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INTEGRATOR-IN-CHIEF

Dave Welling, CEO of Mercer Advisors, lifts the lid on firm's strategy for bringing its many acquisitions into the fold

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Editorial

Opaque SEC sends a clear message: Stop texting

The ongoing investigation by the Securities and Exchange Commission into unapproved electronic communications has yielded eye-watering fines, sending tremors through firms across the country.

Ameriprise and LPL are both on the hook for $50 million for compliance failures in keeping records of advisors' and employees' electronic communications, such as text and WhatsApp messages.

And they're not the only ones. Top broker-dealers Cambridge Investment Research, Northwestern Mutual Investment Services, and Lincoln Financial Advisors were among 16 wealth management firms that previously agreed to pay $81 million collectively to settle charges brought by the SEC.

The regulator wants big, important firms like LPL and AMP to wake up, take this behavior in hand, and cut it out. Now. But while the SEC's intent is clear, its method of calculating the penalties is less so. One executive told *InvestmentNews* that there's "no rhyme or reason" behind these penalties, adding: "It's a bit of a black box at the SEC over this."

It's a critical issue. The crackdown represents the latest meeting point of two pressures weighing heavily on advisors in 2024 – the desire to be approachable and tech-savvy, and the need to meet regulatory standards.

On the face of it, it's easy to feel sympathy for advisors. The world operates on smartphones, and communication is quicker and easier than ever. The pandemic simply supercharged this. Tapping into this speedway of dialogue, such a central part of life in 2024, gives advisors direct access to clients and the chance to deepen these relationships – two things they crave.

But trigger-fingered messaging of this kind is not compatible with money management. Off-channel communications away from a dealer's platform can't be monitored and recorded effectively. This poses endless conflicts.

Given the risks involved, advisors must foster client relationships through less trendy, but compliant, communications channels

Such messaging opens up security risks around confidential information and could expose clients to fraud (just look at how the SEC itself was hacked in January), while a lack of record keeping could mean client instructions are lost or forgotten, leading to potentially calamitous mistakes in their account. Importantly for advisors, no "paper" trail means they may not have the evidence to defend themselves against a client complaint.

Given the risks involved, advisors must foster client relationships through less trendy, but compliant, communications channels. Making these appealing to clients is a challenge wealth firms must embrace. That requires more work than pinging someone on Facebook, but explaining your lack of frivolity on this issue could – and should – engender trust among prospects that you are the right person to manage their money.

Given the seriousness of these violations and the SEC's obvious determination to stamp them out with large fines, the regulators should also provide clear guidelines about how they're reaching these numbers. After all, record keeping is about transparency and integrity, and that starts at the top.

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

POSITIVE RETIREMENT SHIFT

In a year marked by resilient economic growth and a notable uptick in consumer confidence, the US saw substantial positive shifts in retirement savings plans, according to the latest retirement data from Fidelity.

37%
of workers on Fidelity's platform increased their retirement savings contribution rate in 2023

$4,600
average contribution from employers to workers' retirement accounts

73%
of eligible employees participated in their employer's workplace savings plan

14.1%
average increase in 401(K) balances in 2023

$501K
average balance for Gen X workers who have been in their 401(K) plans for 15 straight years

Source: Fidelity retirement report Q4, 2023

MAIN STREET INVESTORS BULLISH

The most recent retail trader survey from Charles Schwab reveals a significant uptick in bullish sentiment among retail traders, with more than half the respondents sharing optimism about the US stock market's prospects.

53%
are bullish on the market, up from just 32% in the last quarter of 2023

49%
see the current climate as favorable for equity investments, up from 41%

18%
of those surveyed are concerned with geopolitical and global macroeconomic issues

16%
are concerned with the political landscape in Washington, DC

54%
of traders reported feeling financially better off than they were a year ago, a 21% increase from last quarter

Traders are most bullish on the following sectors:

