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THE DEI ISSUE

‘DIVERSITY IS A BUSINESS STRATEGY’

Lazetta Rainey Braxton, industry leader and DEI advocate, explains her uncompromising approach

Page 12

Contents

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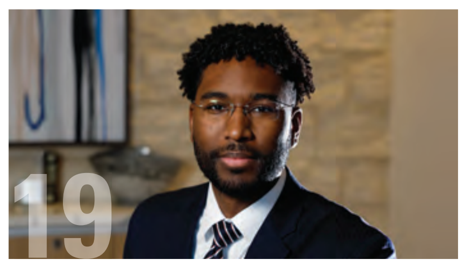

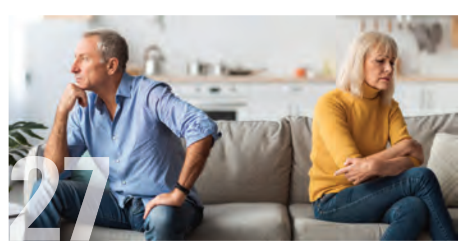

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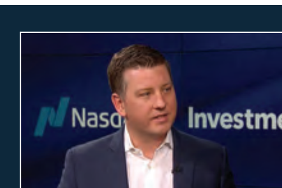

SCAN THIS CODE TO HEAR LANCE MCGRAY OF ADVISORS ASSET MANAGEMENT EXPLAIN WHY PREFERRED STOCKS ARE IDEAL FOR INVESTORS SEEKING UPSIDE AND YIELD

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CHECK IT OUT ONLINE

Editorial

Industry should reflect on pace of change

The irony was almost too much. The women architects of smash-hit feminist movie *Barbie* missed out on Oscar nominations, only for its male supporting actor to bag an awards nod. Cue outrage. Proof, if any were needed, that the DEI conversation is alive and kicking, but real action is lagging.

The entertainment world is, of course, not known for its pace of change in addressing inequality – take the pay disparity between top male and female stars, for example – but it looks speedy compared to the financial advisory industry.

InvestmentNews research revealed that as of 2023, only 30 percent of lead advisors in the US were women. More stark data reported in 2021 in a Cerulli survey in partnership with the Investment Adviser Association showed that although 25 percent of the US identifies as Black, Indigenous, and other people of color (BIPOC), only 3.8 percent of RIAs identify as Hispanic or Latino, while 2.6 percent identify as Black or African American and 2.1 percent as Asian.

For RIAs looking to grow, Lazetta Rainey Braxton, co-CEO of 2050 Wealth Partner (page 12), addressed the issue of diversity at your company incisively: "If you don't want to put all your eggs in one basket [in a portfolio], why in the world would the profession want to put all their eggs in white men?" She believes DEI is less about acronyms and more about a business strategy that allows talent – and your bottom line – to flourish.

So why is change so slow in our industry? Its white-male image is often unwelcoming, and the Cerulli survey outlines other barriers, like lack of training, biased recruitment, work-life imbalance for women, and lack of familiarity with the profession. The country's wealth is still predominantly white, a trend even more pronounced at the corporate equity level.

This suggests many companies are paying lip service to DEI. What are advisory firms really doing to address those barriers to entry? Beyond a spurt of activity in response to a George Floyd-like atrocity, do they have a plan? Do they have in-house DEI teams? Have they established talent pipelines to attract talented minorities and future executives? Is the boardroom holding itself accountable to its DEI goals?

Braxton says she works only with people who are "earnest" about effecting change. Do firms really believe in it or are they following the latest trends?

The world is also changing. From 2019 to 2022, the level of wealth went up more than 61 percent for Black households and 47 percent for Hispanic households

The world is also changing. From 2019 to 2022, the level of wealth went up more than 61 percent for Black households and 47 percent for Hispanic households. The increase in the level of wealth among women has been well documented.

Of course, these issues are reflective of broader society, not just one industry. But an advisory team that can relate to our changing demographics not only makes sense from a social equity standpoint but makes perfect business sense as well.

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

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CFP COMPENSATION TRENDS

New report reveals CFP-qualified advisors are unlocking additional earning potential.

EARNINGS
12%
higher earnings of CFP professionals than other financial planners

REMOTE WORK
20%
of CFP professionals work remotely 4 days or more per week

PTO
36%
have unlimited PTO

CONTRIBUTIONS
97%
receive defined contributions, including 401(k)

STOCK OPTIONS
12%
have access to stock options

PROFIT SHARING
46%
receive employer profit sharing

Source: CFP Board

GOING FOR GOLD

Total gold demand hit a record last year and is expected to expand again in 2024.

3%
Increase in overall consumption, to 4,899 tons

13%
2023 rally, touching record in early December

753%
Demand growth in OTC market

1,037 tons
Annual net purchases by central banks

Source: World Gold Council

STATE OF RETIREMENT PREPAREDNESS

Financial advisors, CFPs, and CFAs are invaluable to Americans prepping for retirement, but the number of those who take advantage of this resource is low – just one in five (21%). Within that, there are racial disparities.

INDIVIDUAL ANNUITY SALES AT RECORD HIGH

Annuity sales enjoyed back-to-back record years in 2022 and 2023, as memories of 2022's stock-and-bond-market carnage lingered.

$385 billion
Individual annuity sales in the US in 2023

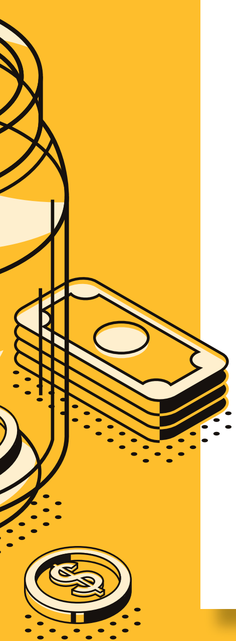
$115.3 billion
2023 Q4 total annuity sales, a new quarterly record

↑ 23%
Sales increase from 2022

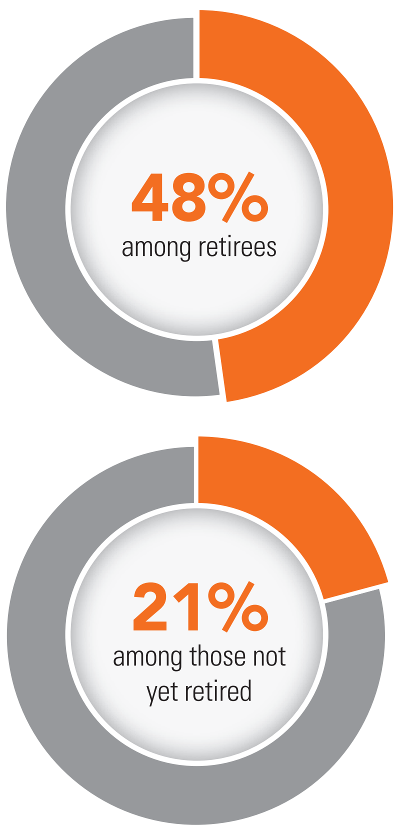
↑ 46%
Increase in sales of fixed-deferred annuities

↑ 20%
Increase in sales of fixed-index annuities

Sources: Limra



Portion that consulted financial professionals for retirement information



Portion of different groups that consulted financial professionals

Source: TIAA Institute in partnership with Ipsos; survey carried out May and June 2023

EQUITY EXPECTATIONS

Investors have turned more optimistic about the equities market, with expectations for returns at their highest for two years.

5.7%	Returns investors expect over next 12 months
1.3 percentage points	Increase from Vanguard's October study
7.2%	Returns expected by investors over the next 10 years
4.2% to 6.2%	Vanguard's 10-year forecast range
5.4%	Odds of an economic disaster in 2024

Source: Vanguard, December

JANUARY BONANZA FOR ESG BOND SALES

Sustainable bond sales saw the busiest January on record, with lower borrowing costs igniting a deal blitz as top underwriters of the debt lined up more sales.

$149.5 billion
Global sales of green, social, sustainability, and sustainability-linked bonds in January

540
Bond issuers who tapped primary markets last month

$84.2 billion
Sales of green bonds in January

$3.7 billion
Sales of sustainability-linked bonds in January

$1 billion
Amount of green debt offered by Verizon every year since 2019

Source: Bloomberg

INVESTING FOR SOCIAL JUSTICE

Advisors should ask how and why clients want to address racial equity in their portfolios

BY EMILE HALLEZ

When Adasina Social Capital launched an exchange-traded fund focused on racial justice three years ago, there were very few products in that category. Today, that's still the case.

That is evidence that the "S" in ESG has all but disappeared, as nearly all such products focus on environmental or climate issues, rather than social ones, Adasina CEO Rachel Robasciotti said.

"There aren't many funds doing this work consistently," she said, the reason being that "finance doesn't believe that it has had anything to do with racial injustice."

Currently, there are about two dozen US mutual funds and ETFs that address human development, according to data from Morningstar Direct.

It's notable that Wall Street was physically built with slave labor and that, beginning in 1711, it was the home of New York's slave market, where affluent whites bought, sold, or rented out the Black men, women, and children they claimed to own.

"There has been an extraction from the Black community… Those who acquired wealth in the Americas – disproportionately, that came from owning human beings," Robasciotti said. "The actors in the financial market don't understand the origins of the huge amounts of capital we're dealing with… We have a huge debt to pay."

Investors who want their money to have a positive effect on the Black community don't have a lot of options in the form of mutual funds and ETFs, but advisors can help them align their portfolios with social justice goals.

A COMPONENT OF WIDER EFFORTS

Of course, investing can only do so much, but it can be a component of wider efforts to address inequality and systemic racism. Over the past 50 years, the wealth gap has increased, with Black Americans having significantly lower incomes, assets, and homeownership rates than white Americans, data compiled by the American Civil Liberties Union show.

"This industry can do so much in this area," said Miranda Reiter, assistant professor of personal financial planning at Texas Tech University. "We're working up against centuries of barriers, policies, segregation, and discrimination that have stalled or prevented building wealth… There is still just such a capacity for bringing our business, our services to people who don't know we are here."

For investors who want to align their portfolios with social justice values, Robasciotti suggests asking advisors three questions: What impact issues are the investments addressing? How are you measuring and interpreting that impact? And how are you solving for racial injustice?

"In finance, we spend a lot of time talking to each

other about the data that exists in our industry," she said. "Who's determining what 'impact' means? If it's just finance folks looking for DEI solutions, we're not going to have the full scope of solutions at our fingertips."

> **"Backlash is a huge indicator of progress. It means that [the DEI effort] is working"**
>
> RACHEL ROBASCIOTTI, ADASINA SOCIAL CAPITAL

Demand for that is there. The company's $152 million Social Justice All Cap Global ETF has brought in net inflows consistently since its December 2020 inception, she said.

Adasina uses 40 metrics for assessing holdings, and its ETF excludes companies that don't fit social justice criteria. Because of that, the firm works with third parties on shareholder advocacy, including filing resolutions, as it doesn't invest in companies that would be targets of social justice campaigns.

ETF BENEFITS THE NAACP

Another ETF, the Impact Shares NAACP Minority Empowerment ETF, tracks Morningstar's Minority Empowerment Index. The ETF benefits the NAACP, and the sponsor, Impact Shares, is a non-profit.

"Our mission is to work with leading social and environmental advocacy groups to launch more credible ESG-oriented strategies," Impact Shares chief executive Ethan Powell said.

Companies in the ETF's portfolio measure 50 percent better on minority outcomes than the broader sector, he said. The firm also engages with public companies to get them to change policies and practices so that they might be included in the index.

"Post-George Floyd, DEI initiatives had a lot of tailwinds," Powell said. Recent campaigns by politicians against ESG appear to have made some of the bigger asset managers more careful about how they approach it. "DEI seems to be being marginalized right now, but that will reverse course."

As anti-ESG efforts have increased at the state and federal levels, and in the wake of the Supreme Court's decision banning affirmative action, large asset managers appear to have backed away from DEI efforts, fearing litigation, he said.

Increasingly though, public companies have become much more willing over the past few years to publish the Equal Employment Opportunity data that they file with the Department of Labor. Shareholder resolutions have focused on getting companies to do so but are now going further, asking employers to conduct racial equity audits.

Of the more than 20 corporate engagements As You Sow initiated last year, over 80 percent of the companies voluntarily agreed to release employment data, said Meredith Benton, founder of Whistle Stop Capital and As You Sow's workplace equity

program manager. But among shareholder resolutions on social issues that went to proxy votes, support by large asset managers plummeted in 2023, data from Morningstar show.

Benton said she worries "that a subset of asset managers was prioritizing political concerns over their obligation to vote the proxies in the best interest of their clients," as "the rationale of the understanding and importance of manager diversity has only increased."

A CHILLING EFFECT

The campaigns against DEI appear to have had a chilling effect among asset managers, Robasciotti said.

"It distracts people to worry about whether they will be a target for focusing on these issues," she

advisor to say, 'I offer this,'" Reiter said.

Companies that do the work to help address wealth gaps or systemic racism don't usually get accolades for doing so, but investing in them shows support, she said.

Advisors should also talk with clients about how and why they want to support social causes, to determine what role their investments should play in that, she said. "The 'why' really matters here. It's a matter of doing it for the right reasons."

The biggest impact an advisor might have comes through working with people who historically have been underserved in financial planning. A client might be the first in their family to have access to an advisor, and that means there are relatives who could use help, Reiter said.

"This industry can do so much in this area. We're working up against centuries of barriers, policies, segregation, and discrimination that have stalled or prevented building wealth"

MIRANDA REITER, TEXAS TECH UNIVERSITY

said. However, "backlash is a huge indicator of progress. It means that [the DEI effort] is working."

Amid all of this, there are more tools than ever for financial advisors who want to brush up on investment options that address inequality. Research analysts at RIAs or broker-dealers, for example, can provide short lists of funds for advisors who want to be able to offer social impact investment options for clients.

