FEBRUARY 26, 2024

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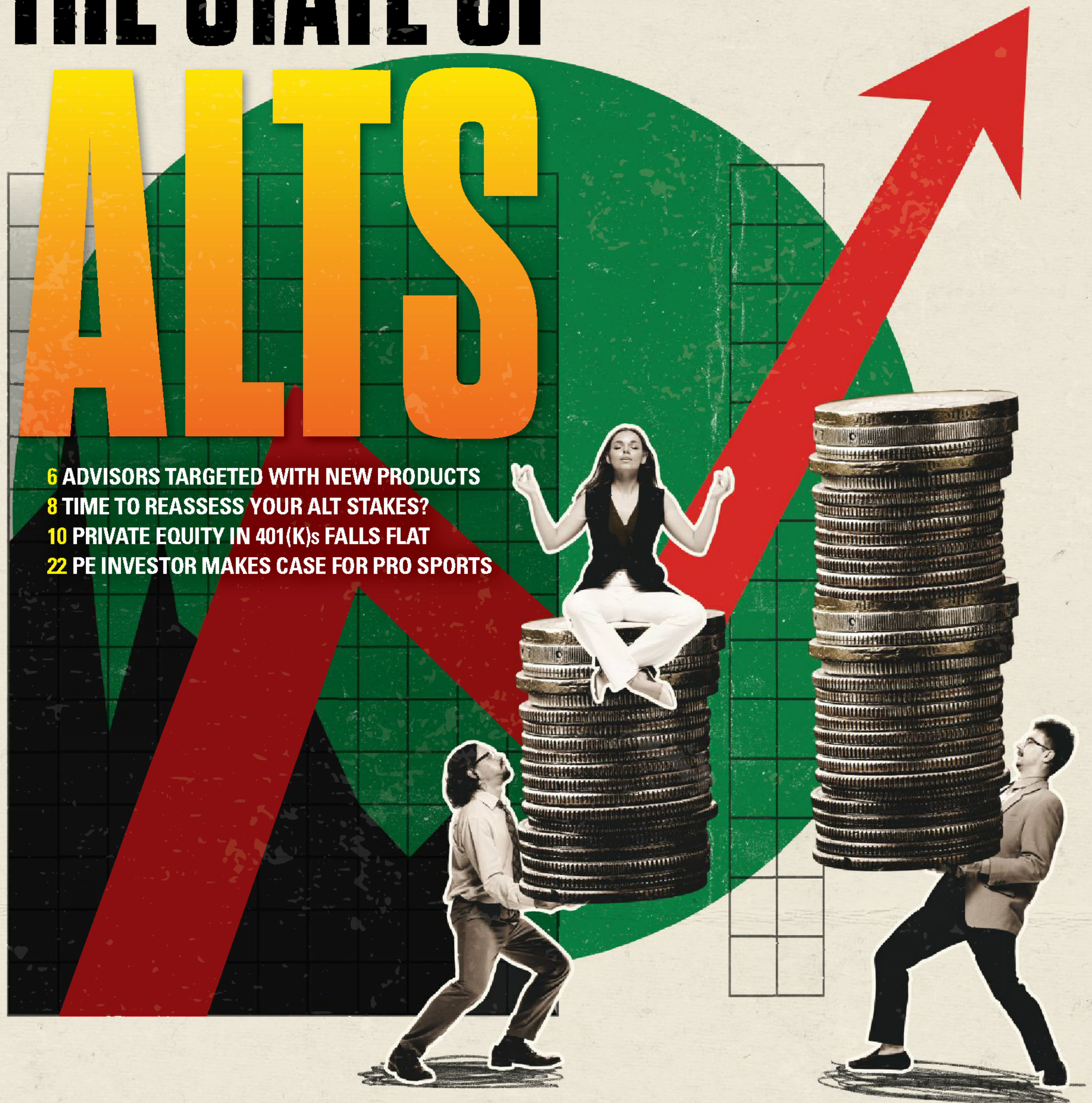

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InvestmentNews

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APRIL 16, 2024 | CONRAD NEW YORK DOWNTOWN

Set against a backdrop of an ever-changing business landscape, RIA Connect New York is the key networking and troubleshooting platform for RIA business owners, practice managers, operations leaders, and other senior advisors to come together.

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- Hear from fast-growing RIAs about how to enhance efficiency, transform your operations, and scale up your business.
- Identify the emerging products, services, and revenue streams that can elevate your practice, strengthen client engagement, and ensure long-term growth.

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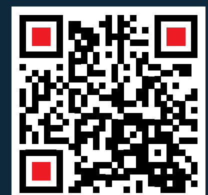

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CHECK IT OUT ONLINE

Editorial

Don't rush to open private equity floodgates

According to baseball legend Yogi Berra, "You don't have to swing hard to hit a home run. If you got the timing, it'll go." When it comes to private equity, proponents not only think they've got the timing right, but they're swinging hard.

As mentioned elsewhere in this alternatives-themed issue, financial author Tony Robbins has released a new book that explores the pillars of private equity and why he believes investors should take a closer look at areas previously accessible only to ultra-high-net-worth investors and institutions.

It's an appealing narrative after the COVID-19 crash gave the 60/40 portfolio model a beating; investors want diversification and less correlation to public markets, while forecasts of future returns for stocks are muted (although they said that last year, too).

There's something else whirring away in plain sight – what constitutes an accredited investor. Private equity firms clearly sense a sea change here and, pun intended, there is something in the water.

Only investors who meet income and wealth thresholds – $200,000 or more in annual income or $1 million in net worth excluding the value of a home – are deemed accredited and allowed to purchase unregistered securities. The definition was amended in 2020 to include people with certain licenses and job experience.

In theory at least, meeting these standards qualifies someone as a sophisticated investor capable of handling more complex and risky securities. But private equity firms and, generally speaking, Republicans argue this deprives many people of golden investment opportunities. Opponents, often Democrats, believe expanding the number of accredited investors exposes too many to products that offer less protection and fewer disclosure requirements.

Of course, the expansion is already underway. Inflation over the 42 years since the thresholds were set by the SEC means the number of accredited investors has grown substantially.

Inflation over the 42 years since the thresholds were set by the SEC means the number of accredited investors has grown substantially

Last year, the House passed two bills that would increase further the number of investors who can buy private securities. The Fair Investment Opportunities for Professional Experts Act would give accredited status to people who have certain licenses or educational or professional backgrounds, similar to the aforementioned SEC amendment back in 2020. The Accredited Investor Definition Review Act gives the SEC discretion to determine what certifications, designations, or credentials investors must possess to be accredited. Elements subsequently discussed include introducing an exam to become accredited.

But the floodgates may not be about to burst open in the way some private equity firms want. For one, Senate approval appears unlikely in this congressional session given the Democratic majority, albeit slim. Will Sherrod Brown, D-Ohio, chair of the Senate Banking Committee, really be that keen to have the panel take up an accredited-investor bill and advance it to the Senate floor? There's a small chance it gets attached to a must-pass bill later this year, such as a measure to fund the government, but that effort would be resisted.

Of course, if the Republicans hold the House and capture the Senate and White House in November, the bill could be reintroduced next year with improved prospects. But regardless of political maneuverings, private equity has set a narrative and senses a chance to widen its pool of investors.

As ever, the answer might lie somewhere in the middle. Investors are arguably more sophisticated than ever, with more information at their fingertips, and democratization of opportunity should not be dismissed in any walk of life. But those thresholds were set for a reason – to protect the average investor from overly risky, opaque, and illiquid investments that can lock in money for years.

Returns can be high on private securities, but so can the risk. They're not for the faint-hearted and not immune to economic downturns. The rules may be outdated and overly protective, but the industry should think long and hard before throwing open the doors to more ordinary investors.

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

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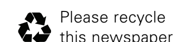

InvestmentNews

2024 CALENDAR OF EVENTS

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

InvestmentNews RIA CONNECT NEW YORK

APRIL 16, 2024 | CONRAD NEW YORK DOWNTOWN

InvestmentNews women advisor summit CHICAGO

MAY 23, 2024 | JW MARIOTT CHICAGO

INA INVESTMENTNEWS AWARDS 24

JUNE 20, 2024 | 583 PARK AVENUE, NEW YORK

InvestmentNews RETIREMENT INCOME SUMMIT

OCTOBER 2024 | CHICAGO

InvestmentNews women advisor summit NEW YORK

NOVEMBER 6, 2024 | TRIBECA 360, NEW YORK

InvestmentNews WOMEN to WATCH

NOVEMBER 6, 2024 | TRIBECA 360, NEW YORK

InvestmentNews RIA CONNECT CALIFORNIA

NOVEMBER 12, 2024 | MANCHESTER GRAND HYATT, SAN DIEGO

InvestmentNews RIA LABS

VIRTUAL EVENTS

- **CUSTODY ALTERNATIVES** – JUNE 25, 2024
- **PRACTICE VALUATION** – SEPTEMBER 24, 2024
- **DIRECT INDEXING** – DECEMBER 10, 2024

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SAVE THE DATE

RETIREMENT INCOME LITERACY LACKING

In a survey of more than 3,765 individuals aged 50 to 75, participants garnered an average score of only 31% on a retirement literacy quiz.

22%
expect to live past 89

27%
were able to correctly state the average life expectancy for a 65-year-old man

$1.5 million
those with assets above this amount scored significantly higher (**50%**) than those with less than $100,000 (**25%**)

50%
average score of professionally advised individuals, versus **41%** for those not advised

20%
less financial anxiety and **25%** less financial stress for those with a financial professional

Source: 2023 Retirement Income Literacy Study, The American College of Financial Services

CFP NUMBERS SURGE

New data from the Certified Financial Planner Board of Standards revealed that leading financial firms saw the largest increase in new CFP professionals in 2023. Last year, four firms increased their ranks of CFP professionals by 200 or more.

Edward Jones

New CFPs grew by **1,000**, a 62% year-over-year increase

Fidelity Investments

New CFPs grew by **313**, a 30% year-over-year increase

Charles Schwab

New CFPs grew by **308**, a 111% year-over-year increase

Northwestern Mutual

New CFPs grew by **258**, a 44% year-over-year increase

Source: CFP Board, February 2024

HOW CAN AI HELP ADVISORS?

In a joint study with research firm 8 Acre Perspective, Totumai surveyed 100 financial advisors to understand the challenges they face and how AI could help address them.

A HISTORIC PHASE OF CONSOLIDATION?

Following a frenetic 2023 that included more than 300 mergers and acquisitions, the wealth industry could be entering a historic phase of consolidation, according to Echelon Partners. In a new report, the investment bank revealed a slight year-over-year dip in dealmaking in 2023.

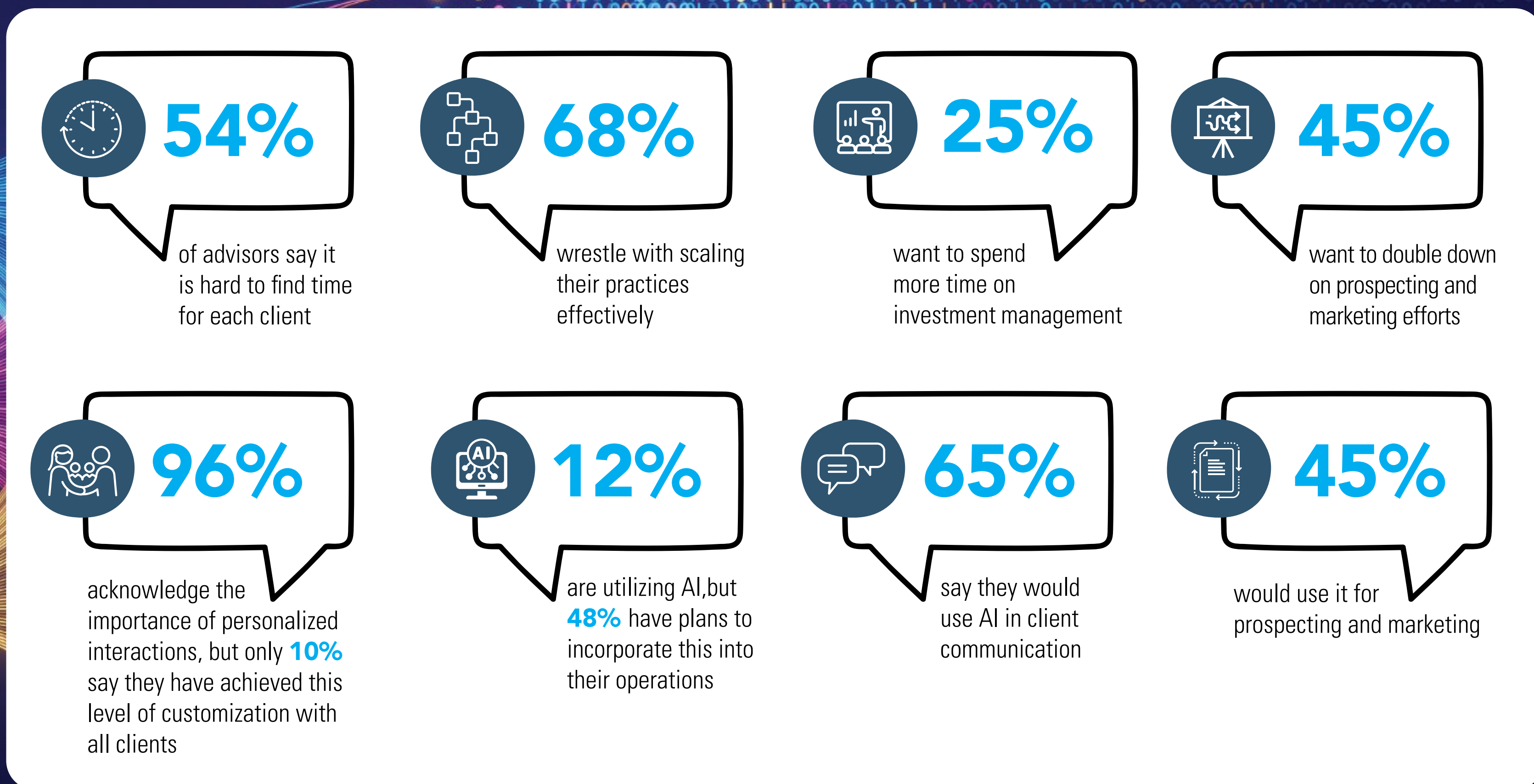
321 transactions announced in 2023, slightly behind the all-time record of 341 in 2022, a 5.6% decrease

71% of transactions in 2023 featured RIA active acquirers, up from 62.9% in 2022, involving assets exceeding $466 billion

8.3% year-over-year increase in wealthtech deal volume compared to 2022

$1.7 billion average assets per transaction, up from 2022

Sources: Echelon Partners' 2023 RIA M&A Deal Report, February 2024



Source: Totumai and 8 Acre Perspective, February 2024

FINANCIAL INFIDELITY BEHIND DIVORCES

A significant portion of Americans who have gone through a divorce attributed their separation to credit card debt and hidden financial activities, according to a new survey.