61% AI

54% Value

52% Domestic equities

35% International

33% Treasuries

32% Cryptocurrency

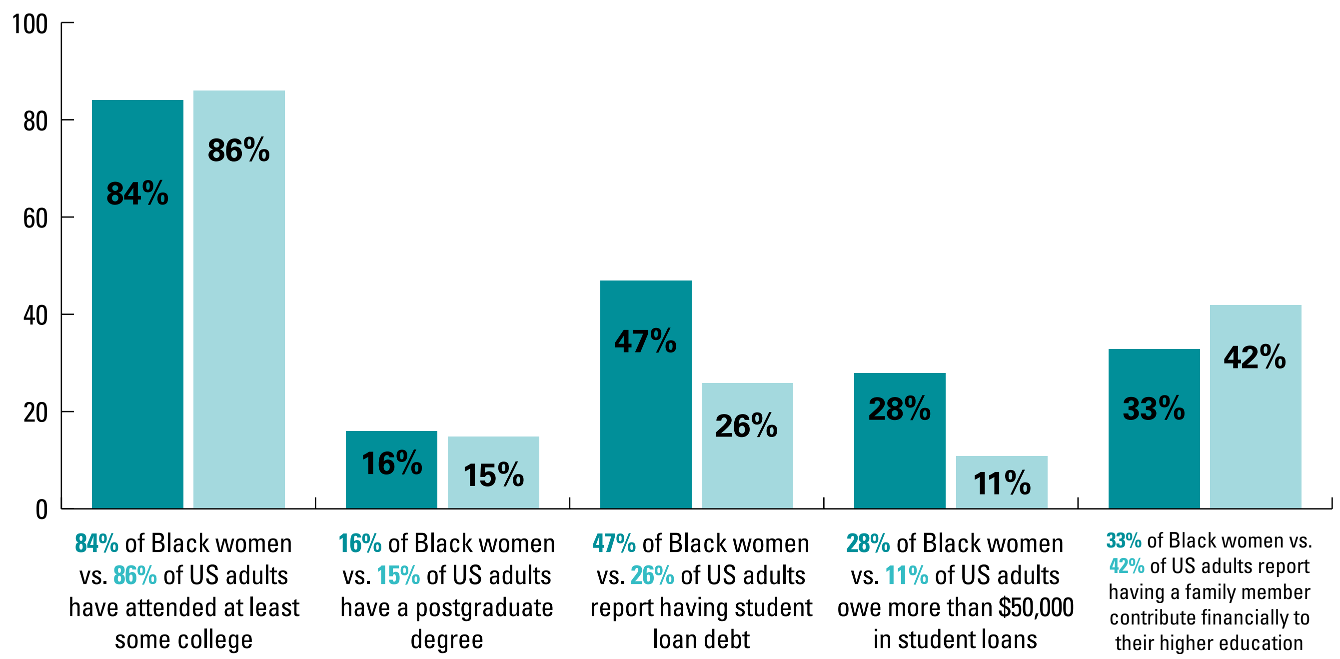
Source: Charles Schwab, February 2024

BIG 5 TECH GIANTS' 2023 EARNINGS PER SECOND

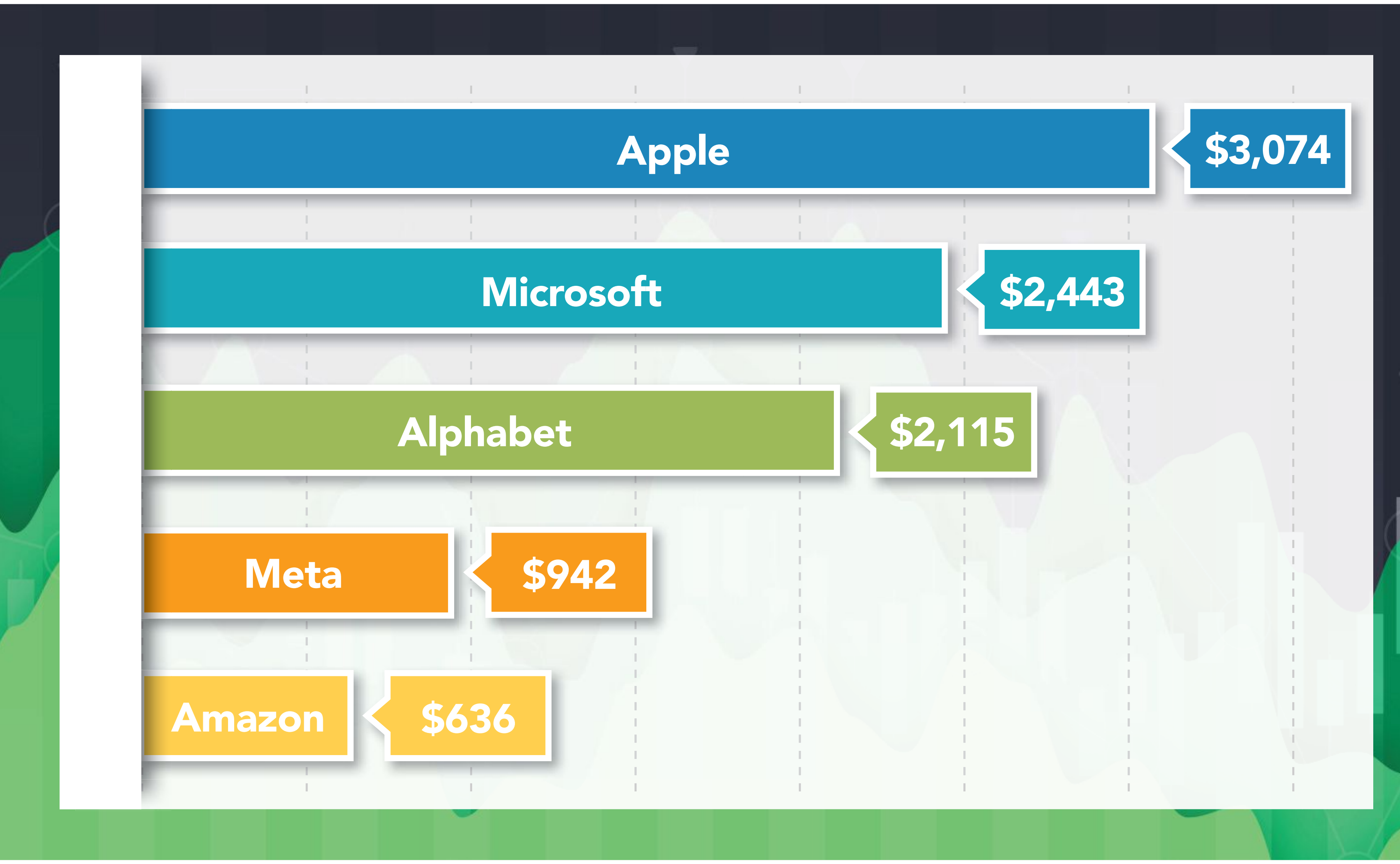
The big technology firms weathered the 2022 crises and came out the other side relatively unharmed, with many of them seeing their revenues and stock values skyrocket. However, none is even close to Apple, the undisputed leader.

BLACK WOMEN BATTLE OBSTACLES

While Black women are looking at education and homeownership as paths toward building multigenerational wealth, findings from a national survey suggest they're dealing with considerable setbacks. The following statistics were taken from a Goldman Sachs survey of 1,200.



Source: Goldman Sachs, *One Million Black Women* report



Sources: Statista, Apple, Microsoft, Alphabet, Meta, and Amazon financial reports, February 2024

MUSIC CATALOG BONANZA

After Cyndi Lauper announced that she'd sold her back catalog to Pophouse Entertainment Group for an undisclosed sum, we looked at the 10 biggest transactions involving musicians' back catalogs.

ARTIST	PRICE (MILLION)	YEARS IN INDUSTRY
1 Michael Jackson	$600	45
2 Bruce Springsteen	$500	60
3= Phil Collins & Genesis	$300	57
3= Bob Dylan	$300	63
3= Tina Turner	$300	55
6= David Bowie	$250	56
6= Sting	$250	53
8 Katy Perry	$225	17
9= Justin Bieber	$200	15
9= Ryan Tedder	$200	28

Source: Startle, February 2024

TIME TO TALK

A new study by Edward Jones sheds fresh light on an often-overlooked aspect of family financial planning: conversations on the transfer of wealth. With an estimated $84.4 trillion expected to change hands to younger demographic groups by 2045, the need to have these discussions is as great as ever.