"It could be such a great marketing tool for an

"It means something so much more when we're talking about the Black community," she said. "There are people who are Black at the upper echelons of society, based on their incomes and jobs, who are still on the outside of our industry. They don't know who to contact. They don't know who to trust. There is so much opportunity for an advisor to change the tides of families, [starting] with just one client."

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BREAKING DOWN THE WEALTH GAP

$172,000
Average gap between white and Black household wealth (1989–2022)

$124,000
Wealth gap in 1992

$240,000
Wealth gap in 2022

$119.8 trillion
Total household wealth among white Americans in 2023

$6.5 trillion
Total household wealth among Black Americans in 2023

$285,000
Median wealth for white households in 2022

$45,000
Median wealth for Black households in 2022

$33.9 trillion
Corporate equity among white Americans in 2023

$417 billion
Corporate equity among Black Americans in 2023

Source: Brookings Institution

CONQUERING IMPOSTER SYNDROME

Reflecting on her unique experiences and family background gave Tremaine Wills the confidence to go big and really help women with financial literacy

BY EMILY DOUGLAS

It was the women in her family who inspired Tremaine Wills to start her career in wealth management. As the founder of Mind Over Money, Wills is dedicated to championing ambitious women and helping them meet their finance goals.

However, it didn't take her long to realize that she could be doing so much more.

"To be honest, I was afraid," says Wills, who was named an Excellence Awardee in the *InvestmentNews* Women to Watch Rising Star of the Year category. "Even though I had all of my investment licenses, and some experience, I thought who was going to listen to me being so young? Still in my early 20s, I didn't come from wealth, so I felt I should limit myself to the areas I had specific experience with."

> "The biggest piece was showing up as my full self and not feeling like I had to hide or pretend to be someone else"
>
> Tremaine Wills, Mind Over Money

Ironically, it was her non-wealthy background that helped financial planner Wills see how important and far-reaching Mind Over Money could be.

"I come from a family of service-oriented women," Wills says. "They volunteer all the time. They take care of everybody else and, I noticed, even as a child, they take care of themselves last."

While admirable, this selflessness often meant that the women in her family were left with little. But if she could equip those who are already inclined to give, she could create a ripple effect that would impact not just individuals but entire communities. And so, in 2019 after attending FinCon, a gathering for personal finance content creators, and meeting a vibrant community of financial educators, Wills made the decision to go bigger.

"That was when the lightbulb went off that I could combine my investment knowledge and skill set and really build a practice that incorporated financial literacy," she explains. "If women had the proper financial education and resources, I could only imagine how much more they'd be able to do. I wanted to teach what I learned from the Fortune 500 space that wasn't being taught in our communities."

But knowing what to do and having the guts to do it are two different things. Like so many women on the precipice of success, Wills still had to wrestle with the demon of imposter syndrome, a battle that is far too common for women in corporate careers. According to research from HubSpot, 90 percent of women suffer from imposter syndrome at some point in their careers, with intrusive thoughts and a paranoia about being underqualified being the most common symptoms.

Luckily for Wills, she was able to overcome that issue with self-belief and intentional confidence.

"The biggest piece was showing up as my full self and not feeling like I had to hide or pretend to be someone else," she says. "I am enough as I am, and the stories that I have, the experiences that I've had resonate with people, and sharing those stories and experiences will help."

Now, Wills urges fellow advisors to focus on those they can serve best with their unique experiences and backgrounds, rather than fitting into a predefined mold. With her unique blend of financial acumen and teaching experience, she knows the journey on which her clients are embarking, and so she's able to position herself as a valuable partner to them.

"Knowing the path that they're going to go down, how I can keep them excited and motivated and engaged, even though it may seem like retirement is so far away … having those kinds of things in place is very, very helpful," she says.

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TAPPING INTO THE WEALTH OF MINORITY COMMUNITIES

For many savvy advisors, especially those who are minorities themselves, minority communities offer huge potential

BY GREGG GREENBERG

Wealth managers have been so focused on shaking the trees for high-net-worth individuals in recent years that they've neglected to see the forest of minority market opportunities directly through them.

Minority markets have long been overlooked in America as financial advisors have generally preferred to fish for clientele in pools of established wealth. In many respects this is logical, of course, considering the time and energy it takes to prospect for new business. Like Willie Sutton, who robbed banks because "that's where the money is," wealth managers understandably gravitate to individuals with extensive, well, wealth.

Furthermore, it's hard to blame an advisor for not chasing minnows when a single whale can help cover far more of their monthly nut. Smaller clients take as much time to service as big clients or, at least, so the saying goes.

"A major benefit of bringing financial planning to minority markets is new client referrals. It's very rare that we bring on a new client that was not a referral from an existing client"

DELVIN JOYCE, PROSPERITY WEALTH GROUP

But for many savvy advisors, especially those who are minorities themselves, minority communities offer huge untapped potential and opportunities to grow those minnows into whales, developing strong relationships along the way.

"In my experience, both minority and female markets are actively aware that they need help managing and growing their wealth, but they often feel intimidated or unwelcome by our industry," said Debra Brennan Tagg, president of BFS Advisory Group. "When they understand that you 'get' them and can provide services that they need with a fee that is transparent, they are very eager to work with you.

"For us, it is a business case – there is just so much untapped potential in these markets," she added.

TAPPING INTO MINORITY MARKETS

Tagg said she uses "transparency" and "candor" to gain access to minority investors, celebrating how they are unique instead of acting as if they won't succeed with their finances.

"We engage them and we focus on them as individuals as opposed to a 'female' business owner or a 'minority' executive," she said.

Delvin Joyce, financial planner at Prosperity Wealth Group, part of Prudential Financial, primarily serves Black Americans, and he said that often entails dealing with first-generation wealth. As a result, he finds his clients are passionate about building intergenerational financial security for their families. That makes them extremely coachable and enthusiastic about learning, he said.

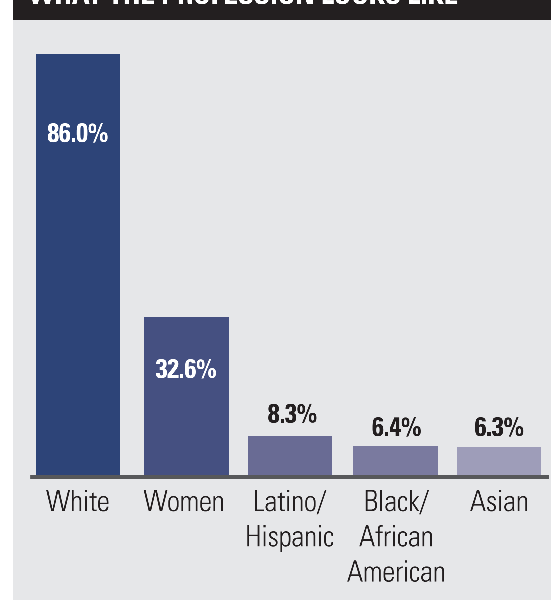
Not only that – it also leads to referrals, the lifeblood of any advisory business.

"Working with a financial planner is a new concept in some minority communities, and our clients are typically so excited about the work that we've done with them that they want to introduce us to their friends and family, so a major benefit of bringing financial planning to minority markets is new client referrals," Joyce said. "It's very rare that we bring on a new client that was not a referral from an existing client."

Sandra Cho, president of Pointwealth Capital Management, said being a minority herself has enabled her to tap into minority markets, whether that's through someone she knew directly or a cross-referral from her network. That said, she believes special strategies aren't necessary to tap into minority markets. Instead, she said, employers and companies need to properly vet their candidate pool, and not discount individuals as mere statistics.

"Individuals who are minorities use the same websites and databases as their non-minority counterparts," said Cho. "It is just the fact that they are not the typical candidate or hire that a company usually makes. Thus, the burden is on the

WHAT THE PROFESSION LOOKS LIKE



Source: Bureau of Labor Statistics 2023

company to take the time to truly vet individuals, as their true value-add may be more than what first meets the eye."

MY CLIENT, MYSELF

Having a diverse staff also provides a big advantage when attempting to break into minority markets. To put it in advisory terms, there's a big difference between Finra's "Know Your Customer" rule and truly knowing your customer through a shared background.

"We have the cultural competence to help our clients without coming from a place of judgement for mistakes they may have made prior to working with us," Joyce said.

The benefits flow both ways, he added. "We personally benefit from working with diverse clients by knowing we are making a difference, reversing generational curses, and doing our part in helping to close the racial wealth gap by expanding access to financial planning advice."

Similarly, Cho sees numerous benefits to running a diverse financial practice, including having a better chance of avoiding biases and potential pitfalls that a non-diverse financial practice may run into. This is the result of the wide array of personalities, opinions, and experiences that are present across a diverse company. In her opinion, that fact pays dividends, whether that's in appealing to a wider range of potential customers, having a tighter-knit company culture, or having a broader set of entrepreneurial ideas.

"I have also found that a diverse workforce also fosters enhanced employee engagement and, subsequently, boosts employee retention and productivity," Cho said. "A diverse workforce leads people to be pushed outside of their comfort zone as they are exposed to personalities and experiences that are new to them. This then motivates them to explore more and engage with those that are different than what they are used to."

As for Tagg, she finds having a diverse staff not only more interesting but challenging as well.

"We have different ideas, backgrounds, experiences, and outlooks on where both risks and opportunities exist," she said. "My world view may be completely different than my teammates', and that is a benefit for our clients as we consider all options for how they can succeed – or to identify where their plan may go off course."

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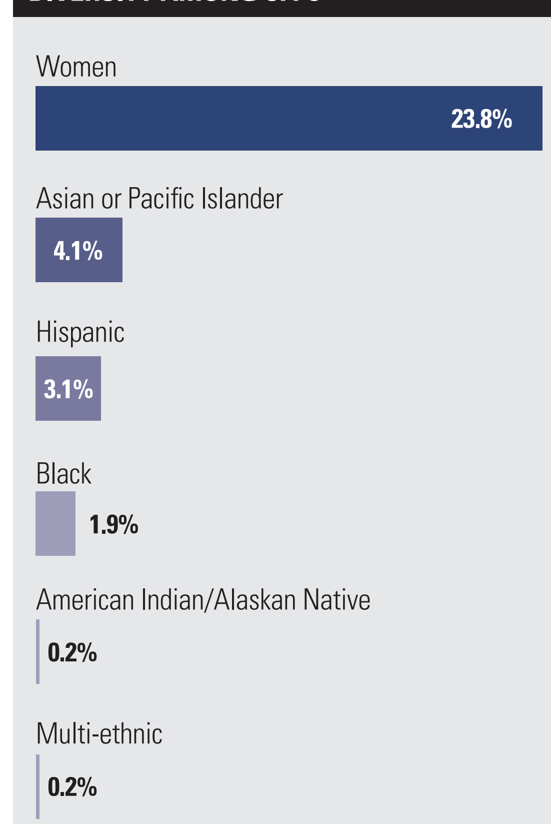
"For us, it is a business case – there is just so much untapped potential in these markets"

DEBRA BRENNAN TAGG, BFS ADVISORY GROUP

DIVERSITY AMONG CFPs



Source: Certified Financial Planner Board of Standards data as of December 31, 2023

BRAXTON ENCOURAGES RIAs TO SEE INVESTING IN DIVERSITY AS A BUSINESS STRATEGY

'If a firm values its human capital, then it will make an investment to make sure that its talent can flourish for the advancement of the bottom line,' says Lazetta Rainey Braxton, co-CEO of 2050 Wealth Partners

BY MARK SCHOEFF JR.

LONG BEFORE diversity, equity, and inclusion became a popular term, Lazetta Rainey Braxton faced a difficult moment involving how welcome people of color feel in the workplace.

She was serving as the first Black vice president of a financial firm in Nashville, Tennessee, about 17 years ago when the firm decided to take on a client who used the N-word in a discussion with firm staffers at his home. The firm warned Braxton about the client's behavior but decided to do business with him.

"That was it for me," said Braxton, who is now co-CEO of 2050 Wealth Partners. "If you allow bias – and this blatant – as accepted for money, then that tells me what your values are as an owner. If that's [where] you choose to stand, then stand on it and let the talent decide if that's where they want to be. You can't have it both ways."

Braxton left the firm, which she declined to name. She went on to found her own firm, Financial Fountains, in 2008. She also became a leader on diversity, equity, and inclusion issues through her work with the Financial Planning Association, as a leader of the Association of African American Financial Advisors and through her own financial planning and consulting businesses.


Downtown & Bronx
Uptown & Bronx 4 5 enter
Enter with or buy Met
or see agent at Fulto

Braxton advocates for DEI – to which she adds a "B" for belonging — without dwelling on the acronym at a time when the topic has become a target of political attacks.

"For me, it's a business strategy," she said. "I use the language of culture because people don't like DEI. It's taboo. If a firm values its human capital, then it will make an investment to make sure that its talent can flourish for the advancement of the bottom line. It often is a strategic decision rather than a tactical one."

When she first started promoting more diversity in the financial advice sector, Braxton illustrated her point using a concept familiar to all advisors — modern portfolio theory. In a 2010 op-ed in *InvestmentNews*, she argued that just as a portfolio needs to have a range of investments, an advisory firm needs a range of advisors on its staff.

"If you don't want to put all your eggs in one basket [in a portfolio], why in the world would the profession want to put all their eggs in white men?" Braxton said.

"The rest is history," she said of her increasing involvement in the DEI movement.

Through her consulting firm, Lazetta & Associates, she works with registered investment advisory firms to help them provide opportunities for advisors of color.

The death of George Floyd at the hands of Minneapolis police officers in 2020 became a touchstone for how society and business – including the advice sector – addressed diversity.

"My stance is to work with those who are earnest about this effort and not going on trends or fads," Braxton said. "There has been more intentionality because of the George Floyd situation. The question is, will they continue to be consistent with their resources and investment in advancing DEI, however they want to package it, even if it's as culture, so that their firms and clients don't look homogeneous?"

While support for DEI surged following Floyd's death, DEI is now coming under political and legal pressure from opponents who claim that college and corporate diversity programs are a form of reverse discrimination.

