis.

CEO and co-founder Kenning says these values stem from an inherently personal place as well as the recognition that marrying your financial objectives with your values can change our world for the better.

"We believe that this is good investing and that these are game-changing solutions that will allow not only the planet but society to move forward over future decades, as well," Kenning says.

At the heart of Align's mission is the desire to be an enduring, independent voice in the financial advisory world.

Kenning emphasizes the importance of working with clients and their existing advisors to leverage their expertise in the impact and environmental, social, and governance space, with this collaborative approach allowing Align to complement, rather than replace, the work of other advisors.

The process of co-creating tailored investment strategies with clients starts with defining the key focus areas and understanding the "why" behind them. Whether it's a passion for the planet, animal well-being, or human health, Align works closely with clients to educate and guide them in building impactful portfolios, integrating philanthropy and policy when appropriate. The firm's strategy is not just about investments but is a holistic approach to tackling global issues.

"We work alongside our clients as our partner, educating them in what all the opportunities are around building out a portfolio from a public market perspective as well as a private market perspective," Kenning says. "Then, where applicable, we would include philanthropy and policy into that strategy – because we believe you need to take a multipronged approach to the global issues that we're all facing."

> "We believe you need to take a multipronged approach to the global issues that we're all facing"
>
> JENNIFER KENNING, ALIGN IMPACT

However, there are challenges when it comes to balancing impact goals with investment rigor, which increases the importance of educating clients on Align's expectations of managers. In cases where an investment opportunity doesn't meet Align's strict standards, they advise clients on risk management and potential allocations. For example, an early-stage venture opportunity might be more suited to a donor-advised fund or a private foundation in its initial stages.

"When that fund gets to fund two [stage], it moves into a different bucket within the family," Kenning says.

Alongside this, Align's formation of an external investment committee was a strategic decision to maintain intellectual honesty and forward momentum in the impact investing field. The committee comprises a diverse group of industry experts and thought leaders, intentionally rotated to bring fresh perspectives and challenge the firm's strategies.

"Part of it is to chat, to keep us honest, and to own what we said we were going to do as well as to give us another set of eyes and ears to make sure we're identifying and bringing the best investments forward," Kenning says.

Bitcoin ETF trades top $3 billion in 'groundbreaking' first day

THE FIRST US ETFs that directly hold bitcoin got off to a strong start, with billions of dollars changing hands in a historic first day of trading for the long-sought investment vehicles.

Over $3.5 billion worth of shares were traded on January 11 between the 11 US spot bitcoin exchange-traded funds. The Grayscale Bitcoin Trust, which converted into an ETF, has seen about $1.7 billion in volume, according to data compiled by Bloomberg. Meantime, BlackRock's iShares Bitcoin Trust (IBIT) has seen more than $880 million change hands. Typically, only one fund that tracks a new asset class begins trading on a single day.

Japanese equities have outperformed, but is the rally at risk?

JAPANESE SHARES NEED to jump five large hurdles in early 2024 to build on their mighty rally this year. Analysts see the nation's equities indexes struggling over the next few months against a stronger yen, weak consumer spending, too many investors chasing a narrow range of stocks, competition from overseas share markets, and political instability at home.

Nomura Holdings chief strategist Naka Matsuzawa expects Japan's equities to drop around 5 percent over the next six months, while analysts at JPMorgan Chase & Co. and Saxo Markets see stock gains slowing to around 5 to 10 percent next year, after a more than 20 percent jump in benchmark indexes in 2023.

Could FTX investors finally get some money back?

FTX TRADING LTD. unveiled its latest proposal for returning billions of dollars to customers and creditors, kicking off a final round of potential squabbles about how best to end the bankruptcy case of the fraud-tainted crypto firm.

Some of the most important questions were left unanswered, including whether FTX will restart its defunct crypto exchange and how much creditors can expect to get back. The plan will be sent to creditors for a vote next year before it goes to US Bankruptcy Judge John Dorsey for final approval.

How private market investments can bolster 60/40 strategy

THE TIME-HONORED 60/40 asset allocation debate is alive and kicking as we start the new year. The portfolio strategy is again up for review with more alternative products available. A recent iCapital survey of 400 US registered advisors showcased how private market investments are being embraced by new investors.

Among advisors currently using alternatives, 78 percent invest in real estate, 62 percent in private equity, 50 percent in private credit, and 48 percent in hedge funds. More than one-third of advisors said they are most likely to increase allocations to private equity (36 percent) and private credit (34 percent) in the coming year.

Jane Street is broker of choice for bitcoin-ETF issuers

JANE STREET, the firm where FTX's Sam Bankman-Fried learned how to trade, is so far the broker-dealer of choice for issuers of exchange-traded funds that invest directly in bitcoin.

Fidelity and WisdomTree named Jane Street Capital as their "authorized participant," the industry's term for the firm that's responsible for steering cash into and out of ETFs. BlackRock and JPMorgan Securities also named Jane Street as their authorized participant for their spot bitcoin funds, according to amended prospectuses filed with the SEC.

Not every firm filing an amended prospectus listed its intended broker-dealer for the role.

Investing in transition finance set to be a big factor in 2024

"TRANSITION FINANCE" is shaping up to be one of the new year's most important subjects. The term was part of the final agreement among 200 nations in which they agreed to move away from fossil fuels. However, it also gives leeway to investors, including those with so-called sustainable mandates.

The phrase is loosely defined as investments mainly in industries and infrastructure that help drive efforts to achieve a net-zero economy. The Glasgow Financial Alliance for Net Zero is proposing the investment strategy include financing of traditional green activities, like renewable energy or electric vehicles.

Will higher inflation in December affect advisors' 2024 outlooks?

THE DECEMBER INFLATION report came in slightly hot. Chris Zaccarelli, chief investment officer for Independent Advisor Alliance, says the biggest takeaway for investors from the report is that the Federal Reserve is finished raising rates, rather than the timing or number of its rate cuts.

The general belief on Wall Street is that the Fed came into 2024 expecting to cut three times, even though markets were pricing in twice as many in Zaccarelli's estimation. Brandon Dixon-James, president and wealth manager at Resilient Wealth Management, sees inflation returning to a "more normal environment" in 2024 thanks to thoughtful Fed policy.