48% of Americans intend to leave an inheritance, **45%** of whom will give it only to their children, **36%** of whom plan to include grandchildren

71% of adults with children say they're comfortable engaging in discussions around generational wealth

27% say they've actually had these discussions

40% have talked to their children about saving for retirement, while **36%** say they've discussed managing personal finances

34% say they feel pride or fulfillment in passing on inheritances

Source: Edward Jones, in collaboration with Next360 Partners and Morning Consult, February 2024

ADVISORS, DON'T OVERLOOK THESE ITEMS DURING TAX SEASON

A host of new rules and regulations impacting high-net-worth individuals take effect this year, not to mention a significant old one expiring at the end of 2025

BY GREGG GREENBERG

All right, advisors, time to strap on your green eyeshades, sharpen those No. 2 pencils, and dig out the shoeboxes containing last year's receipts. It's tax season again.

Fine. Maybe those items are a tad outdated, having essentially been replaced by a laptop and a halfway decent WiFi connection. Nevertheless, it's that time of year when the nation's wealth managers prove their worth by protecting their clients' net worths from their good old Uncle Sam.

"My primary concern this year is trying to get ahead of the expiration of the Tax Cuts and Job Act… Rates could go up, so clients should be acting now to lower their tax bill later"

JOSH STRANGE, GOOD LIFE FINANCIAL ADVISORS

While it's true that much of the actual tax preparation will be taken care of by CPAs and professional accounting teams, financial advisors still have their own vital tasks to complete in coming weeks. That's especially the case given the host of new rules and regulations impacting high-net-worth individuals that take effect this year, not to mention a significant old one expiring at the end of 2025.

"My primary concern this year is trying to get ahead of the expiration of the Tax Cuts and Job Act of 2017," says Josh Strange, founder and president of Good Life Financial Advisors of NOVA. "Rates could go up, so clients should be acting now to lower their tax bill later, including doing everything from Roth conversions to potentially being more strategic about when to donate money to charity."

Ed Stober, senior wealth advisor at Nepsis, says he'll be spending the majority of this tax season reviewing income sources, investments, and potential deductions, and working in tandem with his clients' accounting teams to make sure no deduction slips through the cracks.

"We often collaborate with tax professionals to explore various strategies, such as income splitting, multiple entity planning, tax-loss harvesting, and the use of tax-efficient investment vehicles," Stober says. "We review current estate plans and their philanthropic desires to ensure clients are maximizing estate deductions and charitable-giving strategies."

That's not the only connection advisors will be making this spring. In many cases, they will need to link their clients' personal and business affairs to create an efficient, overarching tax plan.

"Because high-net-worth clients often are business owners, being able to create tax plans for their businesses is essential to creating solid plans for their personal taxes. The tax plan also should incorporate their financial plan and estate planning," says Andy Watts, vice president of planning and growth solutions at Avantax.

Watts adds, boiling it down: "Every financial decision has tax consequences."

THIS TAX TIME IT'S DIFFERENT

The sunsetting of the 2017 Tax Cuts and Jobs Act at the end of 2025 will likely result in higher income tax brackets and potentially estate tax exposure for most high-net-worth individuals. This may create opportunities for some taxpayers to pay lower income taxes on various income sources or lower capital gain taxes before the end of 2025.

While that sounds like plenty of time to plan ahead, David Kline, private wealth advisor at Integrated Partners, says a number of his clients have already voiced their concerns about what will happen in the future given the current, highly charged political environment.

"We know our CPA partners also worry if the state and local tax deductions get changed later this year with a retroactive date, they will be scrambling once again, so preparing in advance for the 'what ifs' is imperative," Kline says.

Watts says his primary concern this tax season is the expected "extender package" currently floating around Congress.

"The Tax Relief for American Families and Workers Act has been slowly moving through Congress, and there's confusion whether it's better

“Remember that no technology is perfect – not even tax-preparation software – so double-check answers because software developers make mistakes, too”

ANDY WATTS, AVANTAX

to file now or wait. Some taxpayers will be significantly impacted by this legislation, and the longer we wait, the more compressed tax season becomes,” he says.

Watts adds that tax professionals need to remember that several parts of an extender act contain business tax changes that will need amending before the personal tax return of the business owner can be filed or amended.

“Like any consumer, taxpayers don’t appreciate paying twice for anything, especially a tax return,” he says.

Meanwhile, Victoria Serles, wealth manager with Coldstream Wealth Management, and also a CPA, says clients frequently misunderstand how such rule and code changes can be applied to their taxes, thereby significantly complicating the process.

“We have seen more clients choosing to split time in several states,” she says. “Accounting for time spent, income generated, and several other factors in each of these states impacts filings for these clients.”

Serles adds that she expects several late-filing K-1 forms that report partnership income and losses this year, which can push the filing process into late summer, making it difficult to accurately develop estimated tax payments.

DON’T FORGET ABOUT…

Charitable contributions, claiming tax deductions and credits, and maximizing contributions to 401k plans, IRAs, and health savings accounts are some important ways to implement tax-efficient strategies. Don’t overlook them, says David Hsieh, managing director at Beacon Wealth Advisory at Stifel Independent Advisors.

“Many companies now have Roth 401(k)s that can also play an important part in retirement planning. Roth conversions may not be for everyone, but business owners and others can often take advantage of changes in compensation to implement a conversion and reap the tax-efficient rewards during retirement,” Hsieh says.

Along those lines, clients sometimes fail to consider their income before making Roth IRA contributions, only to find out they are no longer eligible. This can lead to penalties that could have been easily avoided with a little bit of financial planning, Strange says.

Serles says clients often overlook ways to add to a total cost basis of property during the sale process. Neglecting these additions to the total cost of the property can have a major impact on a client’s deductions.

In addition, some clients fail to carefully monitor capital loss carry-forwards, which can deeply impact capital gains management, she says. And in her opinion, far too many clients neglect to engage in year-end tax planning, which almost always can help mitigate costs.

“Without fail, clients do not properly disclose their tax estimate payments. This is part of a larger trend we’ve seen of clients not providing all the information we need to deliver a complete tax plan and strategy. It really comes back to communication,” says Serles.