33% said credit card debt and financial infidelity were critical factors in their divorce

70% who cited credit card debt as a reason for their divorce said either they or their ex-spouse had concealed debt

80% admitted hidden spending played a role in their separation

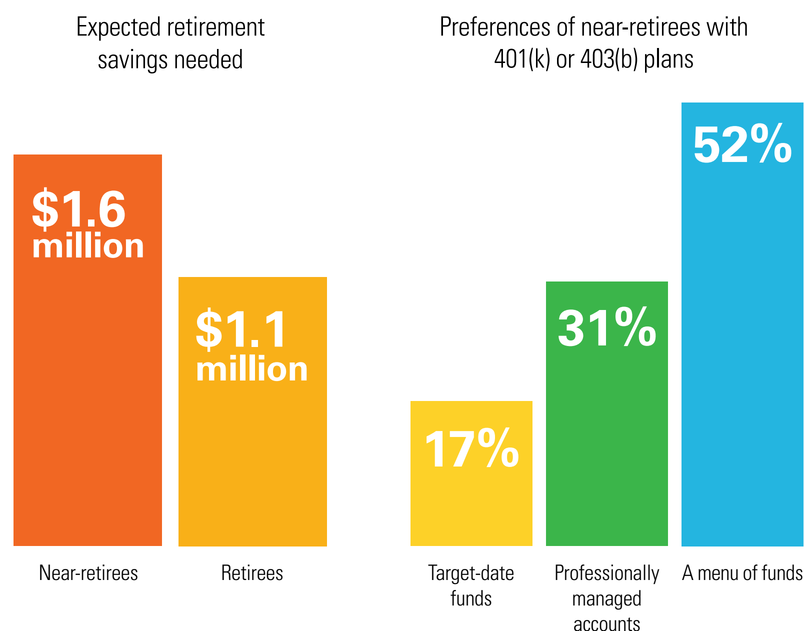
38% of those who ended their marriage due to financial issues subsequently took on at least $10,000 in debt

57% of participants pointed to disagreements on big purchases as a divorce factor

Source: Debt.com, February 2024

RETIREMENT EGOS INFLATED

Financial advisors were significantly less likely to say their clients are prepared for retirement than those clients think they are, according to survey results published by Allspring Global Investments.



Source: Allspring Global Investments, February 2024

News**Analysis**

ALT MANAGERS PRIMING THE RETAIL SALES PUMP FOR 2024

As investors pull money out of real estate investment trusts, asset managers are rolling out new products to get in front of financial advisors

BY BRUCE KELLY

Just as major investment firms like Blackstone and KKR & Co. are priming the pump to sell more alternative investment products through financial advice firms to retail investors, one of the most noted self-help gurus of the past 30 years, Tony Robbins, has returned to the financial advice industry pitching a new book that promotes alternative investments.

What's with the timing? Undoubtedly, the terrible year for both stocks and bonds in 2022 has created a marketing environment for the messengers of alternative investments: The portfolios of mass affluent investors would have been insulated from the shocks of 2022 if a chunk, say 10 percent to 20 percent, had been invested in assets not correlated to the stock market, like real estate, private equity, or private loans, rather than just stocks and bonds.

"I had the privilege of interviewing 13 of the masters of the universe in private equity investing, firms that have gotten 20 percent, some 30 percent, compounded [returns] for decades," Robbins said in an interview in February with *InvestmentNews*. "To the average person, that sounds absurd. I wanted to bring that to the general population."

He noted that Congress is considering new rules and legislation for mom-and-pop investors to make it easier to invest in vehicles like private equity for the mass affluent or those investors with less than $1 million in assets.

Meanwhile, the broad alternative investment industry is trying to shrug off a bad year for sales in 2023, particularly for one of the most popular kinds of alternative investments, non-traded real estate investment trusts.

Sales of non-traded REITs to retail investors totaled about $5 billion last year, while that same group of investors pulled about $18 billion from REITs through a process called redemptions, said Kevin Gannon, chairman and CEO of Robert A. Stanger & Co.

He expects a similar year for REITs this year, which means that retail investors may be looking to roll money out of REITs into different asset classes, including private equity.

"There's more concern right now about real estate pricing directionally – which way is it actually going – than there has been in a long time," Gannon said. "The [net asset values] of the so-called NAV REITs have come down but probably not enough as the real estate market indicates."

"This translates into lower fundraising and higher redemptions by clients," he said. "Is the REIT's value right? Everyone on the planet has that concern right now."

"Retail investors will not get access to top-tier PE funds, and top-tier PE funds are the performance drivers of the asset class"

JOSH BROWN, RITHOLTZ WEALTH MANAGEMENT

Given that uncertainty around real estate and REITs, a slew of alternative asset managers are rolling out new products to get in front of financial advisors. That's not only Blackstone and KKR, but others including StepStone Group, Ares, BlackRock, and JPMorgan, according to Stanger, which tracks fund flows into illiquid alternative investments.

Many of the new offerings – 14 of 23 were launched last year – tracked by Stanger are either private funds, known as Reg D offerings, which may be sold only to accredited wealthy investors, or closed-end funds. They include private equity, private REITs, private business development companies, and private infrastructure deals.

KKR, for example, launched three such funds last year: the KKR FS Income Trust; a BDC, KKR Infrastructure Conglomerate; and KKR Private Equity Conglomerate.

The new funds appear to be gaining traction with financial advisors and clients. 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.

"With this latest push by alternative managers, what the industry is seeing is the large, institutional quality managers moving into the retail market, because that's where the assets are," said one senior industry executive who spoke privately to

InvestmentNews. "The positive for advisors is the really good firms taking institutional quality products to high-net-worth clients. In the past, that was part of the marketing pitch, but I'm not so certain that was accurate."

"These funds are designed to make investors money, and it's working," the executive said. "It's easier for high-net-worth investors to get access to private markets. But you can argue all day whether they are too expensive. As for REITs, real estate has always been an up-and-down market. It will take time, but they will eventually come back."

Some broker-dealers have said recently that they're pulling back from sales of alternatives, which at times may lack liquidity and can be volatile and more expensive than plain vanilla mutual funds and exchange-traded funds.

According to fund tracker Morningstar, alternative funds are more expensive than US stock mutual funds, including open-ended funds and ETFs, although fees on alternative funds have been coming down since 2019 (see chart). As measured by an asset-weighted average, alternative funds on average currently charge a fee of 1.03 percent, while US equity funds charge 0.6 percent.

High fund expenses erode investors' long-term returns.

Tony Robbins' new book will clearly draw attention to alternative investments like private equity. But some financial advisors are likely to duck his pitch.

"Historical returns for private equity are not useful for investors allocating today," Josh Brown, CEO of Ritholtz Wealth Management, noted in a recent post on LinkedIn regarding Robbins' latest book. "Valuations have converged with public markets and competition is up 1,000-fold. Retail investors will not get access to top-tier PE funds, and top-tier PE funds are the performance drivers of the asset class."

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AVERAGE ACTIVELY MANAGED FUND FEES

Includes open-end funds and ETFs

ASSET-WEIGHTED AVERAGE	2019	2020	2021	2022	2023	CURRENT
ALTERNATIVE	1.53%	1.30%	1.14%	1.14%	N/A	1.03%
US EQUITY	0.68%	0.66%	0.64%	0.61%	N/A	0.60%

EQUAL-WEIGHTED AVERAGE	2019	2020	2021	2022	2023	CURRENT
ALTERNATIVE	1.73%	1.60%	1.46%	1.42%	1.34%	1.26%
US EQUITY	1.11%	1.08%	1.05%	1.04%	1.05%	1.04%

Source: Morningstar, data as of Feb. 14, 2024

"There's more concern right now about real estate pricing directionally – which way is it actually going – than there has been in a long time"

KEVIN GANNON, ROBERT A. STANGER & CO.

ADVISORS REASSESS THEIR ALT STAKES AFTER LOADING UP

Use of alternative investments skyrocketed when stocks and bonds tanked in 2022, but advisors are still standing behind those positions as stocks rally

BY GREGG GREENBERG

This question may sound sudden, but is it already time for advisors to scale back their alternative allocations?

When both legs of the 60/40 portfolio buckled in 2022, advisors gorged themselves on alternative assets as if there were no tomorrow: real estate, crypto, credit, anything and everything alt or alt adjacent. They took whatever private route they needed to escape the thrashing they were taking in public markets.

Tomorrow finally arrived scarcely a year later in 2023, when the S&P 500 returned approximately 24 percent and the yield on the benchmark 10-year Treasury note rose well above 4 percent, providing comfort for speculators and savers alike.

This new investing environment, as well as an economy that seems intent on a soft landing, raises the question of whether advisors should start reducing their stakes in those illiquid alternatives that once provided them safe harbor. A Cerulli survey from last fall of more than 200 upmarket advisors showed 54 percent of those surveyed maintained an alternatives allocation of five percent or higher.

"Even after a great 2023 for stocks and bonds, we still believe that owning alternative investments as part of a properly diversified portfolio makes sense," said Paul Camhi, senior financial advisor at The Wealth Alliance. "We include these strategies as part of our strategic, long-term allocation, not as tactical short-term investments."

"Even after a great 2023 for stocks and bonds, we still believe that owning alternative investments as part of a properly diversified portfolio makes sense"

PAUL CAMHI, THE WEALTH ALLIANCE

NOT SO ALTERNATIVE ANYMORE

Lawrence Calcano, CEO of alternative investment provider iCapital, said that demand for alternatives has remained strong even in the face of a raging bull market and steepening yield curve. In a study last August, iCapital asked advisors about their plans for alternatives, and nearly 95 percent said they plan to maintain or increase their investments in the space. Furthermore, the iCapital survey revealed that approximately 60 percent expected alternatives to outperform the public markets in 2024.

As to which types of alternatives are attracting the most attention on his platform, Calcano said private credit has dominated flows over the last six to 12 months.

"We're seeing that because most of those instruments are floating rate," he said. "And so, in a rising interest-rate environment, they effectively protect or hedge you. In fact, with Treasuries where they were, people were getting high single-digit or low double-digit returns by investing in private credit."

Calcano said most major banks and wealth managers generally recommend a 15 percent to 25 percent allocation to alternatives.

Jake Miller, co-founder of alternatives provider Opto Investments, said surging equities and high valuations make this a great time for investors to up their stakes in private markets. He suggests a 12 percent to 15 percent allocation as a starting point for investors with a budget for illiquidity.

"We recommend creating robust exposure across managers and asset classes, optimally via scalable customized structures, and over multiple vintages," Miller said.

All those allocation recommendations are on the low side compared to those of Joe Spada, private wealth advisor at Summit Financial. Approximately 30 percent of his personal portfolio is in alternatives, and, more importantly in his opinion, he puts his money where his mouth is, investing in the same private-market vehicles as his clients.

"When it comes to alts, it behooves an advisor to own the investment personally to get a client to buy into the concept," Spada said. "Study the complexities of the investment so that you can boil it down and explain the pros and cons in simplistic terms."

Joey Feste Jr., partner at KM Capital Management, says his firm primarily serves professional athletes who have long investment horizons, so the illiquidity aspect is less of an issue for him, especially as compared to the diversification and return benefits.

"Every client is unique so the percentages will vary, but as a fiduciary, we primarily consider our clients' investment objectives, liquidity, risk tolerance and capacity, and time horizons," Feste said. "Our clients are younger than most affluent individuals, so we generally tilt toward growth alts like

“When it comes to alts, it behooves an advisor to own the investment personally to get a client to buy into the concept”

JOE SPADA, SUMMIT FINANCIAL

venture, private equity, and real estate.”

On the other hand, Robert Pearl, co-founder and wealth advisor at G&P Financial, prefers alternatives that offer simultaneous protection and growth, notably buffered ETFs, which participate as the market grows but also provide a buffer on the downside during times of market volatility.

“I have not found a single economist or market strategist that predicts the market will go straight up in 2024,” Pearl said. “For our retirees who are in the decumulation phase of retirement, we are positioning 10 percent to 20 percent of their portfolio into buffered ETFs like the ones offered by First Trust.”

Jina Yoon, chief alternative investment strategist at LPL Financial, recommends a 5 percent to 15 percent allocation to alternatives, with the caveat that the exact percentage should be decided based on the end investor’s investment objective as well as risk tolerance. Within private markets, Yoon is positive on private credit and infrastructure.

When it comes to her favorite liquid alts or hedge fund strategies for the coming year, she said she’s bullish on those that will benefit from the “macro and fundamental dispersions, reasonable level of volatility as well as medium to high interest rates, while staying nimble.

“For the macro dispersion, global macro would be the most direct player of the dispersion you will be seeing across the regions and countries,” Yoon said. “For the micro dispersion, low net equity long-short or equity market neutral strategies can be the ones benefiting the most from this company fundamental-driven dispersions. Multi-strategy should have a stable spot in a portfolio, especially for those investors who might have constraints on the number of alternatives they can have.”

Finally, Evan Bloomberg, private wealth advisor at UBS, said that one of the most interesting recent developments in the alternatives space is the opportunity to invest in “evergreen funds.” These include exposure to high-quality private equity investments with immediate investment, increased liquidity, and a more efficient structure that doesn’t require matching distributions with new allocations or commitments.

“For new investors in private equity, clients can start compounding returns right away versus waiting four to five years for capital to be called in a traditional private equity structure,” Bloomberg said. “A core position in evergreen funds complemented with satellite positions for ideas with higher return expectations is an ideal balance for many of our clients.”

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ADVISORS’ USE OF ALTERNATIVES

Advisors who use alternatives do so on average with **36 percent** of their clients

Advisors generally allocate from **5 percent to 15 percent** of these portfolios to alternatives

Advisors who use alternatives allocate **11 percent** of their total AUM to alternatives

44 percent of advisors surveyed plan to increase allocations to these strategies in the next 12 months

5 percent of advisors plan to decrease alternative allocations in the next year

Source: iCapital August 2023 survey of financial advisors

NewsAnalysis

THE CASE FOR PE IN 401(K)s ISN'T CLEAR AT ALL, NEW RESEARCH FINDS

There's no correlation between pension plans' use of private equity and their performance, Morningstar finds

BY EMILE HALLEZ

Three and a half years after the Trump administration green-lighted the inclusion of private equity investments in 401(k) plans, new research suggests that the asset class might not be as good of a fit for that market as some would hope.

Currently, private equity is all but nonexistent in the defined-contribution plan world, which contrasts with its wider use in traditional defined-benefit pension plans, endowments, and other institutional investors.

The limits of 401(k)s have pretty much kept PE out of plans, although PE assets are barely threaded into some target-date funds and other asset allocation products. DC plan investment options have higher liquidity requirements, and they're accessed by a less financially sophisticated base, making PE a hard argument for plan sponsors, which overwhelmingly are wary of straying from a standard array of mutual funds.

But PE has also been hailed as a potentially powerful addition to 401(k)s that could dampen volatility and goose returns.

The problem is that traditional pensions may not make the best case for that. A recent study by researchers at Morningstar found that the degree to which pensions use PE varies widely. And, perhaps more importantly, the use of PE doesn't correlate with plans' financial performance.