Advisory firms should meet the challenges facing DEI by "getting back to comfortable because it is not in the news and being courageous because of the lawsuits happening now," Braxton said.

Growing up in South Hill, Virginia, on the state's border with North Carolina, Braxton saw how some residents had more economic freedom than others in a way that often reflected their skin color. Her father was a construction supervisor, and her mother was a nurse. Watching them struggle financially provided Braxton's "why" for pursuing a degree in finance at the University of Virginia and an MBA at Wake Forest University.

Braxton and Rianka R. Dorsainvil merged their firms – Financial Fountains and Your Greatest Contribution, respectively – in 2020 to create 2050 Wealth Partners, a fee-only financial planning and wealth management firm. The 2050 in the name refers to the date when the Census Bureau predicts that groups that were in the

“If you don’t want to put all your eggs in one basket [in a portfolio], why in the world would the profession want to put all their eggs in white men?”

LAZETTA RAINEY BRAXTON, 2050 WEALTH PARTNERS

minority in the United States collectively will become the majority.

“We want wealth to transition along with [the demographic transition],” Braxton said. “The question is, will it?”

Braxton, 50, says she wants to help her clients achieve the financial freedom she had when she left the firm that chose to do business with the client who used the N-word.

“That’s why financial planning is so important to me, so people can own their human capital and their agency to say if they don’t feel aligned with the place where they are working, they have the flexibility – financial, mental, and the like – to get out of there,” Braxton said.

She’s now trying to help create RIAs with cultures where diversity is not just welcomed but seen as a necessity for strong business results.

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DESPITE PROGRESS, MORE DIVERSITY WORK REMAINS

Sometimes women financial advisors attempt to fit in with the boys in a sector dominated by men, as Crystal Cox experienced earlier in her career.

“In hindsight, I realized I was trying to be someone I wasn’t,” she said.

When Cox joined Wealthspire Advisors in 2019, she found a female role model and thrived.

“I was finally comfortable bringing my whole authentic self to work, and that is why I have been so successful,” said Cox, who is a Wealthspire senior vice president.

The Certified Financial Planner Board of Standards reported that the 2023 class of 6,089 new CFPs was its most diverse in history, with women comprising 30 percent, while racially and ethnically diverse CFPs made up 15 percent. But of the 98,875 CFPs in total at the end of last year, women accounted for just 23.8 percent, and racially and ethnically diverse CFPs made up only 9.5 percent.

The progress may be incremental, but Cox said the advice sector is committed to diversity.

“There’s definitely still work to be done,” she said. “But the desire is there.”

NEW RIA CO-OP PLATFORM TARGETS DIVERSITY GAP

The two female advisors behind independent platform explain residency program that aims to ensure talent funnel of diverse candidates

BY JOSH WELSH

When Katrina Soelter and Leighann Miko decided to start up Avise Financial, diversity and inclusion were always top of mind.

"A big push for us was this idea that there tends to be a gap in diversity of client base, diversity of advisors, and diversity of associate help," Miko says.

"We wanted to create a platform where not only advisors could come to work with the types of clients that maybe look like them, come from their communities, need help, or don't fit the traditional mold of what the ideal client looks like," she says. "There's a big issue in terms of diversity of people within the industry. It's very older, white, male-dominated, and that tends to trickle down to the employees as well."

Their solution was Avise, a virtual platform that streamlines back-end business administration – everything from compliance, billing, performance-reporting software, basic tech stack, and transition support – so advisors can better support clients and diversify their impact, all while retaining full ownership of their firm.

To remedy that gap in diversity, Soelter and Miko decided to incorporate a residency program in Avise's first year of operation to help improve diversity and capacity in the industry.

With the residency program, they hope to partner with organizations like the BLX Internship Program for Black and Latinx planners, sponsored by the National Association of Personal Financial Advisors, that would include a talent funnel of diverse candidates to apply for the residency positions. This would, as Miko says, "create that base layer of experience to allow them to become an advisor in their own right, work for one of the advisors on the platform, or take the first few years of experience and take it to the open market."

As a queer white woman, the idea of diversity and inclusion is incredibly close to Miko's heart. While she recognizes that she has experienced certain privileges, there have also been numerous hardships she's had to overcome in terms of being part of the LGBTQ community and how she navigates spaces.

"Part of why we wanted to partner with BLX Internship Program is because we are bringing more diversity into the profession, by way of the residency program," she says. "We are training them from literally no experience, up to three to four years of experience, to get them into the industry."

One of the bigger obstacles the wealth management industry faces, Miko adds, along with many other industries, is retaining talent. If new advisors are in their first few years and they've struggled to land a first job or a position at a firm where their values align, they're more likely to say goodbye to the profession.

"The reason we chose the co-op model is because we're not looking at this as like a massive profit center; we're looking at this as a community of like-minded people who want to do good in this industry" Leighann Miko, Avise Financial

"We want to take that friction and remove it a little bit by creating opportunities for people to stay in the industry," she says.

FOCUS ON BEING FEE-ONLY

The reason to go independent, Soelter says, was that they wanted to incorporate the platform as fee-only. "That is not as possible in some of those other spaces," she says. "In the independent space, being able to maintain that fee-only standard is critical to getting the message across to consumers of how they're working with an advisor and how that advisor is getting paid.

"That transparency is important to create the level of trust that they're getting, the quality of service, and where that payment is going and coming from helps create a sense of trust with the client and with the consumer from the advisor side," she adds.

The independent model also allows for the ownership of the advisors' client base and the business that they're building. "They're able to really run the practice the way they want to run it… We wanted that flexibility for advisors to create the brand, and the practice that fits their client," Soelter says.

"Independence makes a big difference for advisors," Miko agrees. "There's a need, and there's definitely a desire for advisors to go independent, and we really want to support that."

Users of Avise become member-owners who are afforded one vote each, creating an equal playing field and allowing Avise to harness the ingenuity of all advisors, regardless of their AUM or size.

"Things like whether or not there's ever an attempt at a sale, for example, [are] not the same kind of issue, because all of the member advisors have a vote as to whether anything like that would happen, so there's control back into the hands of the advisors themselves as to how the entity is run," Soelter says.

In addition, the community of like-minded advisors on the Avise platform will create inherent partnership and succession opportunities.

"They can really get the focus back to where they want to be with clients, while still maintaining their own independence and being able to do

KATRINA SOELTER AND LEIGHANN MIKO

KATRINA SOELTER AND LEIGHANN MIKO

their own branding and brand development," says Soelter. "They can work with what client niche they want, what marketing they want. They can have a lot of autonomy about how they're running their practice and client service."

The final factor about operating as a co-op, Soelter adds, is that every advisor who's a member is eligible to receive a dividend when the company does well. "It's called a patronage dividend, so the net profit of a co-op gets distributed back to its members… Instead of net profit going back to inherent corporate owners, it goes back to the advisors and members of the co-op itself."

The platform's tech stack includes AdvicePay, Advyzon, MessageWatcher, WealthBox, and PreciseFP, and it is using Schwab and Altruist as custodians. But Miko and Soelter say they are considering other fintech and custodial arrangements as well.

REVENUE CONSIDERATIONS

Soelter said a focus on revenue provided another reason for starting the co-op. After all, options for maintaining and keeping client revenue are diminishing, while most RIA aggregators are paying up to 35 percent on client revenue splits.

"Do we really need to have profit margins of 35 to 40 percent inside of RIAs? Probably not," says Soelter. "If your advisor is keeping 75 or 85 percent of that dollar a client is paying, they can structure their offering to a much wider and more diverse client base, which gives us the ability to provide good financial-planning quality to a much wider audience."

That was the ultimate driver of why Soetler and Miko started the platform. There needs to be a different conversation, Soelter adds, about wealth, financial support, and what it looks like to grow wealth as an individual in the US.

"Advisors can play a critical role in this, but not if their minimum is $2 million, and they're not going to be able to lower that if they're only keeping 30 percent of it."

Advisors who are interested in joining Avise's venture should take note of a few things: Avise is a fee-only RIA, there's a very thorough vetting process involved, and advisors who want to join ideally should be certified financial planners, though there are some exceptions. Advisors should also be "truly interested in a shared-services model where they're looking to join something and build a community out of it as well," Miko says.

As for what's planned for Avise's future, Miko and Soelter onboarded their first client, David Tassone, principal at Solidi Wealth Advisors. Their three-to-six-month goal is to "take everything we learned from that experience, and make sure all of

"If your advisor is keeping 75 or 85 percent of that dollar a client is paying, they can structure their offering to a much wider and more diverse client base"

Katrina Soelter, Avise Financial

our systems are a go for our next one," Soelter says.

Of course, that can't happen without other advisors knowing about them.

"We're new, we're young, we're fresh, and we're hoping that lots of people start talking about us," Soelter adds. "By year end, our hope is to have between three and five advisors on the platform and be launching our residency program."

"The platform truly exists for the benefit of the advisor," Miko says. "The reason we chose the co-op model is because we're not looking at this as like a massive profit center; we're looking at this as a community of like-minded people who want to do good in this industry.

"If you want to be part of something that is bigger than yourself, that is looking to give back, that is looking to create an impact in this industry, then Avise truly is for you," she adds. "We really want to partner with like-minded advisors who see the good that we can accomplish together."

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HELPING ADVISORS BUILD THEIR BUSINESSES

A combination of obsessive entrepreneurial spirit and a roller-coaster learning curve led William Huston to a unique niche within financial services

BY EMILY DOUGLAS

You could say a crisis led William Huston to become an entrepreneur. At 19, he decided to open online telemarketing centers in the Philippines after reading *The 4-Hour Work Week*. His father had just been admitted for a fourth major surgery, and it just so happened that in Georgia, students who took a year off to work could qualify for in-state tuition. Being from Alabama and knowing full well that his brother and sister would be going to college right after him, Huston figured it was worth the year's break to save on the tuition.

Turns out the federal government's retirement benefits were managed out of the state, and Huston found himself calling for major insurance companies like New York Life, MetLife, and Mass Mutual.

In 2017, New York Life asked him to support one of the investments it had made into a startup that provided "robo-advice." Huston assigned eight telemarketers to help the startup scale, only to find the following year that the startup had reached $500 million in AUM and raised more than $20 million in funding.

Huston couldn't believe it. Up to that point, he had no idea how effective his team was for clients.

"I got paid about a hundred grand on that deal. They likely walked away with $3 million or so in annually recurring revenue," he says. "The very next question I asked myself was, 'How much does it cost to start an investment firm?' And that's how Bay Street [Capital Holdings] was born.

"I thought we'd scale around the same pace as some of the clients our team supported back in the day, but we tried a whole bunch of stuff that just didn't work."

"I would say more than anything, compared to our peers, Bay Street is more like a sophisticated marketing company that just so happens to be in financial services," Huston adds. "For every 1 million impressions, we get about 25,000 clicks a month, and about 100 meeting requests. From there, our call center qualifies the leads and schedules them for our advisors. For us, we're just relying on the law of large numbers to build our business. We know for every 1 million impressions, we can expect $1 to $2 million in new AUM."

> **"Running an RIA requires a different skill set than being a good investor. Often, those two skill sets don't overlap"**
>
> William Huston, Bay Street Capital Holdings

It's at this intersection between financial planning and market advertising that Bay Street found its niche. Most of its marketing and branding is done out of Africa, El Salvador, and the Philippines, and Huston says those teams are perfectly poised to help investors in the current environment.

"There are tons of roll-ups happening," he says. "I think that's the way the industry will continue to trend because it's super competitive, and most small firms just can't compete or scale. Running an RIA requires a different skill set than being a good investor. Often, those two skill sets don't overlap. And when they do, it is even more rare to find someone who is also an excellent marketer."

Huston stopped short of providing blanket advice to all advisors, but did suggest that Black-owned RIAs trust the data. Black founders got only 0.48 percent of all venture dollars in 2023, about $661 million out of $136 billion, the lowest portion in recent years.

"My controversial advice, based on 20 years of building businesses, to both Black entrepreneurs and Black fund managers, is to stop relying on money from VCs and institutions based in or biased to the US," Huston says. "Ignoring the harsh reality around these statistics or having a bit of hubris and attempting to be the exception will likely be a big waste of your time. Most importantly, don't give up."

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News**Analysis**

ALT MANAGERS' PUSH TO ADVISORS HITS RESISTANCE AT SOME B-Ds

'When I got here in 2016, I had no idea who the alternative investment sponsors were,' says Jamie Price of Osaic

BY BRUCE KELLY

Large institutional asset managers are pursuing retail financial advisors to make the sale of alternative investments more mainstream.

But alternative investments make some financial advisors and their clients nervous. Typically more expensive than plain vanilla stock and bond mutual funds and exchange-traded funds, they are at times volatile, potentially sensitive to swings in interest rates and sharp movements in the stock and bond markets.

"I think we used to be a little more aggressive than we are today. We're still not where the regulators want us to be, which is, don't sell [alternative investments] at all"

SETH MILLER, CAMBRIDGE INVESTMENT RESEARCH

Case in point: for more than a year, investors have been pulling their money from non-traded real estate investment trusts and, most notably, from the industry's biggest player, the $61 billion Blackstone Real Estate Income Trust.

Blackstone and other large money managers spent decades ignoring independent brokers and registered investment advisors, who typically work with less wealthy clients than wirehouses, private banks, and family offices.

Blackstone launched its non-traded REIT in 2016, a time when some large public pension funds were shunning alternative investments because of the high expenses and a steady number of financial advisors were leaving the wirehouses to work as independent advisors, a situation in which advisors can earn a bigger piece of the revenue they create than at the wirehouse.

But independent broker-dealers may not be embracing the alternative asset managers as fully as some had hoped. Sales of non-traded REITs slowed precipitously last year in the wake of investors pulling money from the Blackstone REIT. And some broker-dealers executives, burned in the past by volatile alternative investments, are eyeing the asset class as a whole with caution.