JJ Feldman, co-head of wealth management at Helium Advisors, says there are often overlooked opportunities for tax savings through investments in solar, oil, gas, and qualified opportunity zone funds.

AND DON’T NEGLECT TO…

“The biggest common mistake we see is missing qualified charitable distributions election because the tax preparer may not be aware that the direct charitable contribution was made,” says David Boniface, president of Legacy Capital Wealth, part of LPL Financial.

Boniface says one item that bears consideration is the two-year lag between the year of one’s tax filing and the calculation of the income-related monthly adjustment amount of one’s Medicare premium. For example, it is the 2023 tax return that will dictate a person’s 2025 Medicare expense.

“This can be very confusing and oftentimes is overlooked in the two years prior to eligibility,” he says.

Another mistake clients frequently make during tax season is sending just the K-1 form and not all the attached statements, Watts says. It’s also common for clients not to provide their tax professional with all the income and expenses for a small business or their gig economy side hustle.

“For tax professionals, paying attention to the questions on Form 8867, Paid Preparer’s Due Diligence Checklist, can head off most of the expensive penalty mistakes,” says Watts. “And remember that no technology is perfect – not even tax-preparation software – so double-check answers because software developers make mistakes too.”

Finally, despite all these things advisors and their clients need to keep in mind, perhaps the biggest mistake – and the easiest to avoid – is losing track of the calendar.

“If a client files on time or files for an extension, the taxes owed need to be paid by the original due date to avoid penalties and interest,” Feldman says. “Missing a filing deadline can result in significant costs, making it essential for taxpayers to adhere to deadlines.”

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Planning your tax payment strategy

The filing period for 2023 tax returns is in full swing, and the most eager filers may have already received their tax refund. If your client likes the idea of getting that refund each year – perhaps they view it as kind of a surprise bonus – you'll want to remind them that a refund is really an interest-free loan to the government. With savings accounts paying a meaningful interest rate these days, they might be better off having control of their money sooner.

OPINION
TIM STEFFEN

Conversely, your clients who owe money this year may be waiting until the last possible moment to file to earn an extra bit of interest on their savings. But owing too much may mean being assessed an underpayment penalty, and with the IRS interest rate on underpayments currently at 8 percent annually, it's a cost they would do best to avoid.

Regardless of which camp your clients are in for 2023, this is the perfect time of year to help them think through a better tax payment strategy for 2024.

YOUR REQUIRED ANNUAL PAYMENT

The IRS offers taxpayers a way to maximize their payment deferral while avoiding a penalty by simply paying what it refers to as the "required annual payment." And, even better, there are options for how to do that, neither of which requires the full tax liability to be paid until the tax return is due.

Some taxpayers may choose the more certain option of paying 100 percent of what their total liability was for 2023 in 2024. For those whose adjusted gross income in 2023 exceeded $150,000, this target increases to 110 percent. This strategy, referred to as the "safe basis" method, can be ideal for those whose tax cost in 2024 is expected to be higher than it was in 2023. This would include taxpayers whose income may spike this year due to a large capital gain, Roth conversion, stock option exercise, business sale, or other unusual event. That additional tax caused by the event doesn't have to be paid right away as long as taxpayers follow the safe basis rules.

Those whose 2024 tax liability will be the same as, or even lower than, 2023 may prefer option two – targeting their payments to be at least 90 percent of this year's actual liability. This requires making an accurate forecast of their 2024 tax liability and perhaps aiming a bit higher than 90 percent to provide some cushion.

Either scenario will leave them owing some tax when they file their return, so be sure to help them plan for that payment. Whatever they owe at that point must be paid by the due date of their return, typically April 15. And while an extension can be requested to delay filing their return, that extension doesn't apply to making that final tax payment.

HOW TO MAKE THE TAX PAYMENTS

As for how that required annual payment is actually paid, most people have options. Wages from an employer are subject to mandatory withholding, making the payment process simple – the employer calculates what the employee must withhold and sends it to the IRS on their behalf. Employees don't have much ability to lower that amount these days, with the idea of "allowances" having gone the way of VHS tapes. For an employee with no other additional income, withholding is often more than their actual tax liability, meaning a future tax refund is an unavoidable outcome.

The IRS offers taxpayers a way to maximize their payment deferral while avoiding a penalty by simply paying what it refers to as the "required annual payment"

Withholding can also be taken from most forms of retirement income, such as IRA or 401(k) withdrawals, pension payments, and even Social Security benefits. You can help your clients choose a specific percentage to withhold, allowing them to carefully manage their payments.

Other sources of income – such as business or investment income – require more planning, as withholding isn't normally an option on those. This can also be true for Roth conversion income. Paying those taxes from other sources, rather than withholding on the conversion amount, makes for a more effective conversion. This is where making quarterly estimated payments comes in.

Estimated payments can be made old-school style by mailing a check to the IRS. For those clients who opt to mail a payment, remind them to include Form 1040-ES so the payment is properly credited to them. The IRS also offers an online payment system that allows taxpayers to set an exact date on which their account will be electronically debited. While the idea of the IRS directly debiting an account may seem a bit scary, it's really the most reliable way to ensure payments are made on time.

DIY taxpayers who use one of the popular software tools to prepare their return should be cautioned about the automatic recommendations those tools have been known to make. For example, if your client ends up owing something when they file their 2023 return, those programs may automatically generate estimated payment vouchers for 2024. The program assumes they want to hit the safe basis target for 2024 and that their withholding will be the same as it was 2023, so they generate a payment voucher to make up the difference. None of those assumptions may be correct, so it pays to assist clients in reviewing those recommendations before automatically following them.

While no one will ever look forward to paying their taxes, helping clients put a solid strategy in place that maximizes control and minimizes expense can at least make the process less painful.

Tim Steffen is director of advanced planning for Baird. Follow him on Twitter @TimSteffenCPA.

INDIVIDUAL RETIREMENT ACCOUNTS

An unexpected double tax break for 529-to-Roth rollovers

One of the most talked-about provisions of the SECURE 2.0 Act is the one allowing a limited amount of unused funds in 529 accounts to be rolled over to Roth individual retirement accounts. This change became effective for rollovers beginning in 2024. However, 2024 offers a chance to double up on the tax break and do two 529-to-Roth rollovers this year – but only if the first one (for 2023) is done by April 15.