"We see variation of allocations to private equity. Some plans are allocating less than 1 percent, and some are allocating as much as 30 percent," said one of the study's authors, Lia Mitchell, senior analyst of government affairs at Morningstar. "That is definitely something that I didn't anticipate finding."

Further, large pension plans weren't more likely to include PE than small ones. A potential explanation of the differences in allocations could be related to participant demographics and a plan's duration of liability – the time frames it has for making payments to participants – but those were not factors in the study, Mitchell said.

"We weren't able to find a conclusive answer," she said.

The new research differs from a lot of academic papers that have examined PE in retirement accounts, as Morningstar "relies on real-world data and avoids unrealistic assumptions," the authors wrote. "Instead of simulations, like those presented by academics, we examine the actual historical allocations made by pension plans to PE funds and the real returns generated by these PE funds."

"Private markets in general have not seen a meaningful uptick in DC plan offerings"

GREG UNGERMAN, CALLAN

A paper last year from Georgetown University's Center for Retirement Initiatives and CEM Benchmarking calculated that a 5 percent allocation

"Without some sort of product that gets the full range of PE outcomes to one market-weighted average, it's hard to know what range your individual fund could have"

LIA MITCHELL, MORNINGSTAR

in 401(k)s to PE and 5 percent to real estate could lead to better financial returns more than 80 percent of the time, with annual returns being on average 15 basis points higher.

The 401(k) market, being almost completely untapped, is enticing to PE firms. About a quarter of PE capital is owned by traditional pensions – and as those are becoming much less common, the trillions of dollars in DC plans represent a huge potential source of investors, the Morningstar authors wrote.

It's notable that in early 2017, Blackstone CEO Stephen Schwarzman said on a call with analysts that getting PE and other alternatives into 401(k)s was a dream. Later that year, the company acquired retirement plan record-keeper Alight Solutions, which in 2021 went public through a special-purpose acquisition company.

That followed guidance from the DOL in 2020, in response to questions from PE firms, that the asset class could be included in 401(k) plans as a component of the default investments available to participants.

Even so, change is notoriously slow in the 401(k) business. Companies have faced costly litigation over their retirement plans for a wide range of reasons, including investment selection, performance, fees, and others. When plan fiduciaries change anything, they are usually quite careful.

As of the third quarter of 2023, all types of alternatives, not just PE, represented just 0.1 percent of DC plan assets, according to data from institutional plan consultant Callan.

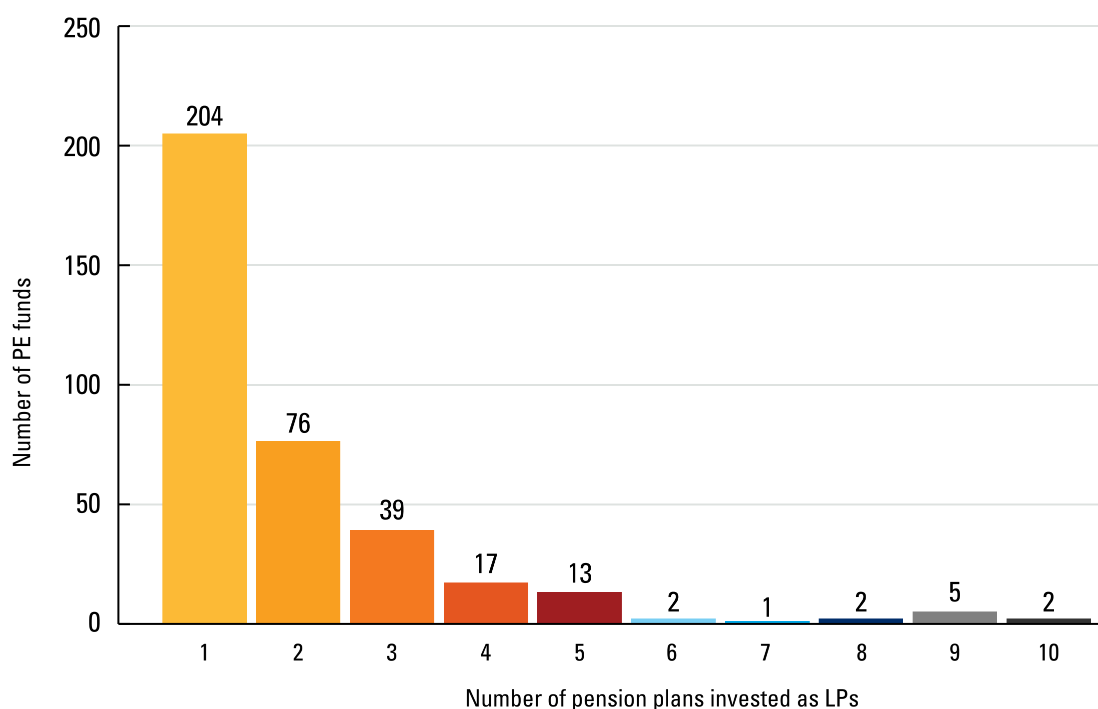
"Private markets in general have not seen a meaningful uptick in DC plan offerings," Greg Ungerman, defined-contribution practice leader at the firm, said in a statement provided by the company.

The new research doesn't necessarily mean that there isn't a place for PE in 401(k)s, but it shows that more investigation is very much needed, Mitchell said. It would be helpful to have an index of PE funds to rely on, she said.

"This has been a topic the industry has been researching and discussing for several years, and that will continue to go on," she said. "Without some sort of product that gets the full range of PE outcomes to one market-weighted average, it's hard to know what range your individual fund could have."

ehallez@investmentnews.com

NUMBER OF PENSION PLANS INVESTING IN EACH PRIVATE EQUITY FUND FAMILY



Source: Morningstar, Pitchbook, as of July 20, 2023.

PRACTICE MANAGEMENT

Compliance should be a conversation

Let's be honest – when most advisors hear the word "compliance," they think of the word "no."

OPINION
COURTNEY HADDAD

We know, intellectually, that compliance professionals are protecting our clients and our businesses. We're looking after people's entire financial futures in a tightly regulated industry. But at the same time, advisors can't help but feel as if compliance teams exist to shoot down their marketing plans and investment strategies. When I was an advisor, I admit I felt frustrated at times by a few "noes" from compliance.

When I switched career tracks to become a compliance officer myself, I quickly realized that the two roles have more commonalities than differences. Both require an understanding of the financial landscape, the ability to navigate complex regulatory structures, and a desire to do what's best for the client.

So how do we bridge the gap between that ideal and the reality of interacting with compliance?

First, we must recognize that compliance teams have a lot on their plates lately. And if your compliance needs are handled solely by a custodian or another big institution, they are thinking on a completely different scale than individual advisors. There are so many factors to account for and so much more work to do safeguarding against institutional-scale fraud and money laundering, they need some way to make the work possible.

Practically speaking, that looks like black-and-white regulatory interpretations. And if you're an advisor, it can feel like being treated like a checkbox on someone else's to-do list instead of a business trying to innovate.

When my firm shifted from the office of supervisory jurisdiction model to an RIA, we created a structure that allows for a broader scope of services while still operating within the confines of regulatory guidelines. The rules remain the same, but the approach to their implementation becomes more fluid. I'm certainly not saying compliance should be the Wild West. But compliance teams can foster a two-way dialogue and mutual feedback loop with their advisors. This ensures adherence to rules while aligning with the common goal of serving the clients' best interests.

Think of it this way: Compliance isn't just a set of boundaries – it's a conversation, one that involves both the advisors and the compliance team. By maintaining an open dialogue, we can work through concerns together, finding solutions rather than confronting roadblocks.

Advisors can't help but feel as if compliance teams exist to shoot down their marketing plans and investment strategies

I have seen night-and-day contrasts in the approval processes for marketing materials between different compliance teams. Do you want to be included in a local media "best of" business list? One team may shoot you down and say, "Better safe than sorry." Another may allow it with particular disclosures. Both compliance teams have made interpretations that protect from risk, but only one has helped the advisor potentially attract new clients.

By no means am I suggesting that we should push the envelope of regulation. Instead, I would love to see more exploration of the full range of possibilities within the rules that have been established to protect both clients and advisors. I urge both advisors and compliance professionals to rethink their approach toward each other. Instead of viewing compliance as an obstacle, let's see it as a shared responsibility and a conversation.

Courtney Haddad is chief compliance officer at Concurrent.

InvestmentNews
THE TRUSTED RESOURCE FOR FINANCIAL ADVISORS

SPECIAL REPORT

Best Places TO WORK FOR FINANCIAL ADVISORS IN THE US 2024

From career development incentives to reward programs, this year's winners are keeping employees satisfied

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FINANCE'S FINEST ENVIRONMENTS

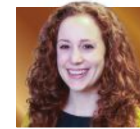
The 2024 winners recognize the importance of offering more than just compensation and implement innovative strategies to retain and enable their employees to be exceptional.

InvestmentNews data show employees from this year's winning firms have confidence in their leadership, reporting that:

- 96 percent feel their organization helps them develop professionally
- 94 percent believe their organization enables a culture of diversity
- 97 percent believe their organization's leaders care about employees' well-being
- 96 percent understand their organization's long-term strategy
- 94 percent look forward to going to work most days

"We care about improving our clients' lives, but we think just as much about improving the lives of our team members," says Lauren Adams, director of operations at winning organization Center for Financial Planning.

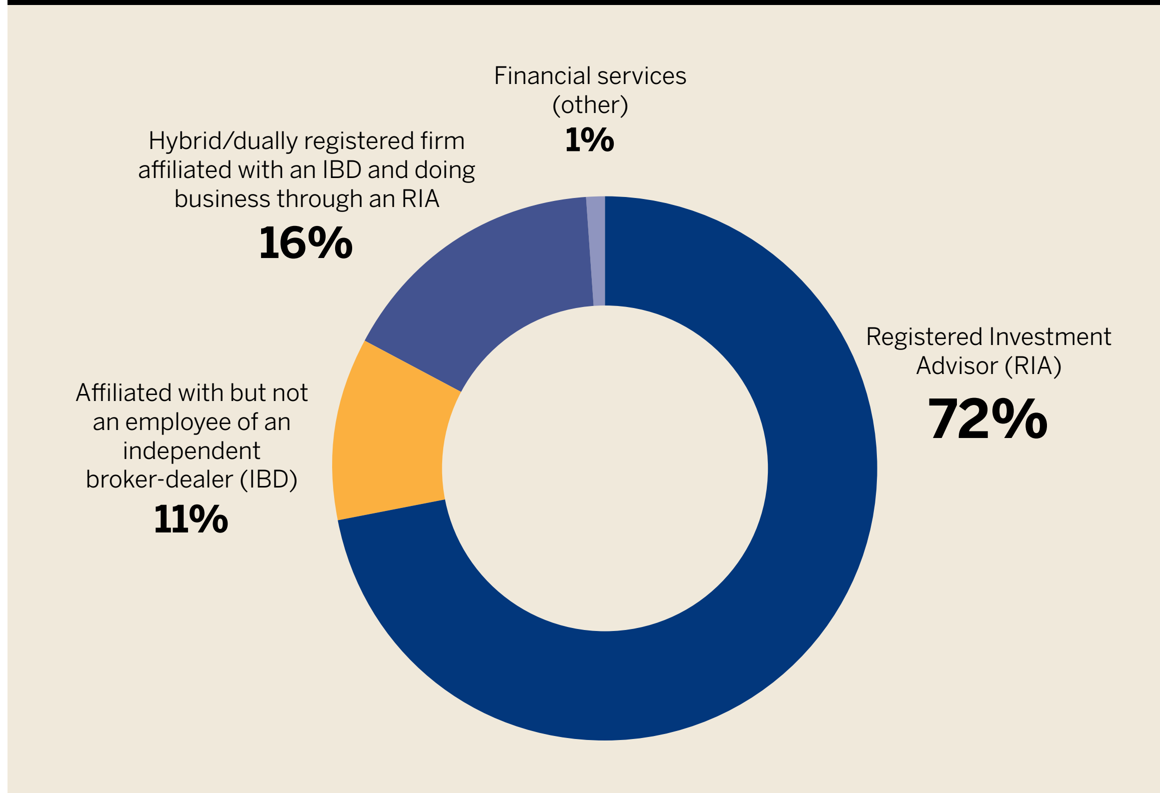
"It's important for us to create a supportive and collaborative environment for our advisors," says Nicholas DiFiore, director of operations at winner VLP Financial Advisors. "Our team ethos revolves primarily around mutual support and mentorship."



"We care about the totality of our team members' lives – not just about how they're performing at work. What are their personal goals and how can we support them? When something's going on in their lives, how can we be there for them?"

Lauren Adams, Center for Financial Planning

BEST PLACES TO WORK FOR FINANCIAL ADVISORS BASED ON TYPE OF ORGANIZATION



Impressively, 100 percent of this year's winning firms offer flexible hours to accommodate events such as school commitments for parents or taking a family member to the doctor.

COLLABORATION AND EDUCATION

Founded in 1985, Michigan-based firm Center for Financial Planning has a proud record of monitoring employee satisfaction diligently. A key component of the firm's strategy is to nurture a culture of collective learning.

"If a client is a better fit with one of my partners or another advisor, it's no problem to either transfer

them or to work together. We're incentivized for clients to be happy, not for us to keep our hands on the clients," shares Adams.

By encouraging teamwork, the company creates a workplace where employees support one another. Every Monday, its 10-person planner team holds a meeting, offering employees the chance to discuss client cases and collectively solve problems.

"When you think about the hourly billing, it's an expensive thing for the firm to do, but we've done it for decades," adds Adams. "You don't have to go at it alone. You're a part of a team where you can ask for help."

Working to expand its own team, Best Places to Work winner JMG Financial Group has increased its employee count by 45 percent since 2020. To better focus on its people, the company frequently implements employee feedback and has introduced:

- a bonus pool
- restructured career pathways

To fulfill requests for further compensation benefits, in 2016, the company added a bonus pool to its incentive structure, allowing all staff to benefit when new business is acquired.

"We want everyone to benefit when we get new clients because everybody helps with new business. When one team has an influx of new clients, they often get some help from another team to help them out," says Yonhee Gordon, principal and chief operation officer.

The pool system not only encourages teamwork but decreases competition among employees as financial incentives are not solely based on individual performance.

"There's a great aspect of teamwork here, and we all want the boats to rise together," adds Gordon.

This year, the firm is also working to update its employee development framework to account for alternative career pathways.

"This really has to do with addressing the individuals who are really good at certain aspects of providing support but may not really want to be that lead advisor," says Gordon. "I think it's wonderful that we are listening to that and rethinking how we can modify the career path for them."

VLP Financial Advisors and the Center for Financial Planning encourage career planning and education through incentives including:

- covered tuition for courses such as certified financial planner (CFP) and chartered professional accountant (CPA)
- professional development days
- opportunities to attend industry events and conferences

As a result of these initiatives, 50 percent of the Center for Financial Planning's employees have obtained a CFP designation.

"We encourage folks to get education and never stop. Just because you graduated college and got your CFP, it doesn't mean you have to be done," says Adams. "Everyone at the firm has a personalized professional development plan that's formally checked in on quarterly."