At an industry meeting last month, three senior executives at large independent broker-dealers, including giants Osaic and Cambridge Investment Research, expressed concerns about financial advisors selling alternative investments.

Executives said their firms had pulled back from selling such products.

"We stopped selling alts in 2019 and have not had any litigations since," said a senior executive at a large firm who spoke privately to *InvestmentNews* about the matter at the Financial Service Institute's annual meeting, OneVoice, in Orlando, Florida.

At Osaic, formerly Advisor Group, sales of alternative investments peaked close to a decade ago, when they made up close to 10 percent of the firm's revenue, Osaic CEO Jamie Price said in an interview on the sidelines at OneVoice. Now the portion of revenue from alts is close to 2.5 percent, Price said, "and it's better alternative managers."

"We probably have pulled back a little bit" from alternative investments, Seth Miller, general counsel, Cambridge Investment Research, said on a panel about alternative investments. "I think we used to be a little more aggressive than we are today. We're still not where the regulators want us to be, which is, don't sell [alternative investments] at all."

The product sponsors and asset managers aren't about to slow their efforts to market more product to broker-dealers, which provide a gateway to tens of thousands of financial advisors. And some big firms, including Blackstone, are adding new alternative investment products to their quiver.

In January, Blackstone said a new fund for wealthy clients that focuses on private equity, Blackstone Private Equity Strategies Fund, had raised $1.3 billion, a staggering amount for a new fund.

Osaic's Price is a wirehouse veteran, having worked in various roles at UBS between 2002 and 2010, including a stint as head of wealth manage-

ment for its Advisor Group Americas. In 2016, he took over as CEO of Advisor Group, which rebranded as Osaic last year.

In his experience, the alternative investment managers selling their products through independent broker-dealers have improved and become more sophisticated over the past eight years.

"When I got here in 2016, I had no idea who the alternative investment sponsors were," Price said. "I didn't know any of their names. At UBS, we did alts, but we did them with KKR and Blackstone. I think there was a whole [alternative investment] industry preying on the independent [broker-dealer] industry.

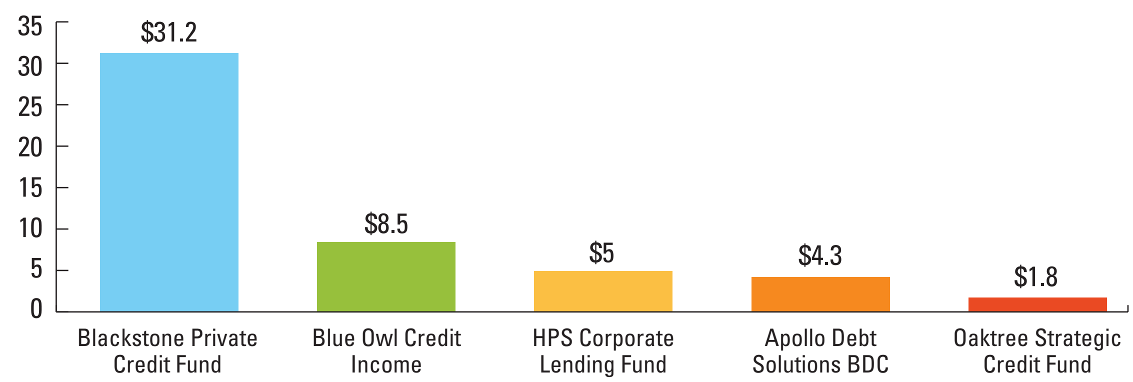
"We never would have put some of those companies on our platform at UBS," he said. "They would never have made it through.

"And so [Advisor Group] took the alts shelf way down, and now we've built it back up using platforms like CAIS," Price added. "Or take, for example, Blackstone, which is one of our largest alts platforms. We're not working with no-name sponsors."

At Cambridge Investment Research, Miller said that the firm's staff and attorneys are still working in the shadow of a small alternatives fund, the LJM Preservation & Growth Fund, that blew up in 2018. The firm eventually settled with the Financial Industry Regulatory Authority and paid fines and

TOP 5 NON-LISTED BUSINESS DEVELOPMENT COMPANIES

BDCs ranked by total sales through November 30 (billions)



Source: Robert A. Stanger & Co.

"I think there was a whole [alternative investment] industry preying on the independent [broker-dealer] industry"

JAMIE PRICE, OSAIC

restitution to clients of $3.5 million, according to its BrokerCheck report.

"This brought to the forefront how many financial professionals were using these products and didn't really know that much about them," Miller said, noting that Cambridge put certain education requirements in place and also changed how it monitored sales.

Financial advisors didn't like that, he said.

"Talk about people screaming and yelling," Miller said, adding that advisors at Cambridge complained that the changes weren't fair.

"We got a better understanding of how they were using these products, and I think they became a lot more educated on how complex they really were," he added.

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FPA, CFP BOARD DIVERGE ON DOL INVESTMENT ADVICE PROPOSAL

While the CFP Board supports the proposal, the FPA has expressed concerns about the DOL rule potentially raising compliance costs for members, increasing the cost of advice and reducing access to advice for some

BY MARK SCHOEFF JR.

If the Financial Planning Coalition were still standing, it would have wobbled over the Department of Labor's latest investment-advice proposal.

The coalition of three industry organizations dissolved in 2022 when the Financial Planning Association departed after announcing that it would launch an effort to achieve legal recognition for the term "financial planner," which could require state regulation.

That put the FPA at odds with another member of the FPC, the Certified Financial Planner Board of Standards. The CFP Board opposes state regulation of financial planners. The third member of the coalition was the National Association of Personal Financial Advisors.

Although the FPA and the CFP Board both have at their hearts the CFP credential – the FPA is a 15,000-member organization for CFPs, and the CFP Board sets and enforces standards related to the mark – they don't always stand shoulder to shoulder on issues affecting CFPs.

The latest example of an arm's-length distance between the two groups involves the DOL proposal, which would impose the fiduciary duty contained in federal retirement law on most financial advisors and insurance agents making investment recommendations to retirement plans, plan participants and customers, and clients in individual retirement accounts. The DOL's goal is to reduce advisors' conflicts of interest that can lead to high fees that erode their nest eggs.

The CFP Board supports the proposal, saying retirement investors deserve a fiduciary standard of care at a time when retirement saving is becoming increasingly complex. The CFP mark comes with its own fiduciary requirements.

"CFP Board urges the Department to move forward expeditiously with a final rule that is designed to protect retirement investors," Leo Rydzewski, CFP Board general counsel, wrote in a January 2 comment letter.

FPA CONCERNS

The FPA encouraged the DOL to slow down in its comment letter. The organization expressed concerns about the DOL rule potentially raising compliance costs for its members, increasing the cost

"CFP Board remains steadfast in our continued advocacy for all financial advice being delivered at a fiduciary standard"

KEVIN KELLER, CFP BOARD

KANE PROMOTES FINANCIAL LITERACY, FPA COHESIVENESS

Trying to achieve legal protection for the title of "financial planner" is likely to be at the top of the Financial Planning Association's priority list for several years. In addition to that effort, the group's president, Claudia Cypher Kane, is adding a push for financial literacy and promoting FPA cohesion during her one-year term that began in January. Kane wants the FPA to be at the forefront of advocating for states to include financial literacy courses in high school curricula. "The kids need to be educated, and the parents need to be educated to educate the kids," said Kane, an advisor at Beacon Wealth Strategies. She also wants to strengthen the relationship between FPA state chapters and its corporate leadership. "We're one team," she said.

of advice and reducing access to advice for some retirement savers – an argument that echoes criticisms made by financial industry opponents of the DOL proposal.

"The proposed rule makes a number of changes to the current regulatory framework that will require significantly more time for meaningful analysis and comment, and to understand how this proposal would impact financial planners and retirement savers, alike," FPA CEO Patrick Mahoney wrote in a January 2 comment letter.

FPA president Claudia Cypher Kane said the FPA is trying to get a better understanding of what the DOL wants to accomplish and how.

"I wouldn't say we're for. I wouldn't say we're against. I wouldn't say we're ambivalent," said Kane, an advisor at Beacon Wealth Strategies. "I would just say we're neutral at this point in time, just hoping for more clarity and hoping for more time."

There's no waffling about the DOL proposal from the CFP Board, which says it has supported such a measure for years. A similar Obama administration rule was vacated in 2018 in a federal appeals court.

"While the coalition no longer exists, CFP Board remains steadfast in our continued advocacy for all financial advice being delivered at a fiduciary standard," CFP Board CEO Kevin Keller said. "We've been consistent for more than a decade in support of the DOL expanding the definition of fiduciary."

"I wouldn't say we're for. I wouldn't say we're against. I wouldn't say we're ambivalent. I would just say we're neutral at this point in time, just hoping for more clarity and hoping for more time"

CLAUDIA CYPHER KANE, FPA

Kane said she hadn't read the CFP Board's comment letter and deferred to FPA staff regarding differences between the groups on the DOL proposal. An FPA spokesperson did not respond to two requests for comment.

TITLE PROTECTION INITIATIVE

The other point of tension between the FPA and the CFP Board – the title protection initiative – may linger for a while. The effort could take up to a decade rather than the two or three years that were originally envisioned to conclude the project, Kane said.

"I don't think we realized how long it was going to take," she said. "We haven't even begun to define what we're looking for. But we're going to keep putting one foot in front of the other, keep talking to people, keep building relationships with other stakeholders so that we successfully move it forward. The key thing is we want to establish financial planning as a true profession."

The CFP Board and the FPA likely will continue to agree to disagree over the FPA's approach to title protection, particularly if it goes through state legislatures. But that doesn't mean the groups are hostile toward each other, Keller said.

"We have a good working relationship," Keller said. "CEOs talk on a regular basis. The [CFP Board] chair and [the FPA] president talk on a regular basis. We both want to advance the financial planning profession. Eighty-five to 90 percent of the time, we agree on how to do that. This might be one of those times where we might have a little bit different view on how to do that."

CFP Board chair Matthew Boersen, managing partner at Straight Path Wealth Management, added: "It doesn't exclude us from working together on a variety of other issues."

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SUSTAINABLE FUNDS

GREEN FUNDS WERE IN THE RED IN 2023

Sustainable investing saw headwinds last year as investors pulled out of funds, but performance recovered from a rough 2022

BY EMILE HALLEZ

Last year was a difficult one for sustainable funds in the US.

It was the first time in a decade that money flowed out of mutual funds and exchange-traded funds with sustainability mandates. Many of the products also slightly lagged the returns on comparable funds that don't use ESG considerations. And as numerous Republican politicians sought to clamp down on using environmental, social, and governance factors in investing, some of the largest asset managers have backed off from supporting shareholder resolutions that they might have supported in the past.

But, as with most things in life, there is nuance.

In 2023, sustainable funds as a broad category showed minor underperformance relative to conventional funds, or those that don't take ESG into account, data from Morningstar show. But the category also saw a big turnaround from its performance problems in 2022, which had stemmed from a lack of energy sector holdings – in 2023, the absence of energy securities actually helped their returns, as did an overweighting in tech companies. And sustainable funds didn't underperform across all asset classes.

While 53 percent of US sustainable funds in 2023 ranked in the bottom half of performance compared with all other funds, results were worse for sustainable equity funds, with 57 percent in the bottom half, but better for sustainable fixed-income funds, with 51 percent in the top half, the recent data from Morningstar show.

Equity funds, particularly those with a focus on clean energy, were hit hardest last year, said Alyssa Stankiewicz, associate director of sustainability research at Morningstar Manager Research. However, sustainable funds in the company's large-blend category slightly outperformed peers, with a median annual return of 24.4 percent versus 23.9 percent, respectively, she noted.

"Some of the headwinds have to do with high interest rates making it harder to build out new clean energy facilities and plants. That [trend] doesn't seem to be going anywhere," Stankiewicz said.

Another thing to consider is that sustainable funds tend to invest for the long haul. It's worth noting, for example, that projections show global renewable energy tripling in capacity by 2030 amid governmental incentives for solar, wind, and other projects, she said. And while past returns certainly don't guarantee future ones, it can be helpful to look at performance over time.

"The performance thesis behind a lot of sustainable funds are long-term trends," Stankiewicz said. "Over the five-year [timeframe], trailing, these sustainable funds are outperforming their conventional peers."

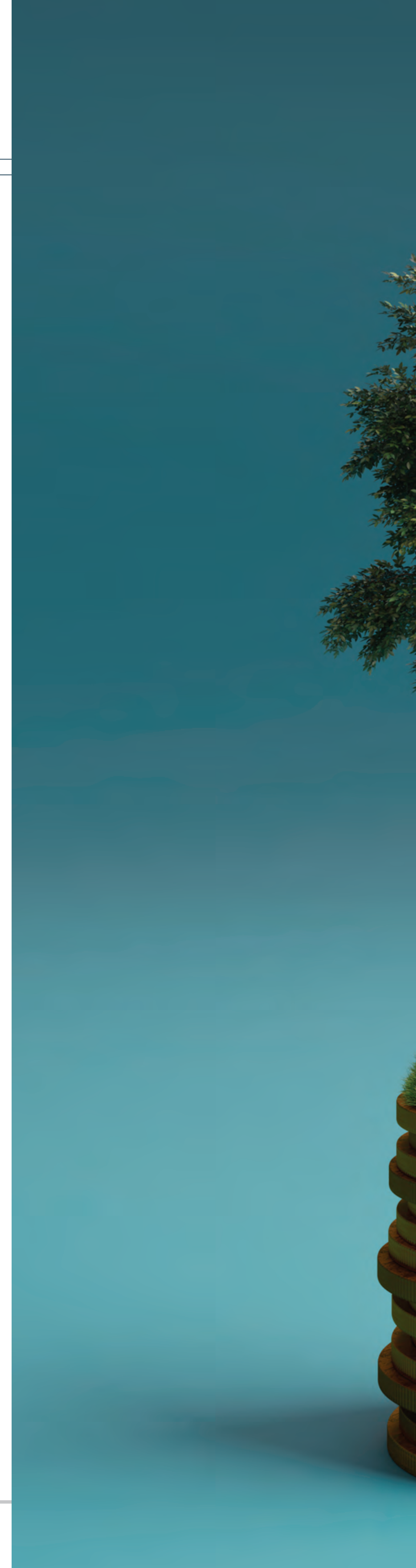
Just as with any type of investing, sustainable funds have periods of outperformance and under-performance, she noted. "They're not immune to macroeconomic factors."