IRAALERT
ED SLOTT

The rollover provision can help those who have built up excess funds in 529 college savings accounts that may not be used in the future. However, the break is limited to a lifetime maximum of $35,000, and that limit can't be used up all in one year. Further, 529-to-Roth rollovers are considered Roth IRA contributions. So the sum of those rollovers and any other IRA contributions (Roth or traditional) made by the 529 beneficiary for the same year can't exceed the annual IRA contribution limit. For 2023, the limit was $6,500 ($7,500 if age 50 or over), and for 2024 it increased to $7,000 ($8,000 if 50 or over).

HOW TO DOUBLE UP THE TAX BREAK

Assuming a beneficiary qualifies to make both a 2023 and 2024 Roth IRA contribution (and no Roth or traditional IRA contribution was already made for either of these years), a full 529-to-Roth rollover can be done for both years. But this is only possible if the first one is completed by the 2023 tax return due date (April 15, 2024), which is the regular deadline for making a 2023 IRA contribution.

The actual law wasn't clear on whether this doubling up could be done, but the IRS has blessed the strategy with this statement from the 2023 instructions for Forms 1099-R and 5498: "A distribution made after December 31, 2023, and before April 15, 2024, that is rolled over to a Roth IRA by April 15, 2024, and designated for 2023 would be reported as a Roth IRA contribution for 2023."

This ability to jump-start Roth rollovers of unused 529 funds can provide a generous Roth IRA boost for 2024. Just make sure that the custodian knows to report the rollover for 2023 (due by April 15, 2024) as a 2023 Roth IRA contribution.

To make this strategy more appealing, the law appears to allow the 529-to-Roth limits to be applied per beneficiary. So this "doubling-up" opportunity can be multiplied if someone has unused funds in more than one 529 plan for several beneficiaries, such as children and grandchildren.

If both rollovers are done this year for a total of $13,500 ($6,500 for 2023 + $7,000 for 2024 = $13,500) and there are, for example, three beneficiaries with unused 529 funds, that triples the 2024 rollover opportunity to $40,500. At first, the $40,500 appears to exceed the lifetime $35,000 limit. But there is a separate lifetime limit for each beneficiary, so the total lifetime limit in this case is increased to $105,000 ($35,000 x three beneficiaries). This can help those with larger-than-expected multiple 529 plan balances whittle them down by maximizing 529-to-Roth rollovers.

The 529-to-Roth rollover is a non-taxable transaction, but it must be done as a direct trustee-to-trustee transfer, and the rollover must go to the 529 plan beneficiary's Roth IRA.

To be eligible for the rollover, the following additional conditions apply:

There's a chance to do two 529-to-Roth rollovers this year – but only if the first one (for 2023) is done by April 15

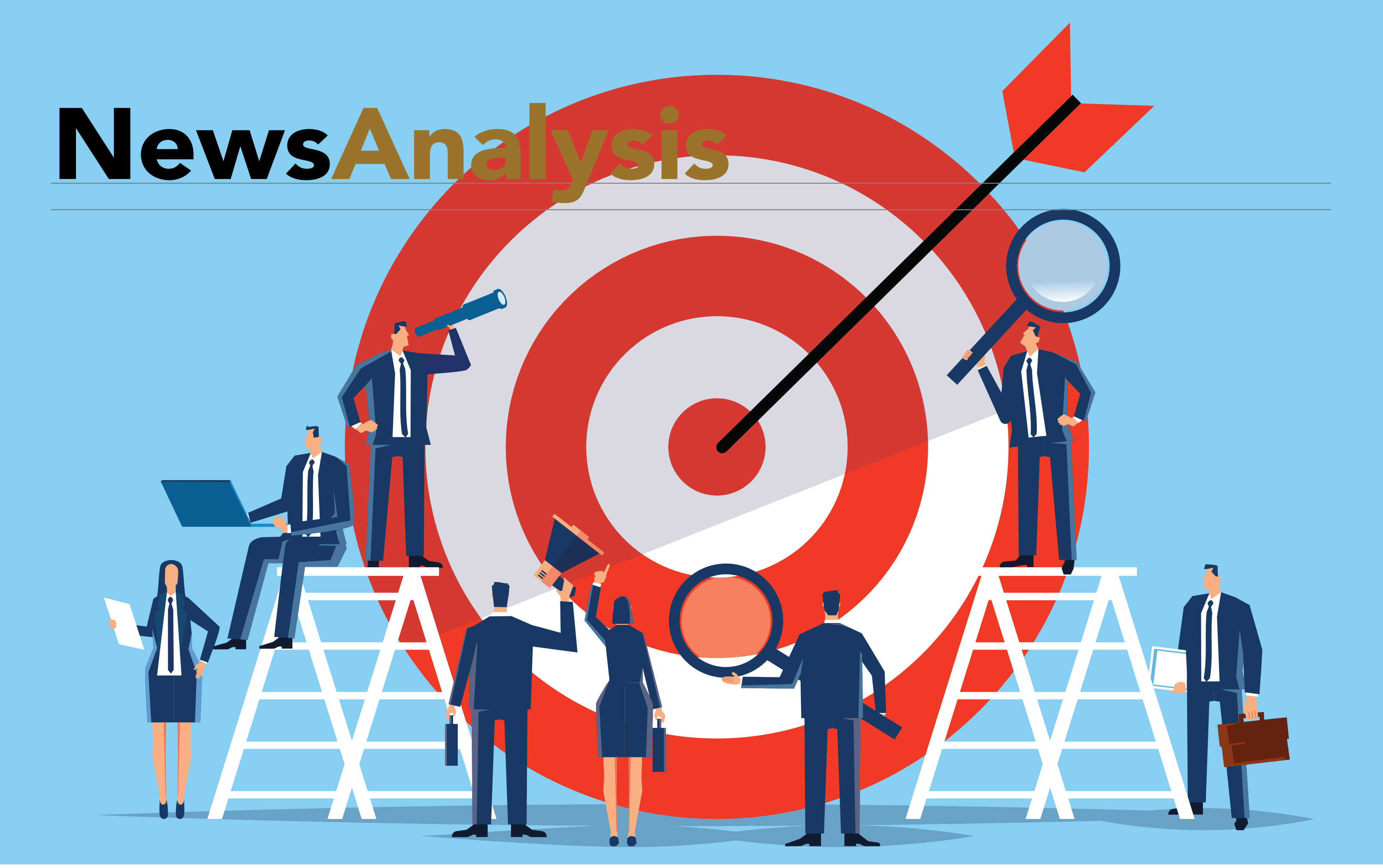
- The 529 must have been open for at least 15 years. No word yet from the IRS if this 15-year period restarts if the beneficiary is changed. Although the spirit of the law appears to be that a restart would not be required, it might be risky to proceed that way without IRS guidance.
- The rollover cannot include any 529 funds (contributions or earnings on those funds) made in the last five years.
- As mentioned above, annual rollovers are subject to the annual IRA contribution limit, but this also means that the 529 beneficiary must otherwise qualify to make an annual Roth IRA contribution by having compensation (W-2 earnings or self-employment income). For example, if the child has no earnings, then the rollover cannot be done. However, if the child's earnings are too high, that is not a problem. Yes, Roth contributions are subject to high income limits, but those rules do not apply for the 529-to-Roth IRA rollover option. Higher earners can qualify for the rollover even if that income would have otherwise disqualified them from making a Roth IRA contribution. For this group, the 529-to-Roth rollover is like a back-door Roth.