VLP's DiFiore adds, "We strive to create an environment where professionalism and personal growth go hand in hand, ensuring that our advisors have the support resources they need to succeed."

"The more you do to support your people, the more they will want to work hard to support the company. I think that's why we have a lot of loyalty in our firm and why we've been successful with high retention" YONHEE GORDON, JMG FINANCIAL GROUP

METHODOLOGY

To find and recognize the Best Places to Work for Financial Advisors, *InvestmentNews* and Best Companies Group first invited organizations to participate by filling out an employer form, which asked companies to explain their various offerings and practices. To be eligible, an organization must:

1. be a registered investment adviser (RIA), affiliated with (but not an employee of) an independent broker-dealer (IBD), or a hybrid/dually registered firm affiliated with an IBD and doing business through an RIA;
2. be based in the US;
3. have a minimum of 15 full- or part-time employees working in the US (all employees in the company should be included in the employee count, not just in the financial advising department); and
4. be in business for a minimum of one year.

Next, employers completed an in-depth questionnaire and employees were given the opportunity to offer their honest feedback by taking part in a company-wide survey. Once both portions of the assessment were complete, the *InvestmentNews* team analyzed the data to determine if an organization had what it takes to be the "best."

To ensure credibility, organizations having 15–24 employees must have an 80 percent or better response rate on the employee survey.

INTERNAL SUCCESSION

InvestmentNews data reveals 89 percent of this year's winners have formalized programs and practices for succession planning.

WHERE THE BEST PLACES TO WORK ARE BASED

WA 1
OR 1
CA 7
ID
NV
MT
WY
UT 1
CO 1
AZ 2
NM
ND
SD
NE
KS
OK
TX 10
MN 1
IA
MO 1
AR
LA
WI 1
IL 6
MI 2
IN 1
OH 2
KY
TN 1
MS
AL 3
GA 2
FL 5
SC
NC
WV 1
VA 6
MD 1
DE 1
PA 3
NJ
NY 6
VT
NH 2
MA 5
CT 1
RI
ME
DC 1
AK
HI

"We've retired all three of our founders, and they're all clients today, which is wonderful. They were replaced by the second generation, and as they retire, they're bringing up the third generation," says Adams.

This succession planning is achieved through the firm's pathways to partnership document. By providing employees with the informational resources and support they need to advance within the company, over the last five years, the Center for Financial Planning has successfully internally promoted four staff members to partners.

Over the last 30 years, JMG has maintained an average employee tenure rate of 15 years. Gordon attributes part of this success to the firm's dedication to developing and promoting internal talent.

This year, the firm onboarded several new partners. Gordon notes that among those promoted, two started out at JMG as receptionists, each having worked at the company for over 30 years.

"We recognize that we want to keep talented employees, so that's why we invest in our people."

RECOGNITION, REWARDS, AND BENEFITS

Across the 2024 winners, employees reported that:

- 92 percent are satisfied with the amount of vacation or paid time off
- 88 percent feel their pay is fair for the work they perform
- 92 percent are satisfied with their organization's benefits package

VLP Financial Advisors provides employees with a range of benefits and incentives.

"In terms of benefits that advisors value the most, we found programs on well-being, mental health, and flexible work arrangements were greatly appreciated," says DiFiore.

As part of the health insurance plan, its 20 employees are given a subscription to Noom, the mental health and exercise app.

"By cultivating a workplace where our team members feel valued, supported, and connected, we're able to create a positive environment where everyone can thrive," notes DiFiore.

At the end of 2021, the firm extended its hybrid work model to offer employees an improved work-life balance, transitioning from two remote days a month to two days per week.

The Center for Financial Planning keeps employees engaged through gamified reward systems. At monthly team meetings, employees can nominate one another for demonstrating key company values:

- Commitment to the financial planning process
- Education and personal growth
- Nice and kind
- Teamwork and collaboration
- Energy and enthusiasm
- Real and down-to-earth

The nominated employees spin a wheel to earn rewards ranging from a free lunch to a day off. Adams notes, "It's peer-driven, connected to our values, and there's some fun because it's a recurring cadence."

Accordingly, *InvestmentNews* data highlight 95 percent of the companies on this year's list ranked positively when employees were asked to determine if they had fun at work.

Another related scheme is offering monetary rewards, where employees can earn between 15 percent and 50 percent of their annual salary in incentive compensation based on factors including:

- employee performance
- the firm's revenue growth

"The incentive compensation we give depends on the percentage of year-over-year revenue. If we have more than 10 percent growth, we give employees the highest amount. If we have less, it's lower," states Adams.

JMG Financial Group shows appreciation for its employees through engaging social events. The firm's event committee hosts monthly functions ranging from Olympic games to Thanksgiving luncheons and themed holiday parties (previous themes include casino nights and masquerade balls).

"The holiday party is like a little wedding. It's 150 people because it's the employees and their guests. We want everybody to have a good time," shares Gordon.

During tax season, JMG's employees prepare over 1,400 returns. While advisors are required to come in on Saturdays to keep up with the workload, JMG introduced in 2021 a culture club to make the extended hours more enjoyable. Working in collaboration with the events committee, the

“Employee engagement is integral to our ability to attract and retain top talent. The enthusiasm and passion our employees have resonates with our clients, partners, and the community to help reinforce our reputation as a trusted advisor”

NICHOLAS DIFIORE, VLP FINANCIAL ADVISORS

employee-led club plans after-work happy hours and themed dress-up days.

“Employees don’t have to participate,” says Gordon. “It’s just about having the opportunity to do things like that.”

To create programs and incentives that are meaningful to employees, the Center for Financial Planning places an importance on feedback. The firm gathers employee opinions and ideas through:

- feedback surveys three times a year
- company-wide visioning in which employees were asked to share what they wanted the firm to look like in 2030

“We spend a lot of time, energy, and money on our firm culture,” says Adams. “We put as much emphasis on our team member experience as we do on our client experience. All team members have a say in our firm vision and goals.”

Similarly, VLP conducts quarterly connectivity surveys, giving advisors the chance to provide upper management with feedback.

DiFiore says, “The surveys are geared around gathering recommendations and insight from the team to ensure alignment with their preferences.”

VLP’s employee connectivity surveys have:

- 90 percent participation rate
- 95 percent satisfaction rate

As a result of this feedback, DiFiore plans to expand VLP’s wellness offering to paid family medical leave.

EMPLOYEES’ INSIGHTS FROM THE 2024 WINNERS’ REPORT

Statement	Percent
My physical working conditions are good	99%
I feel physically safe in my work environment	99%
I believe there is a spirit of cooperation within this organization	97%
I feel I can trust what my supervisor tells me	95%
I would recommend working here to a friend	96%

“This will provide longer parental leave for team members and paid leave for caretakers in case somebody from a family is ill or injured.”

DIVERSITY, EQUITY, AND INCLUSION

In a male-dominated sector, the Center for Financial Planning stands out for its history of equal leadership. This is illustrated by women being:

- 54 percent of the firm’s historical owners
- 42 percent of the firm’s financial planners
- three of the eight current partners

Despite these successes, Gordon notes that further work still needs to be done across the industry to promote female representation.

Citing a lack of awareness, the chief operation officer hopes to see a future where young women are more actively encouraged to pursue careers in finance.

“One out of every six applicants I get are female – that’s a low percentage. I think we need to do more to educate parents about this profession to their daughters. Even in college, some students don’t know about financial planning majors until they’re a junior, and then it’s too late to change.”

The formal recruitment and retention programs and/or practices of this year’s winning firms show that:

- 53 percent target varying ethnic and cultural backgrounds
- 27 percent address those who may require accommodations for their mental or physical limitations
- 28 percent promote an aging workforce

To further bolster its DE&I efforts, in 2020, the Center for Financial Planning introduced a floating holiday, offering employees the ability and flexibility to observe religious holidays.

“We introduced it with the purpose of saying, If your personal religious calendar doesn’t line up with our days off, we want to be flexible and support you,” says Adams.

Having received *InvestmentNews’* Best Places to Work award for seven consecutive years, the Center for Financial Planning has a proven track record of excellence.

“We have a great thing going, but we certainly don’t want to rest on our laurels. There is always room for improvement,” adds Adams.

BEST PLACES TO WORK FOR FINANCIAL ADVISORS 2024

Small Employer Category (15–29 US Employees)

Zuckerman Investment Group

Phone: (312) 948 8000
Email: info@zuckermaninvestmentgroup.com
Website: zuckermaninvestmentgroup.com

- Adams Wealth Management
- Affirm Wealth Advisors, Ameriprise Financial
- Armstrong, Fleming & Moore
- Austin Asset
- Beaird Harris Wealth Management
- Berman McAleer
- BSW Wealth Partners
- Burton Enright Welch
- Condor Capital Wealth Management
- Financial Freedom
- Financial Synergies Wealth Advisors
- Gibson Capital
- Glassman Wealth Services
- Hemington Wealth Management
- Legacy Wealth Management
- McLean Asset Management Co.
- Moisand Fitzgerald Tamayo
- Pennington Wealth Management
- Richard P. Slaughter Associates
- Sanderson Wealth Management
- Sensible Money
- Spectrum Investment Advisors
- The Planning Center
- Tobias Financial Advisors
- VLP Financial Advisors
- Wealthstream Advisors
- Willis Johnson & Associates
- Winthrop Wealth
- WPWealth

Medium Employer Category (30–49 US Employees)

Center for Financial Planning

Phone: (248) 948 7900
Email: contact@CenterFinPlan.com
Website: CenterFinPlan.com

- Altfest Personal Wealth Management
- Capstone Financial Advisors
- Diversified
- Fragasso Financial Advisors
- Gerber Kawasaki Wealth and Investment Management
- Halbert Hargrove

BEST PLACES TO WORK FOR FINANCIAL ADVISORS 2024

- McKinley Carter Wealth Services
- Moran Wealth Management
- Northwest Asset Management/RIA Innovations
- Private Vista
- RTD Financial
- SFMG Wealth Advisors
- SHP Financial
- Skyeburst Wealth Management
- Smith Anglin Financial
- True North Advisors
- Wealthquest
- West Financial Services
- Westmount Partners

Large Employer Category (50 or More US Employees)

JMG Financial Group

Phone: (630) 571 5252
Email: yonhee@jmgfin.com
Website: jmgfinancial.com

- Accredited Investors Wealth Management
- Bailard
- Bridgeworth Wealth Management
- Cassaday & Co.
- Dakota Wealth Management
- Envisage Wealth
- Fortis Lux Financial
- Integrated Partners
- Krilogy
- Kuttin Wealth Management
- Merit Financial Advisors
- Mission Wealth
- MONECO Advisors
- Morton Wealth
- Pinnacle Investments
- Provenance Wealth Advisors
- RFG Advisory
- SignatureFD
- Simon Quick Advisors
- Strategic Retirement Partners
- SYM Financial Advisors
- Telemus Capital
- The Colony Group
- Waverly Advisors

FATHER-SON FINANCIAL TEAM SHARES TIPS FOR BUSINESS AND RELATIONSHIP SUCCESS

UBS wealth manager Hannes Grascher was extremely careful when he brought his son Max on to his team – the last thing he wanted to do was disturb the streamlined operation, let alone a warm relationship with his offspring

BY GREGG GREENBERG

Like father, like financial advisor.

Bringing a new member into a fully operating wealth management business generally offers an injection of optimism along with the prospect of growth. It could introduce much-needed technological or marketing expertise to the team, for instance, or broaden the division of labor, making everyone's load a little lighter.

And it's even better if a new addition brings assets to the operation. An AUM infusion is always a welcome benefit for a firm intent on expansion.

All that said, despite the best of intentions and background checks, partnerships don't always work out. Bad fits happen. And breaking up – and unwinding those assets – can be very hard to do.

That's why Hannes Grascher, a UBS wealth manager overseeing over three-quarters of a billion dollars in assets, was extremely careful when bringing his son Max onto his team, the New York International Group. The last thing he wanted to do was disturb an already streamlined operation, let alone a warm relationship with his offspring.

STAND BY YOUR PLAN

"The plan was never to bring him into our team right away, but rather let him go through an extensive training program that UBS offers," Hannes said. "In the program, recent college graduates are funneled through various roles and departments, after which they can decide which part of the firm would be a good fit for them."

After the three-year program concluded, Hannes felt Max was ready to join his team, which he did in the summer of 2020, smack in the middle of COVID. The pandemic actually helped the acclimation process as it provided the pair with a unique challenge they could overcome together. It also afforded the elder Grascher an opportunity to discover how his son's talents could best be utilized.

> "Our family clients appreciate the continuity Max and the younger members of the team represent"
>
> Hannes Grascher, UBS

"We had a lot of our ultra-high-net-worth families who were going through generational wealth transfers. They really liked the fact that there was somebody on the team who was their kids' age who then could continue working with their family after I was out of the picture," said Hannes.

Aside from connecting with the children of Hannes' clients, Max, a former college athlete, also offered useful skills when prospecting for professional athletes and entertainers, a cohort well known for blowing through their fortunes due to a lack of financial guidance.

"Since he joined us, we've been doing a lot of work with NBA players and their families. A lot of athletes are Max's age and just have a better connection with him," said Hannes. "At the same time, the parents like to see the gray hair and experience in the room."

The idea of targeting pro athletes and pop stars originally came from Max at his father's request. It has since grown into a significant segment of what is now the Grascher family business.

"When I first joined my father in July of 2020, the first thing he told me was to figure out the types of clients I'd like to work with when I became a full-time financial advisor. Given my passion for sports and music and being a former collegiate athlete myself, it made a great deal of sense to try and work with professional athletes and entertainers," said Max, who last summer was invited to sit on an educational panel for recent NBA draftees and their parents.

When it comes to his development as a financial advisor, Hannes is a proponent of letting Max learn from his mistakes. He just works to make sure they are "cheap ones."

"Fortunately, we have had very few disagreements and are compatible. He respects my experience and tries to learn as much as he can, and I soak up his energy and drive to get things done," Hannes said.

For his part, Max says working alongside his dad in the office feels a lot like the camaraderie he felt as a college soccer player.

"I'm learning a lot from him every day, and seeing him excel at his job always motivates me to lift my game. I think there are certain things that I do that definitely motivate him to continue improving," said Max.

Hannes and Max Grascher

HANNES GRASCHER

- Joined UBS in 2001 after serving as an analyst at Lehman Brothers
- Started The New York International Group, a multilingual team dedicated to providing wealth advice to affluent families and corporate executives
- Frequently speaks at firm and industry conferences about working with international clients
- Fluent in French and German
- Holds a BBA in international business from The University of Texas, Austin, and an MBA from NYU Stern School of Business

MAX GRASCHER

- Began his career at UBS in 2017 as a client service associate
- Joined his father Hannes at the New York International Group in 2020 as a senior wealth strategy advisor
- Transitioned to financial advisor role in 2023
- Achieved certified exit planning advisor credential in 2021, certified private wealth advisor credential in 2023
- BA in history, Honors College at the University of Vermont

"I'm learning a lot from him every day, and seeing him excel at his job always motivates me to lift my game"

Max Grascher, UBS

Max is also striving to be a better and more knowledgeable teammate as well. Last year he went through a six-month process to earn his certified private wealth advisor certification via the Booth School of Business at the University of Chicago.