NET REDEMPTIONS

While sustainable fund sales ramped up sharply between 2018 and 2021 – reaching a high of about $70 billion – inflows cooled in 2022. Last year, the funds saw their first net negative year, with investors pulling their money from both active and passive strategies to the tune of $13 billion, according to Morningstar. Sustainable equity funds were the ones showing outflows, while sustainable bond funds were slightly positive in overall sales.

Vanguard brought in more new money than anyone, at $1.3 billion in net sales.

"Vanguard rose to the top this year," Stankiewicz said. "Vanguard is interesting because they only have seven funds in the US sustainable funds land-scape – but they charge low fees and have been very



“Some of the headwinds have to do with high interest rates making it harder to build out new clean energy facilities and plants”

ALYSSA STANKIEWICZ, MORNINGSTAR MANAGER RESEARCH

successful in collecting flows.”

The redemptions last year were highlighted by one ETF – the iShares ESG Aware MSCI USA ETF, which bled $9.3 billion, the Morningstar data show. That dragged BlackRock’s net outflows in sustainable funds down to $8.7 billion, making it the provider that lost the most in the category. Even so, three of the four top sellers last year were iShares ETFs, with the Climate Conscious & Transition MSCI USA ETF bringing in nearly $1.6 billion. And with a total of $59.2 billion in sustainable fund assets, BlackRock remains the biggest provider of such funds, ahead of Parnassus’ $39.3 billion.

While the wider universe of US mutual funds and ETFs brought in $79 billion last year, that group bled $370 billion in 2022.

However, the pictures for 2023 and past years are incomplete, as it’s somewhat common for large asset owners to switch from mutual funds to otherwise identical collective investment trust versions of products that asset managers offer. CIT assets do not have to be reported, but asset managers often share figures with Morningstar and other data providers.

THE TRUE BELIEVERS

Institutional investors have been less aggressive about pulling assets from sustainable funds than retail investors, suggesting that institutions view some of the recent performance lags as temporary.

“I have a hard time thinking that the withdrawals we’re seeing are coming from high-conviction investors,” Stankiewicz said.

Data provided by Morningstar Direct show that institutional investors added $284 million to sustainable

SectorFocus

funds and ETFs last year, while retail investors pulled about $13 billion. By comparison, institutions had added $21 billion in 2021, and retail investors bought $49.7 billion in fund shares at the time.

Of course, funds are just one way of investing sustainably. Increasingly, advisors have used direct indexing, which lets clients fine-tune their exposures to companies or industries.

"Not relying so much on funds and what other fund managers have deemed as sustainable or ESG, we're customizing that a little bit more so the client can express it in their preferences," said Kevin Cheeks, founder of ImpactFi, which specializes in sustainable and impact investing.

Using direct indexing to minimize tracking error to the benchmark, the S&P 500, his firm avoided the slight performance issues that sustainable funds and ETFs as category saw last year, he said.

He's also adding a service to provide customized proxy voting for clients who are invested through direct indexing, through the iconik proxy voting platform.

"People are pretty excited about it," Cheeks said.

Sustainable investing has gotten a lot of negative attention, with numerous pieces of legislation flooding state governments and Congress. Since 2021, Republicans in 38 states have introduced 318 bills that targeted ESG or sustainable investing, according to figures from consulting firm Pleiades Strategy.

"After three years of coordinated effort, 37 bills in 17 states are now law, most watered down from their original scope due to strong opposition from business, labor, financial officers, and environmental advocates," that group wrote in a recent report.

While politicians have been outspoken in their opposition to ESG in investing – and, increasingly, diversity, equity, and inclusion – clients who favor sustainable strategies have remained committed, Cheeks said.

"I always remind myself how lucky I am to have such great clients," he said.

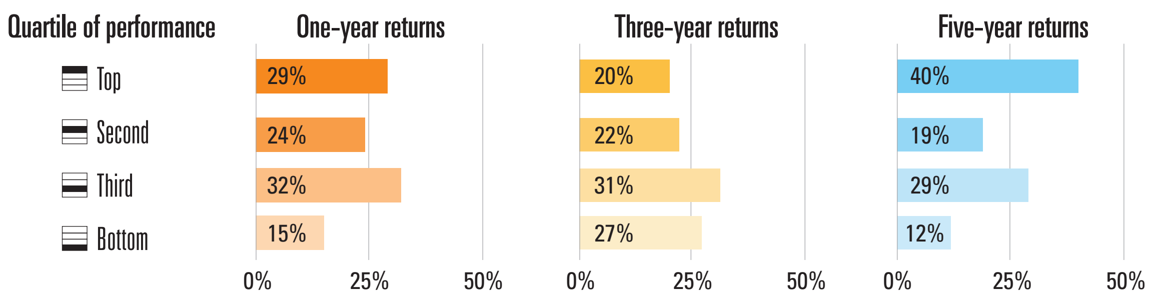
ehallez@investmentnews.com

"Not relying so much on funds and what other fund managers have deemed as sustainable or ESG, we're customizing that a little bit more so the client can express it in their preferences"

KEVIN CHEEKS, IMPACTFI

COMPARING SUSTAINABLE FUND RETURNS TO PEERS

Percentage of US large blend funds in each quartile, by performance



Source: Morningstar

Column

Helping clients prepare for a gray divorce

Dear Gabby,
My clients just informed me that they are getting divorced. They are in their 60s and concerned about how this will affect their financial goals. They want to continue to work with me when the divorce is over. What can I do to help them through the process?
Ken, New York

DEARGABBY
GABRIELLE CLEMENS

Dear Ken,
Divorce is difficult to navigate at any age, but the financial impact can be far greater if the separation involves couples over age 50, commonly referred to as "gray divorce." Uncoupling at this age typically involves greater assets, complicated tax and estate planning issues, and an uncertain financial future for both parties and their family.

Working with clients through the divorce process requires understanding the issues they're facing at their stage of life. To be helpful, you must focus on the financial needs of the parties while providing ethical advice and services that treat them both fairly. During this challenging process, which can last years, you can be there for them as a trusted advisor to help usher them into their new, financially secure post-divorce life through thoughtful and comprehensive financial planning.

With less time to rebuild their nest egg, weather volatile markets, or work longer, older couples are at financial risk and need expert advice

DIVORCE FINANCIAL PLANNING CHECKLIST

The first step in helping your clients through their divorce is to aid them with organizing their legal and financial information and documents. Recommend that they build a binder or subscribe to an online digital file management service such as Dropbox to gather, manage, update, and share the following documents with their attorneys quickly and easily:

- marriage certificate
- prenuptial/postnuptial agreements
- federal and state tax returns for at least the last three years
- W-2s, 1099s, and recent pay stubs
- Social Security benefit statements (www.ssa.gov)
- real estate documents, such as mortgage, taxes, deeds, and appraisals, including those for rental property
- business, partnership, and corporate documents: tax returns, payroll information, and registrations, including LLCs, C corps, S corps, and partnership agreements
- intellectual property: patent and trademark registrations and royalties
- estate planning documents: trusts, wills including codicils, powers of attorney, advance health-care directives
- financial statements (e.g., bank, brokerage, investment, digital assets, IRA, 401(k) and Roth accounts, health savings accounts, 529s, private equity
- credit cards: statements and annual summaries
- life, health, and long-term-care insurance policies
- insurance: homeowners, auto, personal liability insurance policies
- consumer loans: automobile, boat, student, and personal (family) loans
- credit reports from all three credit bureaus (Equifax, Experian, and TransUnion)
- annual personal online expenses: Amazon, Uber, Venmo, Zelle, PayPal, DoorDash, Instacart, etc.

Couples facing divorce are under a great deal of strain and need support. Gray divorce can significantly reduce a family's wealth and risk the financial future of the next generation. With less time to rebuild their nest egg, weather volatile markets, or work longer, older couples are at financial risk and need expert advice. If you can see the global condition of your clients' lives and serve them with integrity, you will be well positioned to continue to work with them individually post-divorce. If you're not a divorce financial expert, hire a certified divorce financial analyst or CPA with an expertise in divorce.

Dear Gabby,
My client is a stay-at-home mom and has not worked since her kids were born. She and her ex-wife were married for 14 years. While her ex-wife contributed to Social Security for years, my client has not, and she's now concerned about being able to retire. Is my client entitled to collect a benefit from Social Security?
Sara, North Carolina

Dear Sara,
Yes. Your client is entitled to receive either 100 percent of her Social Security benefit based on her record or 50 percent of her ex-wife's Social Security benefit, whichever is higher, not both, if:

- her ex-wife is eligible to receive Social Security benefits
- the marriage lasted 10 years or longer
- they have been divorced for at least two continuous years
- your client is unmarried
- your client is age 62 or older
- your client's benefit is less than her ex-wife's

Your client can apply online at www.ssa.gov/apply. Among other documents, she will need her marriage certificate and final divorce decree to apply. Keep in mind that your client's ex-wife will not receive a reduced benefit if your client files a claim based on her record – she will still get her full amount. Win-win!

Gabrielle Clemens is an expert on divorce financial planning and author of Marriage is about Love, Divorce Is about Money.

INDIVIDUAL RETIREMENT ACCOUNTS

High stock values and layoffs combine for big tax breaks on company stock

As stock values continue to rise to record levels, unfortunately so do layoffs.

IRAALERT
ED SLOTT

In 2023, more than 260,000 tech employees were let go, according to layoffs.fyi, a site that tracks job cuts. That includes workers at Google, Amazon, and Microsoft, some of the world's most valuable companies.

Citi recently announced plans to eliminate 20,000 jobs, or roughly 10 percent of its workforce. Macy's is cutting more than 2,000 jobs. UPS just announced 12,000 layoffs, and even the venerable *Sports Illustrated* has just wiped out most of its company employees – does that mean no swimsuit issue this year?

Layoffs mean rollover opportunities. Advisors will need to get up to speed on how to guide these employees on their plan distribution options. A good chunk of these people are likely to have large 401(k) balances representing a significant portion of their net worth.

In addition, there are new Department of Labor fiduciary rules that focus on advice given on rolling assets over to individual retirement accounts. Advisors will need to know which options are best for their clients, and the stakes are high because some of these choices are irrevocable.

COMPANY STOCK OPPORTUNITIES

Increased stock values mean more appreciation on company stock held in 401(k) plans. This presents an opportunity for laid-off employees to consider taking a lump-sum distribution to capitalize on the net unrealized appreciation, or NUA, tax break on company stock held in their 401(k)s.

The NUA tax break allows company stock to be withdrawn from the plan as part of a qualifying lump-sum distribution and have its appreciation at distribution taxed at long-term capital gains rates when the stock is sold, rather than as ordinary income – even if the stock hasn't been held for more than one year. (Any appreciation from distribution date to date of sale is taxed as ordinary income if not held for at least one year.)

If the funds were simply rolled over to an IRA, the NUA tax break would be irrevocably lost, and eventual distributions from the IRA would be taxed at ordinary income tax rates. This is why it's so important for advisors to identify NUA candidates and evaluate that option before opting for the more common IRA rollover.

WHO QUALIFIES FOR NUA TAX BREAK?

Ask these two questions:

1. Does the client have company stock in their 401(k)?
2. Has the stock's value appreciated a great deal from the original cost

of the shares when they were purchased in the plan?

If the answer to the two questions is "yes," the employee is a good candidate for the NUA tax break.

HOW DO THEY QUALIFY?

First, there must be a triggering event, like a layoff, retirement, or other separation from service. (Other triggering events include reaching age 59½; disability, but only for the self-employed; or death. So even some employees who weren't let go might qualify under these events.)

Second, the distribution must be part of a qualifying lump-sum distribution, where all the plan assets are distributed in one calendar year after the job loss or other triggering event. It does not have to be the same calendar year as the triggering event. It can be any calendar year after that, as long as all the plan funds are distributed in that year.

EXAMPLE OF HOW NUA WORKS

John, age 62, is a tech employee who has just been let go from XYZ Tech Corp. in the recent wave of layoffs. His 401(k) balance is $1 million, but $800,000 of that balance is held in XYZ company stock. The original cost of those shares over the years was only $100,000, but the stock gains over the last decade have resulted in significant appreciation. John is a prime candidate for taking a lump-sum distribution and using the NUA tax break. The NUA here is $700,000, which is the difference between the $800,000 market value today and the $100,000 basis in the plan.

Since the tax break applies only to the XYZ company stock, John can first roll over the $200,000 non-company assets in the plan to an IRA as a tax-free rollover. That will leave only the $800,000 of company stock. That $800,000 (of which $700,000 is NUA) can be distributed to a regular brokerage account (not to an IRA). Upon distribution, John will pay ordinary income tax on only the $100,000 cost. (If John were under age 55, he could also be subject to a 10 percent early withdrawal penalty, but only on the $100,000 cost.)

The stock in the brokerage account can be withdrawn at any time. In fact, if it's never withdrawn during John's lifetime, his beneficiary may also qualify for the NUA break. (Although NUA never receives a step-up in basis, there would be a step-up on any lifetime appreciation after the date of the distribution from the plan.) Whenever the NUA stock is sold, it will qualify for the favorable long-term capital gain rates. That can be a big tax break, given the high appreciation in this example.

This is a simplified example showing the mechanics of the NUA tax break. In this example, all the NUA stock was withdrawn, but clients can choose to withdraw part or none at all and roll the stock to an IRA (but then the tax break is lost). However, the more dollars that are dedicated to the NUA break, the fewer plan funds will be going to the IRA, thereby lowering future required minimum distributions.