ACT NOW!

Remember, to qualify for this unexpected 2024 "double-up" 529-to-Roth rollover opportunity, the first one must be completed by April 15 (no extensions to this deadline). And that deadline will get here before we know it.

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

News Analysis



MORGAN STANLEY WEALTH UNIT UNVEILS PLAN TO HIT GROWTH TARGET

Jed Finn begins his reign as head of wealth management by outlining focus on fees, alternatives, and banking

BY BRUCE KELLY

Morgan Stanley's new head of wealth management, Jed Finn, sees four lanes to driving growth in the business: deepening relationships with existing clients, as well as winning new ones; pushing more client assets into advisory accounts that charge annual fees; selling more alternative investments, which can be pricey and carry risk; and driving clients to look to the firm for banking solutions, like checking accounts.

Finn, who took over as head of the firm's 15,000 brokers in January, outlined his plans to boost the unit's profit margins to 30 percent last month at the Bank of America Securities Financial Services conference. That compares to the 25 percent profit the unit saw last year.

In his discussion, he moved back and forth from the broad to the specific, including details about listening to financial advisors' phone calls with clients who have been referred from another part of the company, such as its online broker ETrade.

"Now we know when we're making a referral to a financial advisor, our top quartile is closing one out of every three," he said. "There's a lot of data to support that. In fact, there are some advisors who are north of 50 percent. I mean, it's unbelievable. I've listened to the phone calls because I didn't believe it, and they're just that good."

The 30 percent profit goal Finn cited matches the target that James Gorman, the chairman and former CEO of the firm, first set for Morgan Stanley as a whole a couple of years ago.

The company has seen increasing revenue and income from wealth management over the past decade. When Gorman was co-president of Morgan Stanley in 2010, before taking the reins as CEO from John Mack, the portion of the bank's pretax profit that came from its wealth and investment management group was about 26 percent. Last year, that portion was up to 52 percent.

Gorman also paved the way for growth at Morgan Stanley's wealth management business through a series of acquisitions starting five years ago: the 2019 purchase of Solium Capital, a stock plan business that focused on technology startups, for $900 million; the $13 billion acquisition of discount broker ETrade a year later; and the 2021 deal for Eaton Vance, a leading active manager of mutual funds, including the Calvert and Parametric brands.

Such a target comes at a price. Morgan Stanley said last month it was planning to eliminate several hundred jobs, the first such move under new CEO

Ted Pick, who replaced Gorman at the start of the year. The cuts will affect less than 1 percent of employees in the wealth management business, which has about 40,000 workers and is the firm's largest unit, according to Bloomberg News.

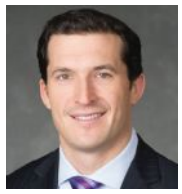
In his presentation, Finn likened the wealth management business at Morgan Stanley to a funnel, moving clients from platforms like ETrade to working with a financial advisor and using fee-based or advisory products with a greater number of clients.

The goal is to "accelerate the path to advice," he said. "I think people who follow us know that we talked about that as the funnel. We start with winning new clients, who bring in net new assets that we migrate into advisory relationships, which generates that recurring fee-based revenue."

That can be lucrative. "We've averaged $100 billion in fee-based flows over the last couple of years at a blended 60 basis points [return on assets] net of financial advisor compensation," Finn said. "That's a couple of hundred million in [profit before tax] each year."

About 50 percent of Morgan Stanley's $3.1 trillion of client assets that financial advisors work with are currently in fee-based accounts and products, according to the company. That could reach 60 percent to 70 percent over time, Finn said.

"There is still a significant opportunity within our own book to continue to migrate assets into advisory accounts," he noted.



"There is still a significant opportunity within our own book to continue to migrate assets into advisory accounts"

JED FINN, MORGAN STANLEY

The firm's wealth management business is also going to encourage its financial advisors to pursue banking relationships with clients, a tactic that its competitor Merrill Lynch has also focused on, with "lending penetration" and its "checking offering" the focus.

Financial advisors selling and recommending more alternative investments will round out the firm's strategy, Finn said. "We're going to drive transactional revenue through more adoption of our alts platform and our capital markets business," he said. "Those together, we think, are going to do another couple of hundred million [profit before tax], let's just say."

One plaintiff's attorney noted that since Charles Schwab cut commissions to zero on stock trades and other transactions a few years ago, big firms have been looking to create other revenue streams to replace lost commission dollars.

"No brokerage firm can make money any more selling stock," said Scott Silver, the attorney. "That's why they've turned to products like alternative investments and annuities. Understanding what the fees are for those types of products requires a PhD. The message from the firm to the client is to use alternative investments and annuities to reduce risk, but first try to understand the fees and what you're paying for these things."