In terms of investment style, they both coordinate and take a holistic approach when constructing portfolios and wealth plans for clients. Nevertheless, Max admits his father is a bit more "old school" in picking certain equity positions, while he tends to lean more toward "ETFs and diversified funds that are less concentrated."

One other item worth noting, according to Hannes, is that his clients also welcomed Max – and what he represents – with open arms.

"Our family clients appreciate the continuity Max and the younger members of the team represent. Many of them build their wealth through family-owned enterprises and they totally get the importance of planning to transition to the next generation," he said.

GRASCHER: THE NEXT GENERATION

Hannes says the pair have discussed how their business will eventually be passed down once he steps aside. He says it's the same conversation he has with many of his clients and involves how to fairly incorporate siblings not involved in the family business into an estate plan.

"Max will take over the business when I retire, and I told him that I would have to make financial adjustments to be fair to his two siblings," he said. "And he understands it."

"My goal is to teach Max the best practices that I have learned over the last 30 years and help him to build his own business and then leave him my business when I'm ready to retire," Hannes said. "And yes, it would be great if my younger kids or even grandkids had an interest in this business and could join Max 20 years from now, when he can go through the same process of teaching them how to run a successful wealth management business."

In the meantime, both father and son are enjoying growing the business and spending quality time together.

"Most kids don't spend that much time with their parents after graduating from college," Max said. "Being able to go to work with him every day, and at the same time helping others achieve their goals, makes what we do feel like the best job in the world. And best of all, we get paid for doing it!"

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EXPANDING AN ADVISOR'S PLAYBOOK

Christopher Zook, founder of CAZ Investments, has created a global network of investors that enables access to private market opportunities, including professional sports teams

BY JAMES BURTON

EVEN WITHOUT the fervor around the Travis Kelce-Taylor Swift love story, sports franchises are big businesses watched by billions. They also occupy a unique place in the world of private equity, something renowned investor Christopher Zook has capitalized on.

Owning sports teams is just one chapter in the Zook playbook, however. Based in Houston, Texas, he is founder, chairman, and chief investment officer of CAZ Investments, which has about $6 billion in assets under management in the private markets across the likes of energy, general partner stakes, private credit, real estate, and professional sports. He has also been hitting up the book circuit with Tony Robbins as co-author of *The Holy Grail of Investing*.

CAZ's owners and shareholders – Robbins is a minority, passive shareholder – have more than $600 million of their own money invested in the company's funds. But its blueprint meant creating a network where others could co-invest, "lock arms as a unified front," and gain access to opportunities previously available only to large institutions. Its CAZ Network now stands at about 3,100 investors in 50 states and 13 countries.

"There's a lot of big institutions that can write large checks," Zook says. "And then there are a ton of people that can write fast checks. There are very few people that can write fast and large. In the last 12 months, we've invested a million dollars in an investment and a billion dollars in an investment. There are very, very few people and organizations that can flex like that."

Since it was founded in 2001, CAZ has primarily focused on vehicles for qualified purchasers – those with $5 million in investments – but it has now opened the door fully to accredited investors with its new CAZ Strategic Opportunities Fund.

AVERAGE 5-YEAR CHANGE FOR THE MOST VALUABLE TEAMS BY SPORT

SPORT	# OF TEAMS	AVERAGE VALUE ($ MILLION)	AVERAGE 5-YEAR CHANGE
Formula One	2	3,850	232%*
Soccer	7	5,275	114%
NFL	30	5,108	100%
NBA	6	4,929	76%
MLB	5	4,840	72%

*Formula One's change is over a four-year period

Source: Forbes, 2023

> "I'm so much better as a private market investor because of being a commodities trader. If you do not have discipline about what you're doing with the amount of leverage embedded in commodities, they will take you out on a stretcher"
>
> CHRISTOPHER ZOOK, CAZ INVESTMENTS

The firm's founder is riding the crest of a wave and bullish in his outlook, believing that the Federal Reserve is "stuck in a box" and unwilling to risk cutting rates as quickly as people expect. This will serve as a boon to what CAZ offers, according to Zook, which is less correlation to the public markets.

However, the true essence of Zook's philosophy was born years earlier after a knee injury forced him to give up playing football for Texas Tech University. To help pay for college, he started trading commodities. A course in agricultural economics had sown the seed and taught him how to hedge. If you've got a corn crop, for example, you'd better hedge it in case the price is bad when you harvest. Zook applied these principles to the financial markets and never looked back.

"I'm a very competitive person, and one of the things I love about trading in general markets is at the end of the day, you know whether you've won or lost," he says.

"Candidly, and I've never really said this publicly, but I'm so much better as a private market investor because of being a commodities trader," he adds. "If you do not have discipline about what you're doing with the amount of leverage embedded in commodities, they will take you out on a stretcher."

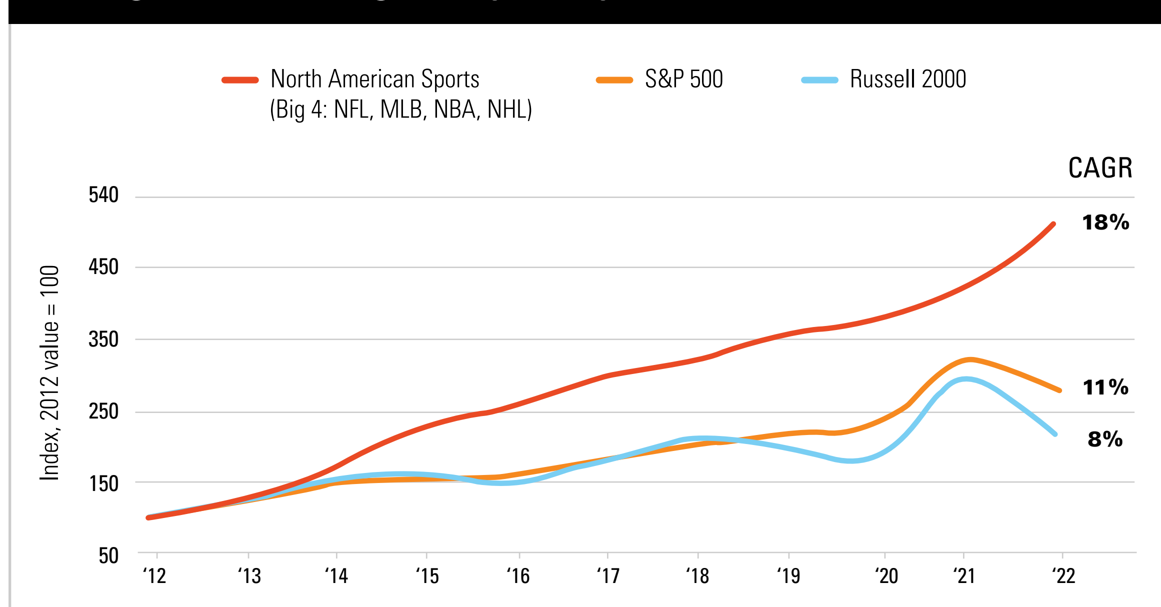
Zook got his start in the industry at PaineWebber & Co., which was acquired by UBS in 2000, before he was recruited to Lehman Brothers, where he worked in the executive services firm. Then, after a stint at Prudential, he moved to Oppenheimer. But in the background of all these jobs was a goal he set himself at 21 – to create CAZ Investments within 10 years. Nine years and nine months later, with the backing of some prominent families in Texas, he achieved his goal.

Zook puts CAZ's subsequent success down to its "enormous respect for risk." Over 23 years, in realized and unrealized investments in the private markets, he says CAZ has made money on 94 percent of them. "We spend almost all of our time focused on what can go wrong. What's going to blow up in our face? What's going to simply not work?"

The world of sports, then, with all its potential for heartbreak and unpredictability, doesn't sound like a natural fit. But separating the on-field from the off-field activity is crucial, and CAZ's portfolio of 30 sports franchises makes for eye-catching reading.

In the US alone, it includes Major League Baseball names like the San Diego Padres, San Francisco Giants, Los Angeles Dodgers, Chicago Cubs, Houston Astros, and Boston Red Sox. In the National Hockey League, it owns stakes in the Tampa Bay Lightning and Pittsburgh Penguins, while the National Basketball Association is represented by the likes of the Sacramento Kings, Golden State Warriors, and Philadelphia 76ers.

ANNUALIZED RETURN 2012–2022



Source: Forbes, Capital IQ

Major League Soccer clubs also feature, but beyond North America, CAZ owns a piece of Premier League team Liverpool, French club Paris Saint-Germain, and Formula One team Aston Martin, and it recently bought into the PGA Tour.

There's no doubt this is a fun area of investing for many, but Zook says the thesis for buying sports teams is actually about capturing the change in consumer behavior. With the rise in streaming, the demand for live content among advertisers is "going through the roof."

"It's an irrefutable trend," he says. "So, how do you take advantage of that? Well, I can't buy a piece of the Eagles, the music group, and I can't go out and buy a piece of the Oscars. But I can buy professional sports teams. Four years ago [the rules changed], starting with Major League Baseball in the United States, we now have the ability to own qualified institutional investor [minority] stakes in multiple teams."

Generally, owning sports teams is a capital gains vehicle rather than a cash revenue generator. And while European sports is a different animal given its promotion-relegation model, US sports teams benefit from having a legal monopoly in their cities, gaining a guaranteed pro rata share of profits, season ticket sales, media rights, sponsorship deals, and often ownership of surrounding real estate. It's why professional sports teams in North America have outperformed the S&P 500 by a factor of two over the last 25 years compounded, Zook adds, because it's a very predictable business model.

CAZ also owns a plethora of different private asset management names like Silver Lake, Platinum Equity, and Monroe Capital – all stellar operations that have helped propel CAZ's success. It also loves general partner stakes and is fully behind the artificial intelligence boom, owning a piece of OpenAI. But the power of sports is a universal calling card Zook is happy to provide to advisors.

"We take great pride in helping investment advisors grow their businesses because they cannot get what we do," he says. "It's unique when we're able to go out and tell somebody, 'Oh, by the way, would you like to own a piece of the Houston Astros? Well, there's only one place in the world you can buy the Astros.' That's a differentiator for the advisor and the ultimate door opener."

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"We now have the ability to own qualified institutional investor [minority] stakes in multiple teams"

CHRISTOPHER ZOOK, CAZ INVESTMENTS

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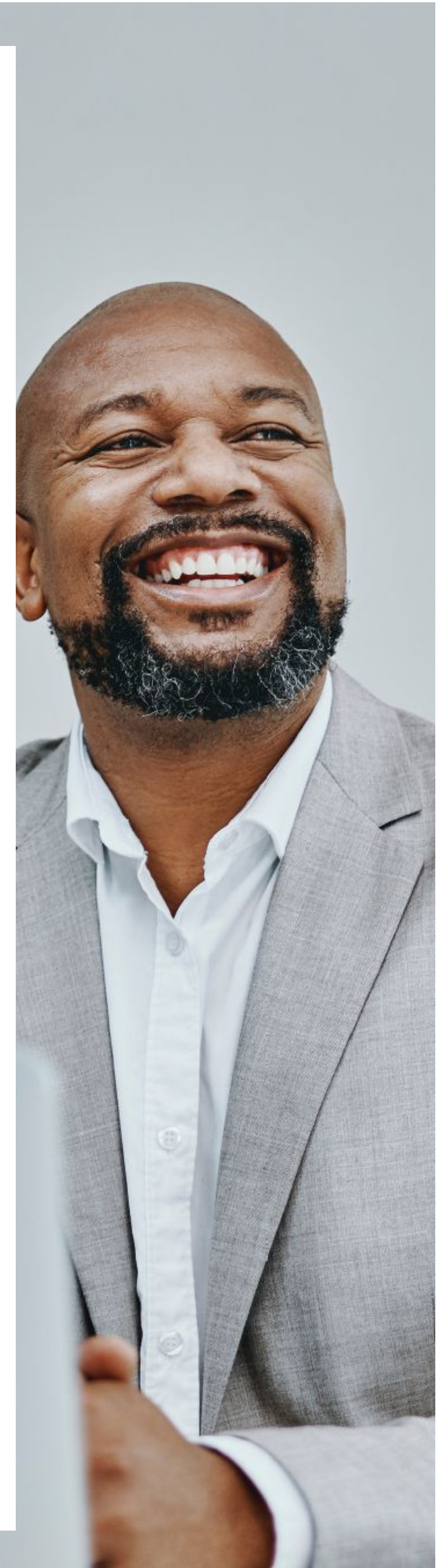

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ACTIVE VS. PASSIVE FUNDS

HOW MUCH ROOM IS THERE FOR ACTIVE MANAGEMENT?

While advisors' stances on active differ, money has increasingly flowed to passive funds

BY EMILE HALLEZ

Something happened late last year that had long been predicted in the asset management world, but nonetheless was a major event: money in index funds overtook the assets in active ones.

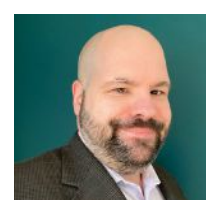
Behind that milestone is a demand for passive investing across mutual funds and ETFs. As investors and advisors have recognized the ability of active management to outperform benchmarks as an abnormality, money has gushed into index funds, largely at the expense of active managers.

Cost has also been a major factor, which is part of the reason that flows have favored ETFs.

But there's more to the story, as both active and passive ETFs have seen skyrocketing sales. Active ETFs brought in more than $129 billion last year, nearly double the $65 billion raked in by passive mutual funds, according to a recent Cerulli Associates report that analyzed Morningstar Direct data. Meanwhile, passive ETFs had net sales of $463 billion, and active mutual funds bled $576 billion.

While most financial advisors attribute portfolio returns to a combination of security selection and asset allocation, an increasing proportion – 40 percent – see it almost entirely as the latter, said Matt Apkarian, associate director of product development at Cerulli. That trend has been fueled by the flow of advisors moving from big broker-dealers to independent channels, he said.

"Those advisors, according to our data, believe less in the merits of active investing," he said. "They believe more that asset allocation is the true driver of portfolio returns, rather than security selection."



> "Passive, long-term investing keeps fees low and has stood the test of time"
>
> JAY ZIGMONT, CHILDFREE WEALTH

There is, of course, still demand for active strategies, and the early success of many active ETFs shows some proof of that. Those products have been absorbing some of the outflows from actively managed mutual funds, as advisors and clients see benefits in the tax efficiency of ETFs and, to some extent, the cost. That trend will likely accelerate, Apkarian said, as some investors in taxable accounts have been slower to move money out of active mutual funds because of the significant capital gains taxes they stand to incur.

By 2025, ETFs are expected to overtake mutual funds in total assets, he noted.

When asked whether they've been favoring passive investing over active management, advisors responded with a range of perspectives, via email.