Advisors will first want to see how much appreciation there is before advising on the lump-sum distribution. Obviously, this tax break is best when appreciation is the highest, but given today's stock values, that may be right now.

It's important for advisors to identify NUA candidates and evaluate that option before opting for the more common IRA rollover

Now, early in the year, is the time to start planning the NUA transaction, since it can take time to implement.

Layoffs can be crushing, so why not show clients this silver lining. The idea of turning a job loss into a big tax break may help soften the blow.

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

Industry

BofA cuts CEO pay following 2023 profit decline

BRIAN MOYNIHAN'S total compensation as chief executive of Bank of America declined 3 percent to $29 million for 2023, a year in which the bank's profit fell and its shares performed the worst among its biggest rivals.

The board granted Moynihan $1.5 million in salary and $27.5 million in stock-based incentive awards, the lender said in a filing. A year ago, Moynihan's compensation was cut 6.3 percent to $30 million after earnings tumbled and the shares sank.

Moynihan's pay cut follows a year of turmoil at several smaller lenders after rising interest rates eroded the value of their debt investments. The climb in rates also became a drag for Bank of America, which had piled into long-dated Treasuries and mortgage bonds when rates were lower.

Raymond James ramps up advisor support with paraplanning service

RAYMOND JAMES has taken a significant step forward to bolster advisors' ability to deliver comprehensive planning with the addition of a new paraplanning services offering, which will provide advisors with on-demand, in-house support from experienced paraplanning professionals.

The service is designed to assist advisors in leveraging the firm's goal planning and monitoring software tool to create detailed financial plans for clients.

"Raymond James was founded on the belief that clients deserve advice that considers their entire financial picture, and that principle is still at our core today," Frank McAleer, senior vice president of wealth planning at Raymond James, said in a statement.

FOCUS

On a mission to make the advisory industry more female-friendly

SOME CHILDREN connect with their fathers over a shared interest in cars or baseball. For Cary Carbonaro, director of women and wealth services at Advisors Capital Management, it was money.

Carbonaro's dad, a banker at JPMorgan Chase, taught her about financial literacy from an early age. After graduating from college, she followed in her father's footsteps and joined his old firm as she embarked on her career in wealth management.

A natural fit and "incredibly passionate," she eventually decided to open her own practice in Florida but was forced to close it while going through a difficult divorce. She then landed at United Capital, which was later bought by Goldman Sachs.

Now at Advisor Capital Management, an independent RIA, Carbonaro has a clear runway to start focusing on her own business goals once again, including increasing financial literacy among women.

"The industry is made by men, built by men, for men. Women are like an afterthought in the industry," Carbonaro says. "It's nobody's fault. It's just how it grew up, and if you think about it, women did not even get the right to have their own credit cards or bank accounts in their name until the 1970s in the United States. We've actually come a long way, but we're still obviously not equal to where we should be."

Part of the problem is that many women believe in the stereotype that they're bad with numbers, Carbonaro says.

"Money does not equal math, and math does not equal money," she says. "They're actually separate, and you can do one without the other. You don't have to be a trigonometry expert to understand the basic principles of financial literacy and money."

However, Carbonaro has her work cut

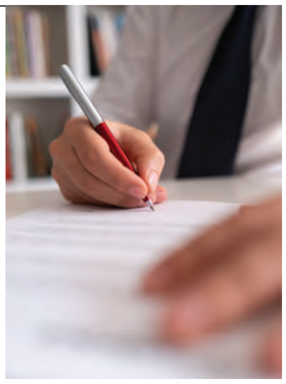
UBS plans up to $1 billion in buybacks this year

UBS GROUP will buy back up to $1 billion in shares this year as the bank seeks to keep investors focused on the upside of its complex integration of Credit Suisse.

The Zurich-based bank said the repurchase program will commence following the legal merger of the two banks, which is scheduled for the second quarter. Expenses related to the integration in the final three months of 2023 helped push the bank to its second-straight quarterly loss.

Shares fell after the bank posted results, trading down as much as 3.4 percent. Pretax profit at the key wealth management unit came in well below estimates, and the investment bank posted its third loss in a row.

'Financial architect' joins $1.7 billion AUM Angeles Wealth



NATIONAL RIA firm Angeles Wealth Management has hired "financial architect" Rick Nott as a managing director in its office in Santa Monica, California.

Nott joins the $1.7 billion AUM firm following seven years at LourdMurray, where he was senior wealth manager, in a 15-year career which has also included roles at AdvicePeriod, Signature Estate & Investment Advisors, and United Capital Financial Advisors.

"My career began during the global financial crisis, where I learned the value of crafting a financial design that is not only aligned with client goals but that is structured to encourage a long-term focus on generational wealth creation and preservation," Nott said.

CARY CARBONARO

“The industry is made by men, built by men, for men. Women are like an afterthought in the industry”

CARY CARBONARO, ADVISORS CAPITAL MANAGEMENT

out. At present, the financial industry is split 80 percent men and 20 percent women. “There’s so much that I want to do, and so much of an impact that I want to make on the industry. I have a lot of business ideas related to women and money that are just percolating,” she says.

One of her ideas to help women is to identify female-friendly businesses in the financial industry.

“We’re not where I want us to be,” she says. “I hope that we can get there during my lifetime. That’s my goal so we can really change the industry so it’s more for women. There’s been a lot of *Harvard Business Review* studies done that show we have potential to be female-friendly as an industry, but we’re failing miserably. It will take a lot of groundswell and a lot of women coming together to try to fix this issue.”

KKR sees ‘trillions’ of retail investor dollars moving to alts

KKR & CO., a leading private equity investor and manager of institutional assets that’s also focusing intently on wealthy individuals and retail investors, said that it has recently raised close to $500 million per month from such investors, in large part due to a new series of fund offerings.

“Those are good numbers,” said a senior industry executive who spoke privately to *InvestmentNews*. “The analysts covering KKR are focused on retail sales because that’s often permanent capital.”

Large institutional asset managers like KKR and Blackstone are fervently pursuing the business of retail financial advisors in the hope of making alternative investments, once a destination only for wealthy families and institutions like university endowments, palatable to mom-and-pop investors.

Feds arrest Ameriprise advisor on January 6 riot charges

AN ADVISOR at Ameriprise Financial has been arrested and faces multiple felony charges for his alleged involvement in the January 6, 2021, attack on the US Capitol.

The charges against Lee Giobbie, 40, of Easthampton, New Jersey, include civil disorder and obstruction of an official proceeding, according to a statement from the US Attorney’s Office for the District of Columbia.

Following the indictment, an Ameriprise spokeswoman stated, “We immediately suspended Mr. Giobbie and are conducting a thorough investigation into the matter.”

Investigations placing Giobbie at the scene on January 6 indicate that he was one of the first rioters to breach the Capitol’s defenses.

Edward Jones paying for advisors’ high-level credentials

EDWARD JONES, known for decades as the financial advisor to mass affluent and small-town investors, is quietly guiding its financial advisors to go upscale and chase wealthier clients.

An indication of this change in tactics for the firm with 19,000 financial advisors is Edward Jones putting cash on the table for advisors who are seeking to improve their credentials for clients in this area.

According to one well-placed industry source, Edward Jones is reimbursing its advisors for the cost of seeking certifications offered by the Investments & Wealth Institute, which promotes itself as a premier gatekeeper for financial advisor certifications. Large brokerage firms like Edward Jones have consistently touted the number of certified financial planners they have under their roofs, but the IWI credentials are perceived to be more elite.

Osaic CEO says ‘day of reckoning’ coming for RIA market

THE MARKET to acquire registered investment advisor firms has been red-hot for almost a decade, with hundreds of firms bought and sold each year. But the mergers and acquisitions frenzy has its skeptics, particularly among broker-dealer executives, who express alarm at the heady valuations some RIAs continue to fetch.

Last month, Paul Reilly, chairman and CEO of Raymond James Financial, said the biggest change in the competitive landscape in wealth management has been RIA aggregators that pay prices that the firm could not “figure out.”

Add Jamie Price, CEO of the giant broker-dealer network Osaic, to the skeptics. “I think there’s going to be a day of reckoning in the RIA space,” Price said. “Will there be more RIAs for sale than there are buyers at the trough?”

Regulation

House passes $78 billion bill with business, child tax breaks

THE HOUSE PASSED a $78 billion business and child tax break bill that would provide a boon for US companies with large capital and domestic research expenditures and hand President Joe Biden an election-year political victory.

The measure, which was approved by a vote of 357 to 70, now heads to the Senate, where lackluster Republican support threatens to sink it over a provision that would allow some people with no taxable income to collect the child tax credit and other concerns.

Senate GOP leader Mitch McConnell has been silent on the bill, and top Republican tax-writer Mike Crapo said Republicans could offer "hundreds" of amendments on the Senate floor. But the lopsided House vote in favor signals to Senate holdouts that a majority of both parties favor the deal.

Bitcoin miners claim US 'abuse of authority' over energy data

THE ENERGY DEPARTMENT'S new mandatory survey to collect data from bitcoin miners is "an abuse of authority" by the Biden administration vying to limit the industry, two groups allege.

The claim comes after the Energy Information Administration, the statistical arm of the federal agency, reported last week that cryptocurrency mining represented as much as 2.3 percent of the country's entire electricity use in 2023, citing publicly available data. From February to July, the EIA will collect monthly data on cryptocurrency energy use after it was granted emergency clearance to do so.

FOCUS

Former Morgan Stanley broker running for office awarded $147K

A FORMER Morgan Stanley broker who's running for Congress recently won a Finra arbitration case against her erstwhile employer but wants to double-check the math on the $147,000 award.

Deborah Adeimy is seeking the Republican nomination for the 22nd District congressional seat in Florida. It's her second attempt at the office, after an unsuccessful primary bid in 2022.

Adeimy left the Morgan Stanley office in West Palm Beach, Florida, in November 2021 to launch her 2022 campaign. In an arbitration claim filed in July 2022, she alleged that Morgan Stanley blocked her from running for office when she worked there. Adeimy cited breach of employment agreement and wrongful termination, among other causes of action, according to the Monday award.

A three-person Financial Industry Regulatory Authority panel found Morgan Stanley liable and ordered the firm to pay $147,000 in compensatory damages. Adeimy sought more than $10 million in compensatory and punitive damages.

But Adeimy wants to know more about how arbitrators settled on the award amount.

"We're unclear on how the award figure was calculated," said a senior campaign aide, who asked not to be identified. "We're reviewing the details."

A Morgan Stanley spokesperson declined to comment.

The firm didn't approve a political campaign as an outside business activity, Adeimy's aide said.

In 2022, Adeimy narrowly lost the GOP primary to Dan Franzese, who went on to lose the general election to Democratic incumbent Lois Frankel, 55 percent to 44 percent.

After her unsuccessful campaign,

Oregon orders Raymond James to pay nearly $200K

RAYMOND JAMES has been ordered to pay nearly $200,000 in Oregon following an investigation that revealed a multi-year pattern of overcharging that cost retail investors millions of dollars.

In a statement dated January 31, the state's Division of Financial Regulation said a coordinated investigation by several state securities regulators revealed that Raymond James & Associates and Raymond James Financial Services overcharged retail customers on small transactions.

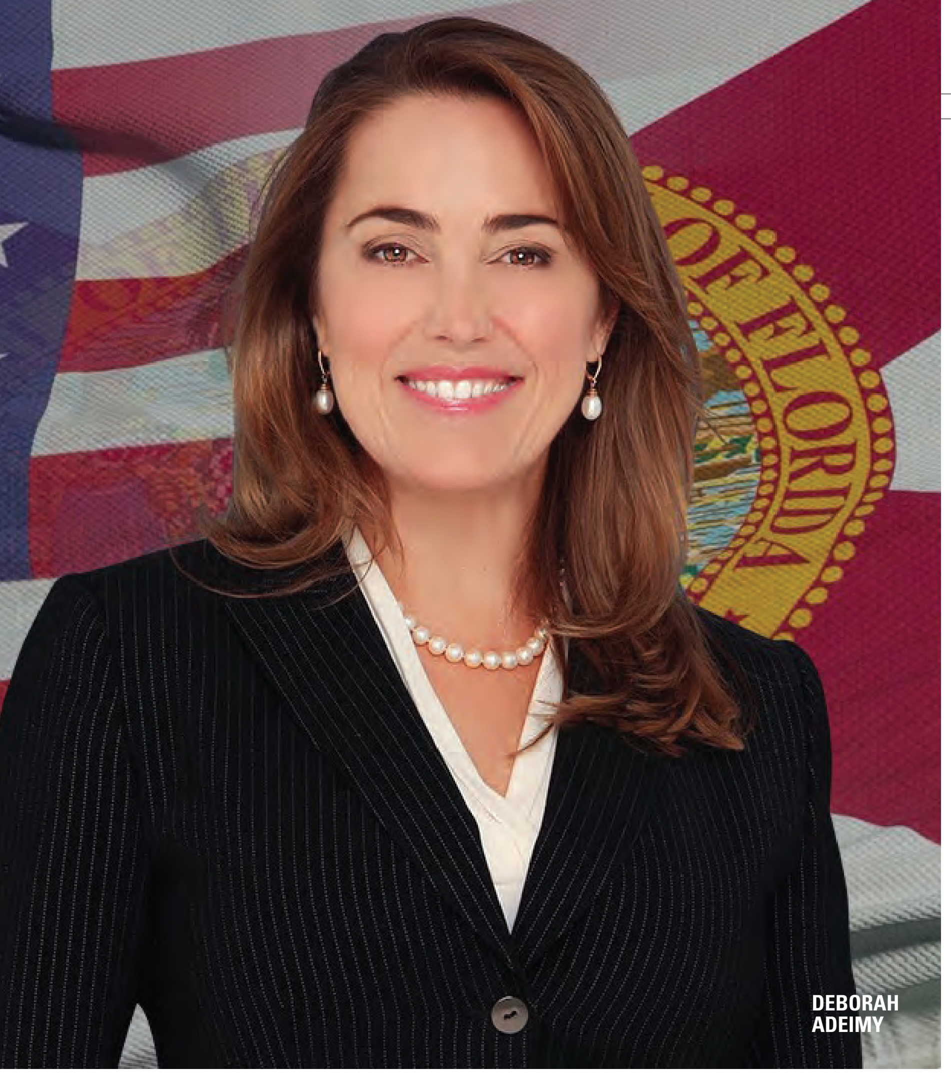
The investigation concluded that Raymond James had levied "unreasonable commissions" on customers over five years, from July 1, 2018, to July 17, 2023.