Meanwhile, Morgan Stanley continues to focus on technology for its financial advisors, including rolling out artificial intelligence functions, Finn said.

"AIMS Plus is just a chatbot for Morgan Stanley employees, but with the appropriate controls around it," he said. "So our advisors will be able to use it to send emails, do research, create newsletters, all of the things that you can imagine."

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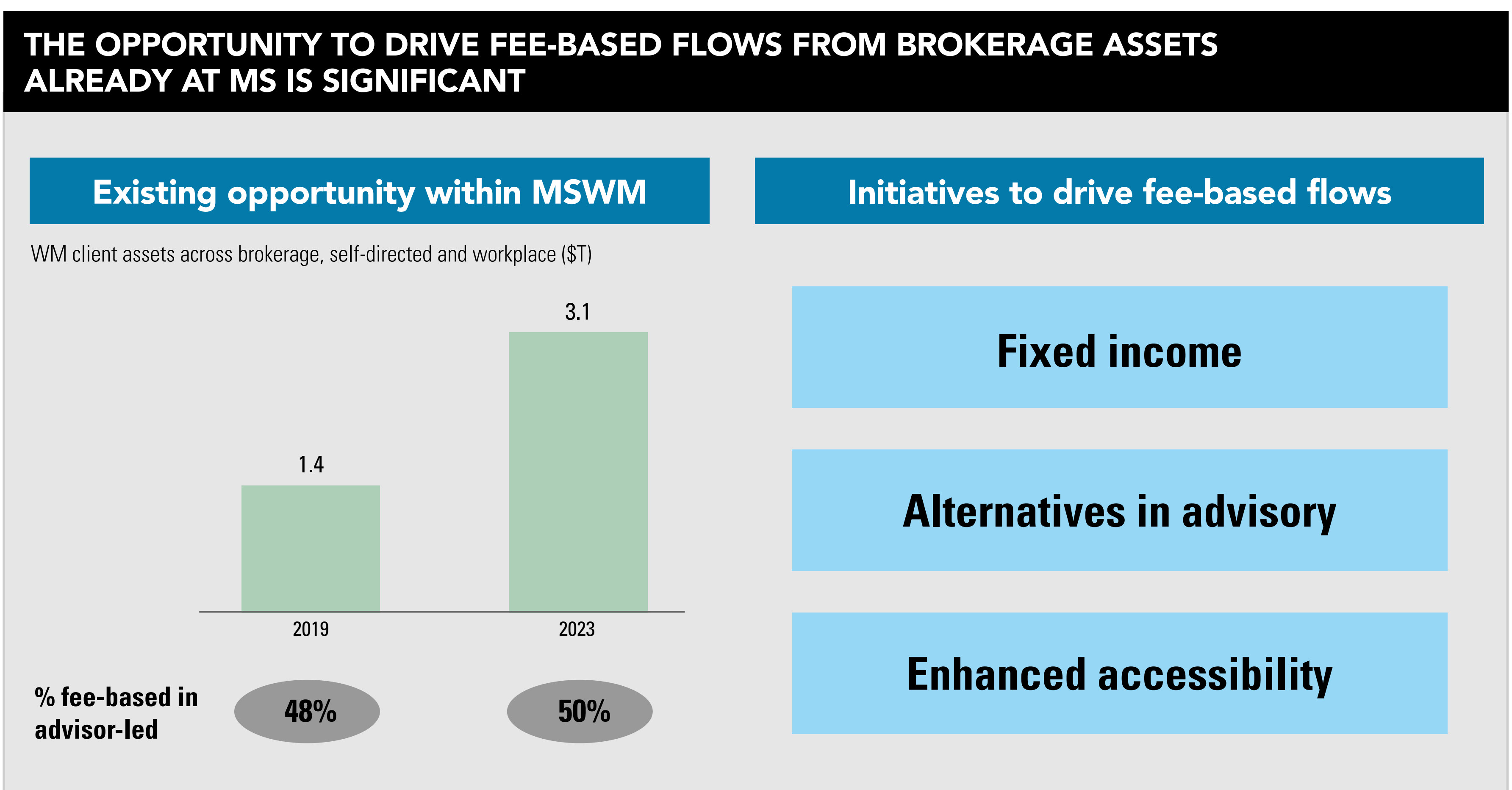
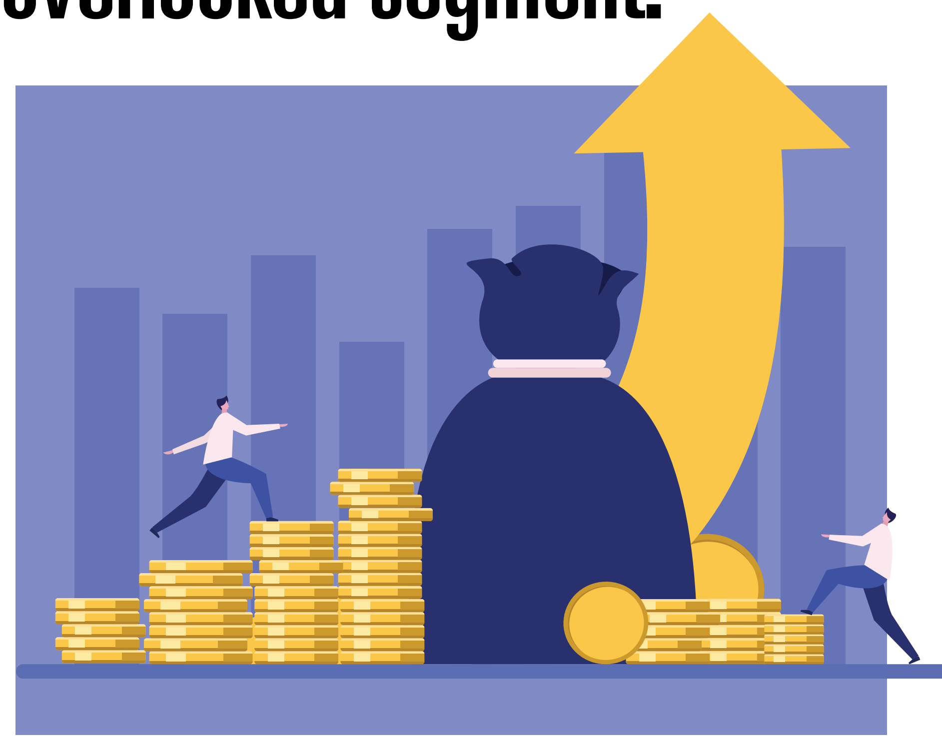


Source: Morgan Stanley

PRACTICE MANAGEMENT

Spotlighting and serving an overlooked segment: The very high net worth



I'm thrilled to announce the return of the Duran Duran column, and I'm equally excited to lead the charge in the evolution of the industry at our newest venture, Rise Growth Partners. As ever, I continue to be energized by the RIA industry's relentless drive toward providing increasingly sophisticated client experiences.