"For my clients the past three to four years, I have been shifting from actively managed funds to passive, index funds as data continues to suggest the majority of actively managed funds are underperforming passively managed index funds, particularly over longer time periods," said Justin Rush, founder of JGR Financial Solutions, citing lower expense ratios on passive funds as an additional motivator. "With costs seemingly top of mind for many investors and my expectation that passively managed index funds will continue to outperform the majority of actively managed funds, I would anticipate this trend to continue the balance of 2024 and in the years to come."

Another advisor, Jay Zigmont, founder of Childfree Wealth, said his firm has always focused on a passive, long-term ETF strategy.

"Most of our clients are invested in three funds: US stocks, international stocks, and bonds, usually at Vanguard," Zigmont said. "Passive, long-term investing keeps fees low and has stood the test of time. We have seen more clients asking for ESG alternatives, which results in the same three funds, just the ESG versions, again at Vanguard. Investing in long-term, passive funds may not be sexy, but it works."

Alex Lozano, founder of Lozano Group Wealth Management, noted that financial planning has become increasingly personal, putting clients' goals and aspirations ahead of traditional market benchmarks. And since clients don't have to rely on brokers to access investments, with low-cost options plentiful, relationships have become front and center, he said.

"Passive investing will continue to surpass active investing, due to a shift in focus to the overall client/

“Passive investing will continue to surpass active investing, due to a shift in focus to the overall client/advisor relationship and comprehensive planning”

ALEX LOZANO, LOZANO GROUP WEALTH MANAGEMENT

advisor relationship and comprehensive planning,” he said. But “even with the shift of investment philosophy, active investing is not finished.”

Another advisor, Chris Diodato, founder of Wellth Financial Planning, said that he’s uneasy about the concentrations large-cap index funds currently have in individual companies.

“When I work with a client, I typically recommend holding no more than 5 percent of an equity portfolio in an individual stock. As of February 8, the S&P 500 has a 7.30 percent allocation to Microsoft, 6.60 percent to Apple, and 4.55 percent toward Alphabet (Google). The NASDAQ Composite [Index] is similarly concentrated,” he said, citing its allocations of nearly 9 percent to Microsoft, 8.6 percent to Apple, and more than 5 percent to Nvidia. “With this in mind, I’m looking at pairing traditional big cap index funds with active funds, or at least smart-beta funds, which can generate extra return or lower risk, but in a more diversified way versus typical large-cap index funds.”

This year could be different, according to a survey of fund selectors published early this month by Natixis. Sixty-nine percent of those working at the largest US wealth managers said they expect active management to be “essential to investment performance in 2024.”

Among those surveyed, nearly 60 percent said the active funds available through their firms beat their benchmarks last year. And nearly half said they attribute the outperformance of passive funds in recent years to Federal Reserve policy that led to a decade of artificially low interest rates and virtually no inflation.

Even though most active managers don’t beat their benchmarks over three-year time frames, active funds are a major part of model portfolios, though increasingly paired with index-based strategies, Apkarian said.

ACTIVE VS. PASSIVE

	ASSETS AS OF DECEMBER 31 ($M)	2023 FLOWS ($M)
Active mutual funds	12,720,575	-576,337
Active ETFs	523,870	129,251
Total active	13,244,445	-447,086
Passive mutual funds	5,677,026	65,238
Passive ETFs	7,574,667	463,041
Total passive	13,251,693	528,279

Source: Cerulli Associates, Morningstar Direct

But while flows have increasingly gone into passive strategies – including in collective investment trusts in the retirement plan market – most of the invested money is still in active, considering vehicles ranging from money-market funds, separately managed accounts, and alternatives, in addition to mutual funds and ETFs, he said, based on his calculations.

“I came to a figure that was more like 70 percent of assets still [being] active and only 30 percent are passive,” Apkarian said.

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INProfile

THE ART OF LONG-TERM INVESTING

Christopher Tsai, founder of Tsai Capital, explains the philosophy behind his laser-focused portfolio and the benefits of art investing for high-net-worth clients

BY EMILY DOUGLAS

While long-term growth and preservation of capital are hardly unique principles for a wealth management firm, for Christopher Tsai, it's his intermingled approach toward both that sets Tsai Capital apart – especially where his passion for art investment is concerned.

"We focus on five-year-plus time horizons," Tsai says. "Our client base, which includes high-net-worth individuals, charitable organizations, retirement accounts, and corporations, shares this commitment. This is a departure from the short-term orientation many managers adopt."

"You don't have to swing at every pitch because, in investing, there are no called strikes" Christopher Tsai, Tsai Capital

What underpins Tsai's strategy is his underlying acceptance of market volatility, a trait he inherited from one of his mentors, the late Charlie Munger, who instilled in him the idea of waiting for the right opportunity.

"You don't have to swing at every pitch because, in investing, there are no called strikes," Tsai says.

While 2022 presented itself as a challenging year, he was determined to leverage those pitfalls into opportunities – adding six new companies to his portfolio. All six were carefully researched over several years.

"We have a dozen or so investors and friends who I admire and communicate with almost daily about investment ideas," he says. "They're part of a strong ecosystem of fellow investors and CEOs that have been hugely beneficial to our investing process. We have 21 companies today, so we're highly focused, but we're diversified enough where we could weather rough waters."

When it comes to the company's investment criteria, Tsai emphasizes the meticulous selection process that narrows down a pool of about 2,000 companies to a focused portfolio of 21. Avoiding most cyclical companies, those with poor unit economics, and those not aligned with future trends, Tsai seeks asset-like business models with high returns on equity, significant competitive advantages, and a win-win ecosystem for all stakeholders.

"Ultimately what we're trying to find are businesses that can double every five to seven years. We're looking for companies that truly add value to the customer," he says. "If you're not adding value, your product or service is likely to get competed away over time. We always ask the question, 'Why is it difficult for the competition to take share?' It's telling, I think, if a company has had a long history of high returns on equity and capital and has been able to maintain that – there's usually something there, some sort of economic moat. We like businesses that have pricing power – but maybe haven't fully flexed that [yet]."

One of the more unique areas that stands out to Tsai is the realm of art investment. According to data from DollarSprout, art delivers average returns of 7.6 percent – with the United States leading the way, having monopolized 43 percent of the art-industry

> “Ultimately what we’re trying to find are businesses that can double every five to seven years. We’re looking for companies that truly add value to the customer”
>
> Christopher Tsai, Tsai Capital

value. Tsai believes this trend is only set to grow, and he cites three overarching benefits of investing in art for high-net-worth individuals.

“First, it can offer appreciation potential that has generally kept pace with the S&P,” he says. “Secondly, depending on what sort of art you’re talking about, there’s a low coefficient between art and the S&P 500 Index, which is obviously beneficial from a diversification standpoint. But I think the biggest benefit of owning art is that it can provide psychological comfort when you might be experiencing volatility in equities. If you know you have money stored elsewhere, you might not do something rash with your equity portfolio. So that, to me, is the biggest advantage.”

However, Tsai doesn’t downplay the challenges of art investment. And, despite the complexities, he sees parallels with equities, emphasizing the importance of positioning oneself on the right side of change.

“Art definitely has a place in the overall investment portfolio for high-net-worth individuals,” he says. “It’s far more difficult to own art and analyze it compared to equities because there’s no cash flow. It’s hard to come up with an intrinsic value. And I think that in many ways, art can be much more difficult to get into one’s overall portfolio in a way that actually makes sense.

“There is, with art, certain parallels to investing in equities,” he adds. “At Tsai Capital, we want to position ourselves on the right side of change. We want to align ourselves with where the world is moving. Today, institutions are focused on collecting underrepresented identity groups, and I don’t see that changing for some time.”

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Industry

One of Wall Street's highest-flying women is reportedly quitting

BETH HAMMACK had been billed as one of the most likely candidates to break into Goldman Sachs Group's all-male top tier.

Now, she's calling it quits after 30 years at the Wall Street giant, according to people with knowledge of the matter.

Hammack, 52, was once seen internally as a top choice to become the next chief financial officer. Even on Wall Street, where men dominate most firms, the lack of women at Goldman's highest levels has been a sore point internally. No woman has ever been appointed to the role of chair, chief executive, president, or CFO in the company's history.

Mercer Advisors welcomes five RIA industry veterans

MERCER ADVISORS has bolstered its executive team with five RIA industry veterans.

The firm's M&A partner development team welcomes Andy Burgess, Greg Mayes, and Jay Robinson as vice presidents. The three have worked with leading RIA custodians over 20 years, including Schwab, Fidelity, TD Ameritrade, LPL, and RBC.

Additionally, Mercer recently hired 30-year veteran Stacy Orff as vice president of platform marketing, and Jeff Dadamo as senior director of M&A investment integration.

"Every one of the 85 firms that have joined us through M&A is putting their life's work in our hands and our approach to building our M&A teams considers the gravity of deciding on their future partner," said Dave Welling, CEO of Mercer Advisors.

FOCUS

Are LPL shares heading to $300?

AFTER LPL FINANCIAL HOLDINGS said on February 13 that it was buying broker-dealer network Atria Wealth Solutions for a base price of $805 million, the company's shares popped.

The market, and some securities analysts who follow LPL, apparently liked the news of the latest acquisition by LPL, which has done dozens of deals in its history.

The price of the firm's shares (LPLA) hit a 52-week high of $263.34 that day before retreating to close at $257.80.

But the earnings potential that Atria's 2,400 financial advisors and $100 billion in assets could bring to LPL, once they move in 2025, struck one analyst, who raised his share price for LPL Financial above $300 per share. That would be an undeniable milestone for a company that had its initial public offering in 2010 at a price of $30.

Steven Chubak, managing director at Wolfe Research, wrote in a note that his price target for LPLA shares increased to $306 from $295, or an upside of 20 percent from where the stock is currently trading, after including Atria's financial contributions.

Chubak focused in particular on the low portion – about 20 percent – of Atria advisors' client assets in advisory accounts, which charge annual fees, with the remainder in accounts that charge commissions. The advice industry has been moving to charging more clients fees over the past two decades because such fees represent steady annual revenue and income for the firm.

"Atria has a relatively low advice penetration, which LPLA expects to

> **"We believe the addition of Atria will transform LPLA from a leading player in the space into a category killer"**
> STEVEN CHUBAK, WOLFE RESEARCH

Cetera's TRPG begins RIA integrations with acquisition of Kansas firm

THE RETIREMENT PLANNING GROUP has acquired 100 percent of the assets of Dightman Capital Group, an RIA based in Overland Park, Kansas.

The deal marks the start of integration of RIAs under TRPG, which was itself acquired by Cetera Holdings in May 2023 and oversaw around $1.8 billion in assets as of January 31. It's part of Cetera's effort to grow its share of the RIA market following the hiring of CEO Mike Durbin last year.

"This acquisition represents a continuation of TRPG's successful M&A strategy, and the first of more to come with the support of Cetera," said Kevin Conard, CEO at TRPG.

Summit Partners enters RIA venture with former exec

THE FORMER wealth head of First Republic Bank, one of the casualties of last year's regional banking crisis, has entered a partnership with Boston-based private equity firm Summit Partners as he seeks to launch a new RIA.

Summit announced that Bob Thornton, who was president at First Republic Private Wealth Management, was the latest member of its executive-in-residence program.

During his time at First Republic, Thornton oversaw the recruitment of over 150 high-caliber financial advisors and the development of various high-value programs, which included integrated planning resources and a white-glove insurance product, helping drive the bank's wealth business from roughly $10 billion in assets to over $250 billion.

accelerate towards its current advice mix," Chubak wrote in the note. "Second, Atria's Enterprise business was one of the few formidable competitors to LPLA; we believe the addition of Atria will transform LPLA from a leading player in the space into a category killer."

He also cited the cost savings from consolidating Atria's various broker-dealers.

There are plenty of questions about the deal given that so many financial advisors are involved, industry observers and executives noted.

Will Atria management deliver and move over more than 80 percent of its financial advisors, thus gaining a portion of the additional $200 million offered as an incentive? Will LPL look favorably at all of Atria's financial advisors, based on their work histories?

"This is like a completely fresh broker-dealer search for these 2,400 advisors," said Jodie Papike, president of recruiting firm Cross-Search. "They're looking at LPL as the custodian and back office, and asking, 'Is this a good fit for me?' There will be some fallout."

Mega-RIAs still winning out amid advisor growth surge: Cerulli

EVEN WHILE confronting their fair share of market headwinds in 2022, registered investment advisors experienced a burst of growth as new players entered the scene and existing participants continued to welcome new recruits, according to Cerulli.

In its latest research on the RIA market, Cerulli Associates revealed that total assets in the RIA channel dipped by 13 percent over the course of 2022 as the carnage in the broader financial markets filtered through to investor portfolios.

Nevertheless, the pace of growth in the number of advisors accelerated substantially, to 8.6 percent, nearly doubling the annualized rate of 4.4 percent over the previous 10 years.

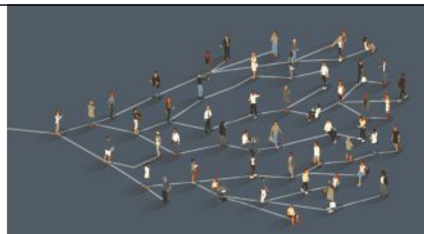
Citi boosts CEO Jane Fraser's pay to $26 million

CITIGROUP LIFTED chief executive Jane Fraser's pay about 6 percent to $26 million for a year in which she kicked off a major overhaul of the Wall Street giant to simplify operations and boost profitability.

The bank awarded Fraser a total of $1.5 million in salary and $24.5 million in stock-based and cash incentive awards for 2023. Fraser, who's been in her post since March 2021, was the only major bank CEO to get a raise for 2022.

The increase in pay for 2023 comes after Fraser initiated what's billed as the largest reworking of Citigroup in decades. Last month, the bank said it would cut 20,000 jobs in its bid to boost returns.

Stratos Wealth signs $700 million team from Osaic



STRATOS WEALTH PARTNERS has bolstered its advisor network by recruiting a California team with a hefty book of business.

Stratos announced that it is welcoming Pettinelli Financial Partners, an independent advisory practice based in Redwood City, to its platform.

Previously affiliated with Osaic subsidiary Royal Alliance – which was rebranded as Osaic Wealth last August – Pettinelli Financial Partners has an impressive $700 million in total client assets.

The firm includes founder Dennis Pettinelli and his son, president Jon Pettinelli, who get support from their 20-strong team as they offer comprehensive financial guidance to their clientele of multigenerational households.

Dynasty Financial taps industry veteran Tim Oden

IN A BID to cement its reputation for supporting breakaway advisors, Dynasty Financial has bolstered its bench with a big-name veteran of the wealth industry.

The leading platform for independent firms has just welcomed Tim Oden, most known for his tenure of senior leadership at Schwab, as an executive-in-residence for 2024.

"We are very pleased that Tim agreed to join us as a strategic advisor," Dynasty Financial founder and CEO Shirl Penney said in a statement. "As an architect of the RIA space and one of its longest tenured professionals, he will bring tremendous value to us as we navigate this fast-growing industry."