Congress takes another shot at federal auto-IRA

EMPLOYERS NATIONWIDE WOULD be required to sign workers up for individual retirement accounts or provide their own retirement plans if a group of legislators has its way.

Last Wednesday, Rep. Richard Neal, D-Mass., reintroduced a bill to establish a federal automatic IRA system. The auto-IRA would complement numerous initiatives passed by states, some of which have been up and running for years.

Industry trade and lobbying groups rushed to praise the bill and urge its passage, which will be a challenge, considering the lack of Republican support for a federal auto-IRA in the past few years. Proponents say it would be the most effective way to improve retirement saving in the US.



"It's extremely unusual for a financial advisor to run [for Congress]"

SENIOR CAMPAIGN AIDE TO DEBORAH ADEIMY

Adeimy worked at the J.P. Morgan Securities office in Palm Beach, Florida, from November 2022 until November 2023, according to her BrokerCheck profile. She departed JPMorgan to run again in the current campaign cycle for the congressional seat that encompasses Palm Beach and other areas on Florida's Atlantic Coast.

Many financial advisors try to avoid talking politics with their clients and customers. But a few enter politics, such as Diane Young, who is running for Congress in suburban Detroit. A couple of former advisors currently serve in Congress, including Rep. French Hill, R-Ark. Sen. Tim Scott, R-S.C., is a former insurance sales professional.

Adeimy is no longer registered as a broker or an investment advisor, but she highlights her financial background on her campaign website. A section entitled "25+ years proven finance and economic business experience" notes that she has securities licenses from Finra, the Securities and Exchange Commission, and Florida.

"It's extremely unusual for a financial advisor to run [for Congress]," Adeimy's aide said.

Her financial advice career gives her an opening to talk about a topic that is top of mind for voters, the aide said. "The economy is very important right now."

SEC to add 'dealer' tag to hedge funds trading Treasuries

HEDGE FUNDS AND proprietary trading firms that regularly trade Treasuries are set to be labeled as dealers by the Securities and Exchange Commission – a tag that brings greater compliance costs and scrutiny.

The SEC last Tuesday boosted oversight of trading by the firms, which are increasingly responsible for liquidity in the world's biggest government bond market. The new regulations also apply to market participants in other government bonds, equities, and other securities.

Under chair Gary Gensler, the regulator has homed in on the Treasuries market and the private funds industry as needing more guardrails. This overhaul could force dozens of firms to register as dealers and face new regulations.

Bank to the stars fined $65 million over risk control failures

CITY NATIONAL BANK, the Los Angeles-based lender owned by Canada's largest financial institution, has been hit with a $65 million civil penalty for failing to keep proper risk controls.

The Office of the Comptroller of the Currency announced that the bank, known for its Hollywood clientele, is required to take "broad and comprehensive corrective actions" to strengthen its internal practices.

The OCC found that City National "engaged in unsafe or unsound practices" related to the management of operational risk, strategic risk, investment management practices, and compliance, including practices related to the Bank Secrecy Act and anti-money laundering and fair lending rules.

GOP bill to kill SEC proposal on AI conflicts faces obstacles

LEGISLATION THAT WOULD halt an SEC proposal targeting potential financial advisor conflicts involving the use of artificial intelligence faces a tough legislative path if it can't get Democratic support.

Sens. Ted Cruz, R-Texas, and Bill Hagerty, R-Tenn., introduced a bill that would prohibit the Securities and Exchange Commission from finalizing, implementing, or enforcing a proposed rule that would require investment advisors and brokers who interact with clients and customers through AI and predictive data analytics to "eliminate or neutralize" conflicts in which technology optimizes advisors' or firms' revenue interests over those of the investor.

A range of financial industry critics have called on the SEC to withdraw the proposal, saying it's too broad and would inhibit the development of technology.

Call for SEC to end RIAs' use of mandatory arbitration

INVESTOR ADVOCATES ARE calling on the SEC to end registered investment advisors' use of mandatory arbitration clauses in client contracts, arguing the provisions limit the ability of harmed investors to recover losses and represent a breach of RIAs' fiduciary duty.

The Investor Advocacy Coalition sent a letter February 1 to SEC chair Gary Gensler urging the commission to adopt rules that would ban the use of pre-dispute arbitration agreements in investment advisor and broker contracts. The 2010 Dodd-Frank financial reform law gave the Securities and Exchange Commission the authority to promulgate such a rule, but the agency has not acted.

Estimated healthcare expenses in retirement increase again

AMERICANS WHO are enrolled in Medicare will likely need to accumulate more savings to pay for their healthcare costs in retirement than they expected, a new report finds. According to the report from the Employee Benefit Research Institute, projected healthcare costs for Medicare beneficiaries increased again in 2023. Such costs include premiums, deductibles, and prescription drugs in retirement.

When the Medicare program was created back in 1965, it wasn't "designed to cover health care costs in full," EBRI said in the report, and "the program continues to impose cost sharing on beneficiaries when they use health care services."

Pooled employer plan with personalized TDFs landing soon

TWO POWERHOUSES IN the 401(k) business – American Funds and Ascensus – are adding a new pooled employer plan to the market that the companies say gives a better option than basic target-date funds.

The Ascensus American Funds PEP is the first such plan to include the fund company's Target Date Plus investment option, which has a personalized asset allocation component provided by Morningstar Investment Management, allowing the product to account for more than age alone, the firms stated in an announcement.

The new plan adds to recordkeeper Ascensus' growing PEPs business, which now represents $1.2 billion across 28,000 accounts.

FOCUS

Deep client relationships drive culture at Advus

AT ADVUS FINANCIAL PARTNERS, they take retirement planning seriously. CEO Mark Lamoriello says that it's the relationship-building side of wealth management that he likes the most – especially when it comes to retirement.

"Being able to take a problem, understand it, and then translate it into a solution, you have a much more permanent relationship and much more permanent influence on someone's life," he says. "Earlier in my career, I was focused on investment research, and, as time evolved, I became much more involved in the more holistic aspect of wealth management – I really found a calling and a career in what now is the wealth management space."

There's certainly a need for more connected conversations around retirement planning. According to research from RetireGuide, 57 percent of Americans expect to have to work after their retirement – with 28 percent of non-retired individuals currently having no retirement savings.

At Advus, Lamoriello says, the business balances between wealth

> **"We don't think about how many clients we have, or how big we are in terms of assets"**
>
> MARK LAMORIELLO, ADVUS FINANCIAL PARTNERS

Bitcoin ETFs in 401(k)s a useful diversifier, proponents say

THE SEC'S APPROVAL of spot-price bitcoin ETFs means that the digital asset finally has an entry point into 401(k) plans – but don't count on it appearing on investment menus anytime soon.

Instead, retirement investors will most likely be able to access bitcoin ETFs through 401(k) plans' brokerage windows and, eventually, through asset allocation products like target-date funds.

Allocating 1 percent to 5 percent of assets to bitcoin can have advantages, as that's small enough to protect investors from harm if the digital asset fails, while the potential for outsize price appreciation could have a materially positive effect on portfolios, said Ric Edelman, founder of Edelman Financial Engines.

Creating 'retirement paycheck' more important than ever: RBC

AMERICANS ARE FACING a challenging retirement if they can't bolster the income they'll receive once they stop work. A survey from RBC Wealth Management shows that pensions and Social Security may not be enough to provide a comfortable lifestyle in later years, requiring an additional "retirement paycheck" to top up income.

The poll of those nearing retirement or already retired in 2023 found that 43 percent of respondents are concerned that they will outlive their assets, an increase of six percentage points from a similar study in 2018, and 32 percent are worried about investment loss, up from just 9 percent in 2018.

MARK LAMORIELLO

management for individuals and managing qualified retirement plans for corporations and institutions.

"With qualified retirement plans, we have a big influence on a lot of individual participants and their success," he says. "We spend a lot of time on education and communication."

What really drives Lamoriello is this commitment to making sure each individual client is taken care of – regardless of whether it involves retirement planning, navigating career crossroads, or investment management.

"We don't think about how many clients we have, or how big we are in terms of assets," he says. "With us, it's about how long we keep clients and what kind of relationships we have. How do we constantly do better at what we do, deliver better advice, or deliver advice in a better way? You're never the best. It's arrogant to say you are, but that constant drive to continually improve is the core of what makes our culture."

Not surprisingly, a culture that is always striving to improve, that values authentic relationships with clients, is also one that looks beyond the walls of the company.

"What I have found is that I have a passion for helping children either evolve, or helping children that maybe are not in the same situation that others are and helping them live a better life," Lamoriello says.

To that end, Lamoriello has worked with Trinity Prep School, Big Brothers Big Sisters of Central Florida, and other children's charities.

"Every one of the institutions I worked with was non-profit, and every one of those institutions was constantly in a mode of accumulating capital, and then managing the capital they had in a prudent manner," he says. "That's really where there was an alignment between what I do and what their needs were."

Robinhood offers 3 percent bonuses for IRA rollovers

IF YOU'RE FORTUNATE enough to have $1 million in 401(k) or IRA assets, Robinhood will pay you $30,000 for your business.

The company is going after rollover business by offering bonuses of 3 percent on assets moved into accounts through April, in addition to providing a 3 percent match on contributions.

It's the latest in an escalating war of perks to win new clients. Whether that wins them over is a big question, given the firm's newness to the market relative to very well-established companies like Fidelity and Charles Schwab. Whether moving assets from a 401(k) to a business best known for its trading app will encourage more people to actively trade their retirement investments is another big question.

Social Security Administration weighs in on bill to repeal taxes on benefits

THE SOCIAL SECURITY ADMINISTRATION found last month that Minnesota Rep. Angie Craig's proposed tax legislation may indeed extend the lifespan of the retirement program.

The measure would eliminate federal taxes on Social Security benefits for retirees nationwide. Craig said the measure would be "fully paid for" by taxing individuals who earn more than $250,000 a year; currently, the income subject to FICA taxes is capped at $168,600.

Stephen Goss, chief actuary for the Social Security Administration, said in a letter to Craig that the provisions of the proposed legislation would extend the ability of the Old Age, Survivors, and Disability Insurance program to pay scheduled benefits in full and on time for an additional 20 years.

Small employers don't know the tax perks for starting 401(k)s

SMALL-BUSINESS OWNERS are mostly in the dark about tax incentives they could be getting for starting up retirement plans, new research shows, even though many of them will soon be required to either offer 401(k)s to their employees or enroll them in state-sponsored automatic IRAs.

Nearly three-quarters (72 percent) of small-business owners who don't currently offer retirement plans said they didn't know about federal tax incentives of as much as $5,000 to start such plans, according to a report from the Employee Benefit Research Institute.

But that doesn't mean they aren't interested. The majority, 78 percent, indicated that the tax credits would be a favorable perk.

Racial divides in retirement readiness exposed in new report

DESPITE SIMILAR ASPIRATIONS for retirement across all demographics, significant disparities in readiness and savings underscore a looming crisis, according to the report from TIAA Institute.

The research shows racial and ethnic disparities are pronounced, with more than seven-tenths of white (76 percent) and Asian American/Pacific Islander respondents (71 percent) owning retirement accounts, compared to just about half for Black (49 percent) and Hispanic (52 percent) Americans.

The disparities are even more glaring when it comes to amounts saved for retirement. Approximately 30 percent of white and Asian American/Pacific Islanders report having saved at least $250,000, nearly double the portion of Hispanic (17 percent) and Black Americans (16 percent).

How advisors are helping clients with cancer

FEBRUARY MAY BRING love and chocolate on Valentine's Day but another day this month might bear a bit more significance for many – World Cancer Day.

While there are several aspects involved in helping a client diagnosed with cancer, from gathering estate documents to securing a will, Dan Sudit, partner at Crewe Advisors, says the first thing to do is to have a check-in with the client.

"Advisors really have to put aside some of the mundane administrative stuff, which is critically important, and they've got to ask their clients, how are they? Where are their heads? Where are their values and priorities? Is there any shift or change? And how do we help those clients realize those things, without adversely affecting them or their families or other ones?"

Mercer Advisors eyes tech-powered organic growth

A PROMINENT NATIONAL RIA is looking to enhance its advisors' organic growth capabilities through a strategic technology partnership.

Mercer Global Advisors is partnering with Catchlight to integrate advanced data analytics and personalization tools into its sales and marketing strategies. Aimed at fostering organic growth through improved client engagement, this initiative leverages technology to deepen client relationships and enhance the firm's marketing efficacy.

With more than 290 advisors across 85 offices nationwide, Mercer plans to use Catchlight's insights for a more nuanced understanding of potential clients.

FOCUS

'I feel like I'm in my genius zone'

SIBYL SLADE'S interest in finance was first sparked by her realization of the difficulties of wealth building – especially in moderate-income households.

Slade, the founder of IntegriVest Wealth Advisors, says that it was in 2004 when she first noticed half the mortgages being sold were stated income loans – those relying on the borrower's undocumented report of their income – and foresaw the impending challenges new homeowners would face.

"I found that we were doing them a disservice," she says. "And I told my leadership team at that point we need to talk about all parts of the spectrum when it comes to building wealth and investing – because there are so many things along the way leading up to homeownership."

Her advocacy at the Federal Reserve, where she worked for 21 years, led to the creation of financial-planning modules for consumers in partnership with the FDIC. However, a change in leadership shifted the focus away from this project, eventually leading Slade to leave the central bank and join the financial planning industry.