Regulation

Treasury proposes anti-money laundering rule for financial advisors

THE TREASURY DEPARTMENT'S Financial Crimes Enforcement Network proposed a rule on February 14 that would prevent criminals and foreign enemies from abusing the US financial system through investment advisors.

The Treasury says the proposed rule would mean certain advisors must apply anti-money laundering and countering the financing of terrorism requirements, including implementing risk-based programs, reporting suspicious activity to FinCEN, and fulfilling record-keeping requirements.

One of the wealth management industry's biggest vulnerabilities, according to FinCEN, is the uneven application of AML and CFT requirements across the sector, which allows both legitimate and illicit investors to "shop around" for an advisor who doesn't inquire into their source of wealth.

JPMorgan expects to pay more than $350 million for trade-reporting lapses

JPMORGAN CHASE & CO. expects to pay more than $350 million to settle regulatory claims that it failed to feed information on trades into market surveillance systems.

The biggest US bank will pay about that much to two US watchdogs and is in advanced talks with a third, the company said Friday in an annual filing.

"The firm self-identified that certain trading and order data through the CIB was not feeding into its trade-surveillance platforms," JPMorgan said, referring to its commercial and investment bank. "The firm does not expect any disruption of service to clients as a result of these resolutions."

FOCUS

'Legal' insurance tax break blasted

THE WEALTHIEST Americans are using high-end life insurance policies as a way to dodge billions of dollars in taxes, according to a Senate report released last Wednesday.

The Democrat-led Senate Finance Committee called the specialized life insurance plans a "booming tax dodge for the rich" and said such policies sheltered up to $40 billion.

While the tax advantages of the insurance plans are legal, the committee called for legislation clamping down on such plans and requiring more stringent tax-disclosure rules.

The plans, called private placement life insurance, differ from normal life insurance policies, in which policyholders pay set premiums so their heirs can receive benefits following their death.

Private placement life insurance plans are aimed at much wealthier customers, who use the policies much like private investment accounts, according to the Senate report. The plans are much more expensive than traditional life insurance, with initial premiums as high as $2 million – and policyholders are legally required to already have at least $5 million in other investments.

Once a policyholder has paid millions into their PPLI account, the insurer uses the money to buy shares in hedge funds, private equity firms, and other investment

SEC orders TIAA to pay $2.2 million for violating Reg BI

THE SEC HAS fined TIAA more than $2.2 million for not adhering to Regulation Best Interest in its recommendations involving individual retirement accounts.

The Securities and Exchange Commission found that the organization's broker-dealer subsidiary, TIAA-CREF Individual & Institutional

Services, failed to disclose to retail customers whose money it was managing that more cost-effective investment options were available to them through an optional brokerage window within the TIAA IRA.

More than 94 percent of TIAA's IRA customers opted solely for the core menu, resulting in nearly 6,000 retail customers paying over $900,000 in expenses they could have avoided by accessing the brokerage window option.

SEC fines VanEck $1.75 million over ETF finfluencer promotion

THE SEC ANNOUNCED a $1.75 million civil penalty against VanEck over its failure to reveal a social media influencer's role in marketing a new ETF.

An investigation by Securities and Exchange Commission revealed Van Eck Associates failed to inform the board overseeing the VanEck Social Sentiment ETF – launched under the ticker BUZZ in March 2021 – about the influencer's role or the unique fee structure, which directly correlated the index provider's compensation with the ETF's asset size.

While the SEC doesn't name the influencer, Dave Portnoy, the finfluencer and founder of the popular sports and pop culture website Barstool Sports, who helped kick-start the day-trading revolution, partnered with VanEck during the launch of BUZZ.

vehicles that are out of the reach of most people, according to the report. The assets are in a life insurance policy, so any money made by the investors isn't taxable, since the IRS typically can't tax either income within insurance policies or life insurance payouts.

The money doesn't have to remain locked up until the policyholder's death, either. Like some other life insurance products, PPLI products allow buyers to take out tax-free loans based on the value of the policy. When the policyholder dies, heirs can inherit any money still in the policy without being liable for estate taxes, according to the Senate report.

"As is often the case with our tax code and the ultra-wealthy, the scandal here is what's legal," Sen. Ron Wyden, D-Ore., chair of the Senate Finance Committee, said in a statement. "The companies aren't even trying to hide the fact that their PPLI policies were tax dodges for the very top – that's precisely how they were promoted."

"As is often the case with our tax code and the ultra-wealthy, the scandal here is what's legal"

SEN. RON WYDEN, D-ORE., SENATE FINANCE COMMITTEE

The committee has called for controls ranging from more stringent reporting requirements to the complete prohibition of tax-free PPLI plans.

The seven insurance companies that sell the most private placement life insurance policies all cooperated with the Senate investigation, according to the Senate report. In total, the companies reported only 3,061 active PPLI policies, held by some of the wealthiest people in the nation.

EBSA reports $1.4 billion recovery haul from 2023 enforcement

THE EMPLOYEE BENEFITS SECURITY ADMINISTRATION recovered more than $1.4 billion for workers, their families, and benefit plans during fiscal year 2023, the agency revealed on February 13.

According to the division of the Labor Department that's focused on benefit plans, formal enforcement actions accounted for more than half of the total recovered last year, amounting to $844.7 million.

"In total, EBSA's enforcement program helped 5,690 terminated vested participants in defined-benefit pension plans collect benefits of $429.2 million owed to them," the agency said in a statement.

Monetary recoveries from informal complaint resolutions accounted for $444.1 million, resulting from the resolution of more than 197,000 inquiries through EBSA's advisors.

Finra names new members to board

THE FINANCIAL INDUSTRY REGULATORY AUTHORITY said that Derrick Roman, a former partner at PwC, and Gus Sauter, a current member of Finra's investment committee, are joining its board as public governors, while Naureen Hassan, president of UBS Americas and CEO of UBS Holdings, will be its newest industry governor.

Roman brings over 30 years of experience in external audit, advisory, and risk assurance. Before retiring in 2012, Sauter had a 25-year career at Vanguard, where he was its first global chief investment officer.

Prior to joining UBS in 2022, Hassan served at the Federal Reserve Bank of New York, Schwab, and Morgan Stanley.

Wells Fargo consent order for fake accounts ended by OCC

WELLS FARGO & CO. said on February 15 that the Office of the Comptroller of the Currency terminated a 2016 consent order tied to a fake accounts scandal that plunged the bank into years of regulatory and management turmoil.

The order required Wells Fargo to revamp how it offers and sells products and services to consumers. The OCC said the bank's compliance with laws and regulations means the order no longer needs to be in place.

Revelations that the bank was creating accounts for customers without their permission also resulted in a cap on its growth from the Federal Reserve. Wells Fargo executives expect that to stay in place into next year.

Gensler cautions against overblown claims about AI

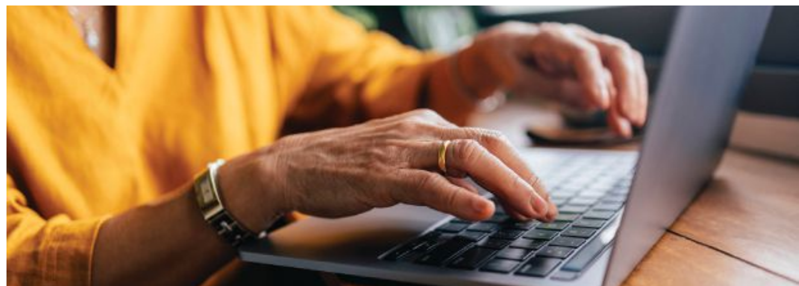
PUBLICLY TRADED COMPANIES need to avoid "AI washing" when they talk to investors about their use of the technology, according to the head of the Securities and Exchange Commission.

SEC chair Gary Gensler said companies must clarify for investors what they mean when referring to artificial intelligence. Corporations need to be specific about how they're using it and the risks to operations, and should decide whether executives' comments regarding the technology must be disclosed to investors.

"As AI disclosures by SEC registrants increase, the basics of good securities lawyering still apply," Gensler said on February 13 in a speech at Yale Law School.

Retirement

A government site for all your 401(k) data?



A GOVERNMENT WATCHDOG that wants everyone with a 401(k) plan to be able to see information on all their accounts in one place has asked Congress to legislate a nationwide dashboard.

In a report released last Tuesday, the Government Accountability Office pointed to a shortcoming in the 401(k) system – participants retain their retirement assets when moving from job to job. While that has helped serve the needs of an increasingly mobile workforce, it has left people with multiple accounts that can be hard to keep track of.

Creating a government-managed retirement plan dashboard would put the US in line with a handful of countries that help their residents keep track of savings, including Australia, Belgium, Denmark, the Netherlands, Norway, and Sweden, the GAO noted.

Social Security fixes include raising retirement age, taxable income cap

A NEW REPORT from the Conference Board's policy think tank suggests solutions to the insolvency crisis that's looming for the Social Security trust funds.

The brief from the board's Committee for Economic Development suggested raising the retirement age to 69, implementing means testing for high-income beneficiaries, and increasing the taxable-income cap. It also recommended removing work disincentives for retirees, diversifying trust fund investments, revisiting the calculation of cost-of-living adjustments, and extending coverage to new state and local workers.

The CED also called on the government to create a bipartisan Congressional Commission on Fiscal Responsibility, which would evaluate the different policy options.

FOCUS

Helping kids understand the meaning of money

FOR LIZ FRAZIER, families and working professionals take center stage. As a certified financial planner and founder of Frazier Financial Consultants, her life's work has been dedicated to making financial planning and education available and accessible to all.

"I really wanted to focus on the people who maybe don't have a million dollars to manage," Frazier says. "Which is the majority of the people in the world – because I feel like finance is overcomplicated in so many ways and it doesn't have to be. It's really quite simple. It's about spending, saving, earning, and growing your money – that's really it."

As Frazier delved further into the world of financial planning, she recognized the pervasive intimidation people feel about finance. This realization fueled her passion for financial education, culminating in the creation of her book, *Beyond Piggy Banks and Lemonade Stands*, which is specifically targeted at helping children understand the meaning behind money.

"Some of the challenges with writing a book about finance for kids is that finance isn't fun," she says. "It's not something that people are so excited to learn about. It was really important for me to make it as entertaining as possible and relatable for kids. What are some activities that they could relate to and enjoy, but still sneak in financial education? It was about making it really hands-on, too – because that's how kids learn."

During her journey, Frazier encountered a startup that aligned with her passion for financial education

Pontera partners with Captrust

PONTERA, A FINTECH firm that specializes in helping advisors manage 401(k) accounts, announced a new partnership with RIA Captrust Financial Advisors.

Pontera's software will be integrated into the Captrust tech ecosystem, giving its advisors more advanced tools to offer comprehensive wealth planning and investment advice. The integration is expected to facilitate better management across client portfolios and accounts, including employer-sponsored retirement plans.

Pontera's platform provides a secure, client-permissioned tool that allows advisors to manage assets in various retirement accounts, including 401(k)s and 403(b)s. The technology will enable Captrust advisors to analyze fund options, review historical performance, and align investments with their clients' personalized financial strategies.

OneDigital inks deal for Wintrust's retirement business

ONEDIGITAL INVESTMENT ADVISORS is acquiring Wintrust Investment's retirement benefits advisors division. Once completed, the deal will integrate over $2.6 billion in retirement plan assets into OneDigital's already hefty portfolio of more than $100 billion, including management advisory accounts associated with retirement plan assets for over 40,000 participants across more than 200 client sponsors.

The move is expected to extend OneDigital's influence in the retirement planning sector, particularly in the Chicago area, where both companies have established operations.

The acquisition is aimed at enhancing the retirement plan servicing business for both entities, bringing together OneDigital's comprehensive advisory services with Wintrust's client base and market presence.

NAPA launches retirement income certification

IN RESPONSE TO growing concerns about financial security in retirement, the National Association of Plan Advisors has unveiled a pioneering certificate program designed to help advisors offer effective retirement income strategies to their clients.

NAPA's new program, the retirement income for 401(k) plans certificate, aims to help advisors articulate the importance of retirement income solutions to clients and show advisors how they can support participants' broader financial goals.

Advisors who go through the program are also expected to be able to select the most suitable plans based on specific factors and explain the features and benefits of retirement income solutions to stakeholders.

"People are starting to understand that health means it's not just about physical and emotional health – it's financial health, too"

LIZ FRAZIER, FRAZIER FINANCIAL CONSULTANTS

– Copper Banking. The company's mission to raise financially literate adults resonated deeply with her too – through giving teens hands-on experience in saving and investing.

And it's this evolving framework of financial education that's really got Frazier excited for what 2024 can bring.

"Five or six years ago, financial literacy wasn't a huge thing," she says. "There wasn't a lot of conversations about it. In the past few years I've seen such an amazing improvement, and I see that as a huge opportunity for the future. I think people are starting to understand that health means it's not just about physical and emotional health – it's financial health, too."

DOL retirement security rule would be 'disastrous': GOP rep

REPUBLICAN LAWMAKERS BASHED and Democrats praised a Department of Labor investment advice proposal February 15 at a congressional hearing on the measure. Democrats asserted the proposal would be "in the best interest" of American workers, while Republicans and industry opponents said it is "a solution in search of a problem."

It could have a "disastrous impact on the industry," said Rep. Bob Good, R-Va. and chair of the House Education and Workforce subcommittee that held the hearing, adding that the DOL had overstepped its authority on the issue.

Rep. Mark DeSaulnier, D-Calif. and ranking member on the subcommittee, countered that an advice rule is needed because the primary DOL regulation, which dates to 1975, is riddled with loopholes, and "bad actors can get away with providing conflicted advice."

Hub rolls out pooled retirement plan

HUB IS LOOKING to extend its reach among small business owners with the launch of a new retirement-plan option, the Hub Retirement Select PEP, a pooled employer plan geared toward businesses with fewer than 100 workers.

The plan gives small business owners the opportunity to offer their employees 401(k) retirement plans at a lower cost, and with less complexity and a reduced administrative burden.

By allowing multiple employers

to join together, Hub says its PEP lets small business owners benefit from better service and the lower costs associated with scale, as well as having access to support from investment professionals that's similar to what large companies receive.

Target-date funds hit $3.5 trillion in record surge

COMING BACK FROM the challenges of 2022, target-date funds surged to an unprecedented $3.5 trillion in assets under management by the end of last year, according to a new report by Sway Research.

Target-date products saw a 22 percent increase in assets over the course of 2023, according to the firm. And despite predictions that collective investment trusts would surpass mutual funds in the target-date space, mutual funds narrowly maintained their lead, with $1.76 trillion in assets compared to CITs' $1.71 trillion. However, CITs experienced a more significant rate of growth in 2023, at 26 percent versus 19 percent for mutual funds, suggesting a potential shift in leadership this year.

YourPractice

Can generative AI help advisors with personalization?

A NEW SURVEY from Totumai, a technology firm dedicated to enhancing advisor-client communications, offers a fresh perspective on the shifting financial advisory landscape, particularly with respect to using generative AI.