"I took my YOLO moment," she says. "I thought, I'm going to go for it – and that's what I did."

After a stint at Waddell & Reed, Slade's desire to address her clients' more comprehensive financial needs, including student loan debt, drove her to become an independent advisor.

"It's almost as if my past married my future. I feel like I'm in my genius zone," she says.

As a Black woman in the world of finance, Slade is acutely aware of the racial disparities in wealth. The mortgage crisis reinforced her predictions about wealth loss in minority communities.

> **"It's very important for me to close the wealth gap, and I do this mainly with a specific audience"**
>
> SIBYL SLADE, INTEGRIVEST WEALTH ADVISORS

Advisors spend average of $16K a year on marketing: Study

LIKE ANY OTHER business, advisory firms rely mostly on marketing strategies to generate leads and grow. As for marketing strategies themselves, advisors seem to be stuck developing one – or a few – that work best, according to a study.

A Broadridge Financial Solutions survey of US and Canadian advisors found very few have a defined marketing strategy. In fact, 85 percent don't have a marketing strategy in place because they simply don't have the time. In addition, advisors spend an average of only $15,908 a year on marketing.

Maggie Spataro, senior marketing manager at Bartlett Wealth Management, said that number isn't surprising because "marketing is often an afterthought to some of the other activities that advising firms do."

Want to win over the unadvised affluent? Try cost transparency

WHILE AFFLUENT INVESTORS generally have high levels of trust in financial advisors, many unadvised investors in that segment harbor reservations about engaging with financial professionals because of cost concerns.

Cerulli Associates found that nearly half of unadvised affluent investors (46 percent) saw the lack of clear information on how advisors are compensated as the most daunting obstacle to working with an advisor. General expense came in a distant second, with 28 percent saying advisors are too expensive.

That's in stark contrast to those already in advisor relationships, only 11 percent of whom expressed concerns over cost transparency, while 12 percent deemed advisors' fees too high.

"I can't go to sleep with those numbers still being there," she says. "It's very important for me to close the wealth gap, and I do this mainly with a specific audience. That's usually C-suite execs, professionals, and small-business owners who are typically the first high-earner in their family. They're experiencing economic mobility, but they're not confident about making financial decisions for themselves and their families. That's my sweet spot."

But Slade's efforts extend beyond individual financial planning. In 2020, she co-founded the Small Business Mastermind Forum to assist businesses during the pandemic, especially in securing loans.

"We've been able to help them really hone in and cover their blind spots," she says.

Looking ahead, Slade aims to grow her team, focusing on increasing representation of women and minorities in the industry.

"I'm trying to change how I operate so that I can create opportunities where we can serve both clients and there's parity in the income structure," she says. "And I'm convincing my peers to do the same."

Survey finds CFPs are in the money

A TYPICAL CERTIFIED financial planner likely will say she's not primarily doing her job for the money, but holding the CFP designation helps ensure she's compensated pretty well, according to a new survey by the organization that sponsors the mark.

Median total compensation for a financial planner – including salary, variable pay, company profits, and profit sharing – was $198,500 in 2022, and that pay was 12 percent higher if the planner had the CFP credential, according to the study. Annual compensation for CFPs grew by 7 percent to 9 percent each year from 2019 through 2022.

CFPs who have been on the job less than five years have a median total compensation of $100,000, while those with more than 20 years are at $250,000.

More women embracing family CFO role — but still feel financially insecure

AS WOMEN SLOWLY but steadily shift toward greater financial autonomy, they're increasingly assuming the role of primary financial decision-makers within their households – and they need support from advisors.

That's according to a recent study by Allianz Life, which highlights a growing trend of women who identify as the chief financial officer of their family, with 49 percent of respondents embracing this role, a notable rise from 41 percent in 2021. Paradoxically, the study also found women feel less financially secure now than in the past. Just under two-thirds reported feeling financially secure, at 64 percent – a decline from 72 percent in 2021 – with married women feeling the most secure (73 percent).

New study shows advisors choosing SMAs over model portfolios

MODELS ARE GROWING less super lately – at least when it comes to advisor investment portfolios.

According to data from Escalent Financial Services, fewer financial advisors expect to increase allocations in model investment portfolios over the next year, but instead are opting for separately managed accounts. The report attributes this shift to advisors seeking increased customization and to their desire to align investment strategies with client expectations.

"The extent to which advisors employ model portfolios and SMAs has the potential to significantly impact how asset managers operate within the wealth management industry," Meredith Lloyd Rice, vice president at Escalent, said in a statement.

Wealthtech firms unveil strategic partnership

ADVIZORSTACK, a technology platform for RIAs, and StratiFi, a provider of risk management solutions, have forged a strategic partnership that aims to provide users of AdvizorStack's platform with improved risk analytics, compliance oversight, and operational efficiencies.

The partnership will focus on developing advanced risk analytics using predictive modeling and machine learning; enhancing compliance oversight with real-time monitoring and automated reporting; and improving operational efficiencies through seamless platform integration and workflow automation.

Paul DeMaio, CEO and managing partner of AdvizorStack, emphasized the natural synergy between the two companies. "This partnership brings an all-encompassing risk analytics and compliance dashboard, enabling firms to ensure compliance effortlessly."

Market bets based on Super Bowl a Hail Mary pass

AS SUPER BOWL LVIII fever gripped large parts of the country, football fans with any interest in finance inevitably revisited the eponymous stock market indicator.

For the better part of 57 years, the Super Bowl indicator has correlated with stock market performance. Generally, if an American Football Conference team emerged victorious, the market was down that year, and if a National Football Conference team claimed the league title, the market was up. That has been the case more than 70 percent of the time.

"When we're having these conversations with clients, it's for fun and the caveat that this is not a market predictor. There's no real connection," said Jordan Naffa, director of financial planning at Arista Wealth Management. "Over the past 20 Super Bowls, this indicator has only been right six times."

Baby boomers the next frontier in bitcoin ETF space

FOLLOWING THE Securities and Exchange Commission's landmark approval of the first US exchange-traded funds that directly hold bitcoin on January 10, investment firms are now setting their sights on a new target demographic: baby boomers.

Leading the charge are heavyweight firms like BlackRock, the globe's largest investment manager, alongside crypto-centric entities such as Bitwise Asset Management.

One promotional video by VanEck shows a text conversation between generations in which a child tells her bitcoin-curious mom that the new ETFs have made investing in the cryptocurrency "easy now." Another post by the firm touts bitcoin as a way to help "the best generation in the world" avoid "government devaluation of their hard-earned money."

FOCUS

Ethical decision-making underpins CapWealth approach

TIM PAGLIARA, founder, chairman, and chief investment officer of CapWealth, takes inspiration from the late Peter Drucker's management wisdom to underscore his client-centric approach. In short, it prioritizes the client's best interests over transactional gains.

CapWealth, a wealth management firm based in Franklin, Tennessee, emphasizes ethical decision-making, client-centered services, and the importance of financial education. Pagliara founded CapWealth 24 years ago following successful stints at Edward Jones and Hilliard Lyons.

"The value that you add to a client relationship doesn't necessarily coincide with trading a security. Sometimes the best thing you could do is talk somebody out of trading a security," Pagliara says.

CapWealth's commitment to transparency and integrity is evident in its comprehensive reporting system, which allows clients to see the details of all their investments in real time. This has been integral to creating a successful client experience, allowing clients to assess CapWealth's performance against various benchmarks.

"We've invested millions of dollars into that process – our clients know exactly how much they invested, how much they've withdrawn, what the time-weighted return is, what their fee structure is, and it gives them a lot of tools to evaluate us," Pagliara says.

Pagliara has also contributed significantly to national conversations about responsible government spending and small business growth. His involvement with the Main Street Growth and Opportunity Coalition and the Committee for a Responsible Federal Budget reflects his deep commitment to these issues. However, he expresses frustration with the lack of progress, particularly when it comes to federal budget management, and highlights the urgent need for leadership in addressing these challenges.

"In 2019, we were less than $20 trillion in debt. Now we're $33 trillion in debt, and we're further away from acting responsibly on the federal budget than

Citi strategists warn of possible tech stocks sell-off

INVESTOR POSITIONING in US technology stocks is so bullish that any selloff could trigger a wider rout, according to Citigroup strategists.

Wagers on declines in tech-heavy Nasdaq 100 futures have been completely erased, leaving investors overwhelmingly expecting further gains. "The large consensus positioning is a risk that could amplify a turn in the market," strategists led by Chris Montagu wrote in a note dated February 5.

US stocks have rallied this year, with the S&P 500 hitting a record high for the first time since 2022, on optimism around a stronger-than-expected economy. Still, investors are turning more cautious after signals from policymakers that the Federal Reserve may not cut interest rates as early as March.

TIM PAGLIARA

"Sometimes the best thing you could do is talk somebody out of trading a security"

TIM PAGLIARA, CAPWEALTH

we ever have been," Pagliara says.

The national debt can limit the economy's ability to grow, and, eventually, future generations will be on the hook for these bills. Government spending needs to be responsibly managed, and right now, spending is increasing at an alarming rate with no signs of slowing down, he says.

Pagliara's passion also extends to financial education and social responsibility, emphasizing the importance of teaching young people about money, stewardship, and long-term success.

He believes that communication is key in the investment business.

"Our conversations with clients are incredibly important," Pagliara says. "Just over the past few years, we've encouraged clients to avoid the temptation to sell their stock holdings when the market is at its low point [and miss out on the market's recovery], and we've advised them to avoid investing in the latest fad like meme stocks or overvalued technology stocks that don't make any money. A significant portion of our job centers around communication, in addition to money management."

JPMorgan advises taking profit on five-year Treasuries

INVESTORS SHOULD take profit on five-year Treasuries after the notes surged amid regional banking concerns and data signaling the potential for a soft payrolls report, according to JPMorgan Chase & Co. analysts.

The bank recently recommended buying five-year Treasuries after yields jumped in January to a one-month high. JPMorgan's forecast of an upside surprise for January payrolls data on February 2 makes it a good time for investors to sell the bonds now, analysts including Jay Barry, the firm's co-head of US rates strategy, wrote in a report.

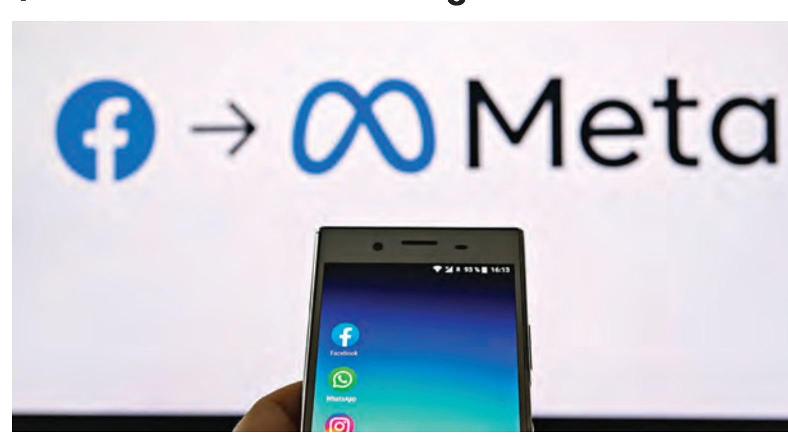
"Combined with what we think is an overreaction to the regional bank developments as well as the risks around tomorrow's employment report, these factors present upside risks to yields," they wrote.

Pricing climate risk is proving tricky for money managers

WHEN INVESTORS contemplate risk, it's straightforward to think about measurable economic shifts like rising interest rates, inflation, and sales trends. The looming risks from climate change, on the other hand, often elude money managers. While they know that it's likely a mistake to not incorporate threats such as extreme weather into company valuations and that climate change will impact most of the stocks already in their portfolios, few investors are making the calculations.

"There's a market failure to really understand and appreciate the potential impacts of the physical changes that climate change will bring to the global economy," says Rick Stathers, climate lead at Aviva Investors, a global asset manager. "I think that's severely underplayed at the moment."

Meta, Amazon earnings spark $272 billion stock surge



META PLATFORMS and Amazon spent 2023 cutting costs and refocusing their businesses. It was a strategy that upended the lives of tech workers in Seattle and Silicon Valley but appears to have paid off handsomely for investors.

Both companies reported better-than-expected earnings, sending their stock prices soaring by a combined $272 billion in premarket trading and validating the belt-tightening strategies that defined the tech industry's past 16 months.

Meta, which cut headcount by 22 percent in 2023, unveiled plans for a $50 billion stock buyback and even announced its first-ever quarterly dividend – a sign to investors that it has money to spare. Amazon initiated its biggest-ever round of corporate job cuts beginning in 2022, which affected about 35,000 people last year.

Treasuries market has had a tough start to 2024

FOR ALL the excitement around the Federal Reserve's big pivot, the Treasuries market has had a rough 2024 thus far.

The Bloomberg Treasury Total Return Index has been below its year-end level on all but one day since the start of the year. It has declined about 1.4 percent this year through Monday, reversing some of its 7 percent rally in the final two months of 2023. Treasuries were higher last Tuesday, although the relatively small increases did little to change the bigger picture of continued sub-par performance.

Granted, the loss isn't that unusual – in 2021, the benchmark did not log a positive year-to-date return during the entire year. But the sluggish performance does show that enthusiasm among bond traders late last year amid cooling inflation was premature.

Bond market rattled by overconfident rate-cuts bet

THE US ECONOMY is testing bond traders' faith that the Federal Reserve will deliver a series of interest-rate cuts this year.

The unexpected surge in hiring in January showed there's little pressure on the central bank to start easing monetary policy just yet, giving it time to see if inflation is headed sustainably toward its 2 percent target.

Fed chair Jerome Powell reiterated such a wait-and-see approach – which drove traders to slash bets on a first rate cut before May – in an interview on CBS's *60 Minutes* on February 4.

The "danger of moving too soon is that the job's not quite done, and that the really good readings we've had for the last six months somehow turn out not to be a true indicator of where inflation's heading," Powell said in the interview.