In a joint study with research firm 8 Acre Perspective, Totumai surveyed 100 financial advisors to understand the challenges they face and how AI could help address them.

Only 25 percent of the respondents expressed a desire to spend more time on investment management, compared with 66 percent who prioritized client-facing activities and 45 percent who want to double down on prospecting and marketing efforts.

See more from the study on **page 4**.

Next-gen advisors 'demanding more ownership' of their firms

THE NUMBER OF advisors in the wealth management industry may be declining, but one advisor is hoping to shed some light on how firms can change that – by attracting and retaining key talent.

Ali Criss-Kemp, CEO and owner of Financial Insights, says to accomplish that, there have to be some changes in the way things are being done at many firms.

"I want to focus on how you can build your practice to not only get trained, or attract top talent, but also to retain that top talent by way of your benefit package, internal ownership, ideas, and culture," she says.

FOCUS

'We want to actually touch people's lives'

FOR MELISSA JOY, her love of financial planning really comes down to that quintessential human touch. As founder of boutique firm Pearl Planning, Joy's passion is people – and educating them on all things money.

"I love being able to talk to people both on a very technical level about their money, but also on a personal and emotional level about what their money means to them," she says.

Her empathetic and human-centric approach extends to recognizing the psychological and emotional components of financial decision-making. Joy is all too keenly aware that traditional economic theories often fail to encapsulate the real-world complexities and nuances of human behavior.

"There's so much that's psychological, emotional, and not necessarily rational," she says. "Everybody has a different set of experiences in their life. And their money is a big factor in how they think about things. There's a huge opportunity for you to bring value by helping them to be more effective in their decisions and behaviors."

That led to one of the more nuanced focuses of Joy's practice – divorce financial planning. It's something that people often don't consider until it's too late.

"We have several certified divorce financial analysts at our firm," she says, "including myself. We also have one planner who only works with people during a divorce, and she's really expanded our focus here."

But divorce is only one aspect of the boutique practice. Joy is incredibly proud of what's been accomplished over the past five years at Pearl, as the team worked with more than 200 families.

"And we manage around $195 million in assets," she says. "We're growing, but in the right way. We want to actually touch people's lives, know them as people, not just account numbers."

Looking to the future, Joy highlights

'Sobering' report shows increasing reach of fintech

ACROSS AMERICA, people are twice as likely to know about fintech firms like Robinhood and Chime as they are to be aware of the latest services from well-established companies like JPMorgan, Goldman Sachs, Fidelity, and Vanguard.

While 40 percent of US households have heard of Robinhood, and 39 percent of Chime, only 19 percent were familiar with J.P. Morgan Wealth Plan, 15 percent with Goldman Sachs' Marcus business, 14 percent with Fidelity Go, and 13 percent with Vanguard Personal Advisor Services, according to data published last Wednesday by consumer research firm Hearts & Wallets.

The findings, Hearts & Wallets CEO Laura Varas says, are "sobering."

What does work look like for financial professionals?

THE COLLEGE FOR Financial Planning has shared a valuable snapshot of the landscape of employment and compensation for financial professionals across the US.

Among the plethora of insights from its broad-ranging 2024 financial planning trends survey – which took responses from CFP certificants and its graduates – the college found a significant 89.6 percent majority were employed by financial services firms, while the rest were self-employed.

Among those employed, there was a nearly even split between small wealth firms with a field force of 1 to 150 advisors (46 percent) and larger institutions with 500 or more advisors (47 percent). Only 7 percent of respondents said their firm had 151 to 499 advisors.

MELISSA JOY AND TEAM

the need for regulation and innovation in finance, particularly regarding new investors who are vulnerable in the digital currency and investment markets. This in itself is driving a need for more relevant and authentic advice around investments.

"Investments are important, but they're somewhat commoditized. The value of financial advice is evergreen and growing, and the level of complexity in decisions that people need to make around money is only increasing as

"Everybody has a different set of experiences in their life, and their money is a big factor in how they think about things"

MELISSA JOY, PEARL PLANNING

"Our goal isn't to be the biggest," she says. "But hopefully we can have a really big impact in our clients' lives. It's been helpful to be forward-thinking – and not stuck in the mud and with a rearview mirror.

they're increasingly distracted by well-intended, or not well-intended, advice," Joy adds. "The need to kind of cut through that to deliver specific personal advice is so high that you know the future is bright for our profession."

Edward Jones leads the way in adding CFPs

THE CFP BOARD registered a significant increase in the number of certified financial planner professionals in 2023, and major financial firms played a key role in this growth.

According to new figures from Certified Financial Planner Board of Standards, 6,089 new CFPs were certified last year, with Edward Jones leading the way by certifying a record 1,000 new CFPs within a single one-year period, marking a 62 percent yearly increase. The brokerage firm has been providing support for advisors' efforts toward proficiency, including footing the bill for costs for certifications from the Investments and Wealth Institute.

See the other firms leading the way on **page 4**.

Sometimes it takes an advisor to bring a couple together

LOVE MAY KEEP couples together. Financial goals, on the other hand, may cause some friction.

According to a preview of an Ameriprise study on couples and retirement released on February 12, most couples feel positive about their financial relationships. That said, the study showed nearly a third of couples surveyed only "somewhat agree" that they share the same financial goals.

The data showed that nearly a quarter (23 percent) of couples "agree to disagree" when it comes to solving financial disagreements, and almost 4 in 10 couples (39 percent) strongly or somewhat agree that they didn't communicate enough about their finances when they first got together.

Demographic time bomb set to hit industry

NEARLY 40 PERCENT of financial advisors are expected to retire in the next decade, and the replacement rate is not keeping up.

Based on those simple facts, it's plain to see the wealth management industry is on the cusp of a demographic nightmare.

Compounding the problem, says Sandy Herzlich, vice president of retirement strategy at The American College of Financial Services, is the fact that the country's advisors are retiring, along with their baby boomer cohorts, exactly when those clients need their services the most. According to Cerulli, nearly 60 percent of RIA assets are managed by advisors aged 55 and above.

"The baby boomers need more financial advisors and we're providing less," Herzlich says.

Helping clients through divorce is the 'most rewarding feeling'

EVEN THOUGH FEBRUARY brings plenty of love and chocolate for many Americans, it also brings the end of marriages for many in the US.

Eric Ashburn, partner and private wealth advisor at Argent

Bridge Advisors in Tysons Corner, Virginia, says his decision to become certified as a divorce financial analyst resulted from seeing the value his colleagues were able to provide to individuals going through divorce.

"I felt like with my prior experience with working with business owners, it's just an extra area where I could add a lot of value when it came to divorce, because that's just an added complexity," Ashburn says.

Investing

Nvidia surges as AI drives sales

NVIDIA'S STOCK ROSE the most in about nine months after the company delivered another eye-popping sales forecast, adding fresh momentum to a rally that had already made it the world's most valuable chip-maker.

Revenue in the current period will be about $24 billion, the company said in a statement. Analysts had predicted $21.9 billion on average. Results in the fourth quarter also sailed past Wall Street estimates.

The outlook extends a streak of Nvidia shattering expectations, thanks to insatiable demand for its artificial intelligence accelerators – chips that crunch data for AI models. The technology has helped power a proliferation of chatbots and other generative AI services.

Should advisors bet on another big year for BDCs?

ADVISORS WHO BET on business development companies in 2023 turned out to be big winners. The question now is whether they should take some money off the table in case adverse economic forces weigh on these high-yielding investments.

BDCs blend attributes of publicly traded companies and closed-end funds, giving holders exposure to high-yielding, private equity-like investments. Last year, the S&P 500 BDC Total Return Index increased by an impressive 27.6 percent.

John Cole Scott, chief investment officer at Closed-End Fund Advisors, said: "The coverage right now for the average BDC for their dividend policy is almost 130 percent, so we expect less increases. There's a lot of coverage for increased cost of leverage or lower cost of loans if they trend lower."

FOCUS

Navigating the complexities of sustainable investing

JASON HOWELL understands the highs and lows of building first-generation wealth within a family better than most.

"You've got guilt, fear, and pressure," he tells *InvestmentNews*. "And as a first-generation person who has made a little bit of money [myself], there's even a little embarrassment."

As the founder of Jason Howell Co., he's convinced that sustainability is successful financial planning. It includes good budgeting, risk management, and estate planning if you're going to effectively pursue multigenerational wealth. Navigating the complexities of actual sustainable investing, Howell distinguishes between "ESG integration" and "impact investing."

"ESG integration is the most popular form of so-called sustainable investing in the United States. ESG integration is something you apply on top of your other investment analysis. Impact investing is actually an entirely different topic," he says. "It's saying, 'I'm going to take less of a return.' Some critics paste over the definitions and assume that all sustainable investing is impact investing – but my clients don't want to take a lesser return. They want me to do everything I can to create either equal or more return while not compromising their values." That's ESG integration.

Beyond his role as a wealth advisor, Howell finds fulfilment in teaching. Whether he's imparting wisdom to students at George Mason University, where he's an adjunct professor at the business college, or within his professional circle, Howell sees education as a tool for explaining economic complexities while cultivating responsible citizens.

"The students I teach already understand [corporate] finance, but by helping them to focus on personal finance, I can help them discern between false economic equivalencies by politicians and leaders," Howell says. "They don't just become better investors but better

Hedge funds cut back on Magnificent Seven

HEDGE FUNDS PARED exposure to the Magnificent Seven mega-cap tech stocks in the fourth quarter, according to Goldman Sachs.

"Funds were net sellers of most of the Magnificent Seven stocks" as their weights rose to records, strategists wrote in a note dated last Tuesday that analyzed 722 hedge funds with $2.6 trillion of gross equity positions. All the companies except Amazon saw a decrease in exposure, they added.

The changes underscore how investors are increasingly questioning whether the group – Apple, Microsoft, Nvidia, Alphabet, Amazon.com, Meta Platforms and Tesla – can repeat last year's performance, when an index of the stocks rose 106 percent versus the S&P 500's 24 percent gain.

Black, Hispanic investors younger, more open to risk: Report

WHILE MINORITY INVESTORS are entering the retail investing market at a faster pace than whites, they're also behaving more like younger investors when it comes to investing.

That includes relying on social media for investment information and trading risky investments, according to a report, *Investors of Color in the United States*, compiled by the Finra Investor Education Foundation.

The new investors, particularly those who are Black and Hispanic, tend to be much younger than white investors, according to Finra. And similar to other younger investors, Black and Hispanic investors are more likely to engage in risky investments such as meme stocks, cryptocurrencies, and options.

JASON HOWELL

“[Clients] want me to do everything I can to create either equal or more return while not compromising their values”

JASON HOWELL, JASON HOWELL CO.

citizens, so it’s a great opportunity to be able to be a teacher in this space.”

This emphasis on educational value goes hand in hand with the intersection of finance and policy, which Howell acknowledges is a symbiotic relationship. Speaking to *InvestmentNews*, he emphasizes that understanding policy nuances goes beyond predicting market movements.

“Finance and law are two sides of a powerful triangle, the third side being people – being able to predict policy that could make you a good investor,” Howell says. “But more importantly, understanding and following the differences between political rhetoric, fiscal and monetary policy helps my firm translate what is actually happening in the economy.

“Politics can influence short-term market volatility, but in the long term, which is what our clients are focusing on, the economic stability of our system in the United States is determined by entrepreneurs, by financiers, consumers, and clients,” he says. “They place their bets on that, and so do we.”

Despite tripling assets, responsible investing funds haven’t outpaced market

A NEW STUDY reveals that while the global responsible investing space has grown significantly over the past 10 years, responsible investing strategies aren’t growing at the expense of other types of funds.

According to research by the CFA Institute, responsible investment funds have seen a nearly threefold increase in AUM over the last decade, with total net assets soaring from roughly $2.2 trillion in 2012 to $6 trillion in 2022.

Globally, retail investors proved to be a driving force, with two-thirds (65 percent) of responsible investing funds’ AUM coming from retail. The US bucked the trend, though, with institutions accounting for 70 percent of the funds’ AUM in the US.

Investors ‘all in’ on US tech stocks, BofA survey finds

INVESTORS ARE GOING “all in” on US technology stocks as they turn the most optimistic about global growth in two years, according to a survey by Bank of America.

Allocations to tech are now at the highest since August 2020, the global survey of fund managers showed. Exposure to US equities more broadly has also risen, while easing macro risks prompted investors to trim cash levels by 55 basis points from January.

Previous such declines in cash levels were followed by stock market gains of about 4 percent in the following three months, strategist Michael Hartnett wrote in a note.

BlackRock’s ESG business is on fire despite pushbacks

DESPITE A BARRAGE of Republican attacks, lackluster returns, and diminishing client interest in the US, BlackRock has been quietly expanding its dominance in ESG investing.

The world’s largest asset manager has posted net ESG inflows every quarter for the past two years, a period that marks one of the toughest ever in the two-decade history of environmental, social, and governance investing.

In all, BlackRock’s ESG-related assets under management swelled 53 percent from the beginning of 2022 through the end of last year, according to data provided by Morningstar Direct. Over the same period, the wider ESG fund market grew only about 8 percent.

Are advisors missing the opportunity in active fixed-income ETFs?

A RECENT SURVEY conducted by Capital Group points to a significant gap in understanding the advantages of active fixed-income ETFs among financial professionals, highlighting an opportunity for education and increased adoption in the sector.

The survey of 400 financial professionals found they are investing less than 4 percent of managed assets in active fixed-income exchange-traded funds, despite a notable rise in demand for both active ETFs and active fixed-income mutual funds.

“Only 12 percent of fixed-income ETF assets are active, compared to 78 percent of fixed-income mutual fund assets,” Holly Framsted, Capital Group’s head of global product strategy and development, said in a statement.

Private equity returns have slumped, says Raymond James

PRIVATE EQUITY FUNDS last year returned the lowest amount of cash to their investors since the financial crisis 15 years ago, according to Raymond James Financial, hampering buyout firms in their efforts to launch new investment vehicles.

Distributions to so-called limited partners totaled 11.2 percent of funds' net asset value, the lowest since 2009 and well below the 25 percent median across the last 25 years.

"The cash flow math at the investor level is broken," said Sunaina Sinha Haldea, global head of private capital advisory at Raymond James. Because investors aren't getting money back from existing holdings, they're hampered in their ability to put money to work in new funds or re-top existing investments, she said.

Capital Group preps another wave of active ETFs

CAPITAL GROUP IS expanding its footprint in the active ETF business, filing for its fourth wave of products.

The firm, which launched its first exchange-traded funds just under two years ago, currently has $21 billion across its 14 ETFs, which it notes makes it one of the fastest-growing firms in the category.

In filings with the Securities and Exchange Commission, Capital Group indicated plans for four additional ETFs: the Capital Group New Geography Equity, International Core Equity, Global Equity, and Conservative Equity ETFs.

"We continue to expand our suite of ETFs which are designed to sit at the core of a portfolio," a company spokesperson said in an email.

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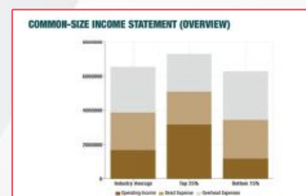

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