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JOE DURAN

Still, amid all this progress, I believe there's a significant oversight in the RIA sector's engagement with a pivotal, yet frequently underestimated, segment: very-high-net-worth individuals, who fall between the high-net-worth and ultra-high-net-worth categories. Why is this important? Consider that a $10 million client paying 50 basis points annually often receives the identical treatment as a $2 million client paying 80 basis points. That often means the larger client is paying $50,000 per year for the same service as the smaller client, even though they're paying almost three times as much per year in fees.

Let's discuss three key takeaways on how RIAs can effectively serve and augment the VHNW segment:

- **Acknowledge their characteristics:** Understand the unique traits of VHNW clients: They display considerable loyalty when their needs are met, navigate tight schedules, and expect personalized services.
- **Adjust the approach to advice:** Position your firm as a specialist that understands this segment. Transition from a primary focus on asset growth to emphasizing both protection and growth, recognizing the shift in priorities as clients enter the VHNW segment.
- **Offer personalized solutions:** Design an exclusive suite of services that highlight asset protection, financial simplification, and privileged access.

AN IMPORTANT DISTINCTION

After completing extensive analysis of dozens of midmarket RIAs – those with $1 billion to $10 billion in assets – we have noticed that most firms still loosely categorize their clients into three groups: mass affluent (clients below $500,000), HNW ($1 million to $25 million), and UHNW or family office (greater than $25 million). This ignores the fact that in between HNW and UHNW, there's a massive and growing segment that has unique needs quite different from the tiers above and below: the very high net worth, with assets ranging from $10 million up to $25 million.

Just as firms like Goldman Sachs and JP Morgan have become lighthouse brands for the UHNW, so too can the independent RIA shine with the VHNW segment, which today is the primary target of full-service banks like Morgan Stanley and Merrill Lynch. To compete, independent RIAs must acknowledge there are critical distinctions between HNW and VHNW clients and strategically position themselves to serve this specific demographic.

WHAT DO THE VHNW WANT?

The fundamental concern for many HNW clients is ensuring they don't outlive their money. That means they care as much about growing their portfolio and generating income as avoiding any catastrophic mistakes or portfolio losses (a "grow-and-protect" strategy). As such, these individuals may need help balancing trade-offs. However, when servicing the VHNW segment, it's important to keep in mind three key priorities that can be more elevated for families with higher net worths:

- **Protection:** Once someone reaches $10 million, their focus shifts from concerns about outliving their assets to ensuring they are safeguarding their wealth. Protection becomes paramount for the VHNW, with legacy (estate planning) and insurance services gaining significance. These clients seek advisors capable of providing advice to them, their spouses, and their families in financial management – ensuring continuity and peace of mind.
- **Simplification:** Clients in this segment have more complex lives, potentially including second homes, investment properties, and certainly more complex tax returns. RIAs serving them should aim to streamline and become the hub for their entire financial lives. For instance, VHNW clients may prefer annual in-depth financial reviews over quarterly ones. However, they still require frequent reporting, potentially in the form of a comprehensive heat map covering essential areas like taxes, legacy planning, and asset protection. The advisor should serve as a concierge and facilitator, ensuring ease and overseeing the client's entire financial ecosystem.
- **Privileged access:** Clients with $10 million in assets know how to discern between tailored and off-the-shelf services. Therefore, RIAs must give these VHNW clients access to exclusive services unavailable in the HNW segment, such as specialized investment strategies, private equity access, and personalized indexing with expertly managed tax overlays. It's essential to provide customized services, including philanthropic support, that not only cater to the specific needs of these clients but also reflect the higher fees they incur.

Clients select advisors who have experience working with and providing services to clients just like them. If the independent firm doesn't explicitly tailor their services to each segment, they are at risk of losing those clients to firms that do. By carefully defining a comprehensive set of services tailored to the specific needs and values of the VHNW clientele, independent RIAs can gain a competitive edge. Moreover, they can forge enduring relationships with these exceptionally loyal clients, securing their trust and allegiance for years to come.

Joe Duran is executive managing partner at Rise Growth Partners, the ultimate growth partner for exceptional advisory firms.

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SPECIAL REPORT

5-Star FUND PROVIDERS 2024

2024 5-STAR FUND PROVIDERS
INVESTMENTNEWS

Honoring the providers at the vanguard of investing, trailblazers perpetually redefining what success looks like

CONTENTS PAGE

FORM IS TEMPORARY, CLASS IS PERMANENT

InvestmentNews celebrates the inaugural 5-Star Fund Providers which have achieved the designation following a ranking by hundreds of financial advisors and related professionals.

All the six winners are standout all-round performers offering their clients unrivalled expertise and sound judgment, illustrated by all winners featuring in the Top 3 for at least one of this report's criteria.

Longevity is something they all share, with half of the winners forming prior to 1937 and the last a relative newcomer after being founded 36 years ago.

Breaking down what it means in the industry to be a 5-Star Fund Provider is Thomas Ruggie, founder and CEO of Ruggie Wealth Management at Destiny Wealth Partners. His firm was recognized as one of *IN*'s Fastest-Growing Fee-Only RIAs in 2023 with a three-year growth rate of 234.8 percent, and it uses several of the winning Fund Providers.

Ruggie says, "The winners don't surprise me and the main reason is not because of a particular great fund. They have a family of good options."

To showcase what excellence means across the key criteria, *IN* explores and analyzes what moves the needle.

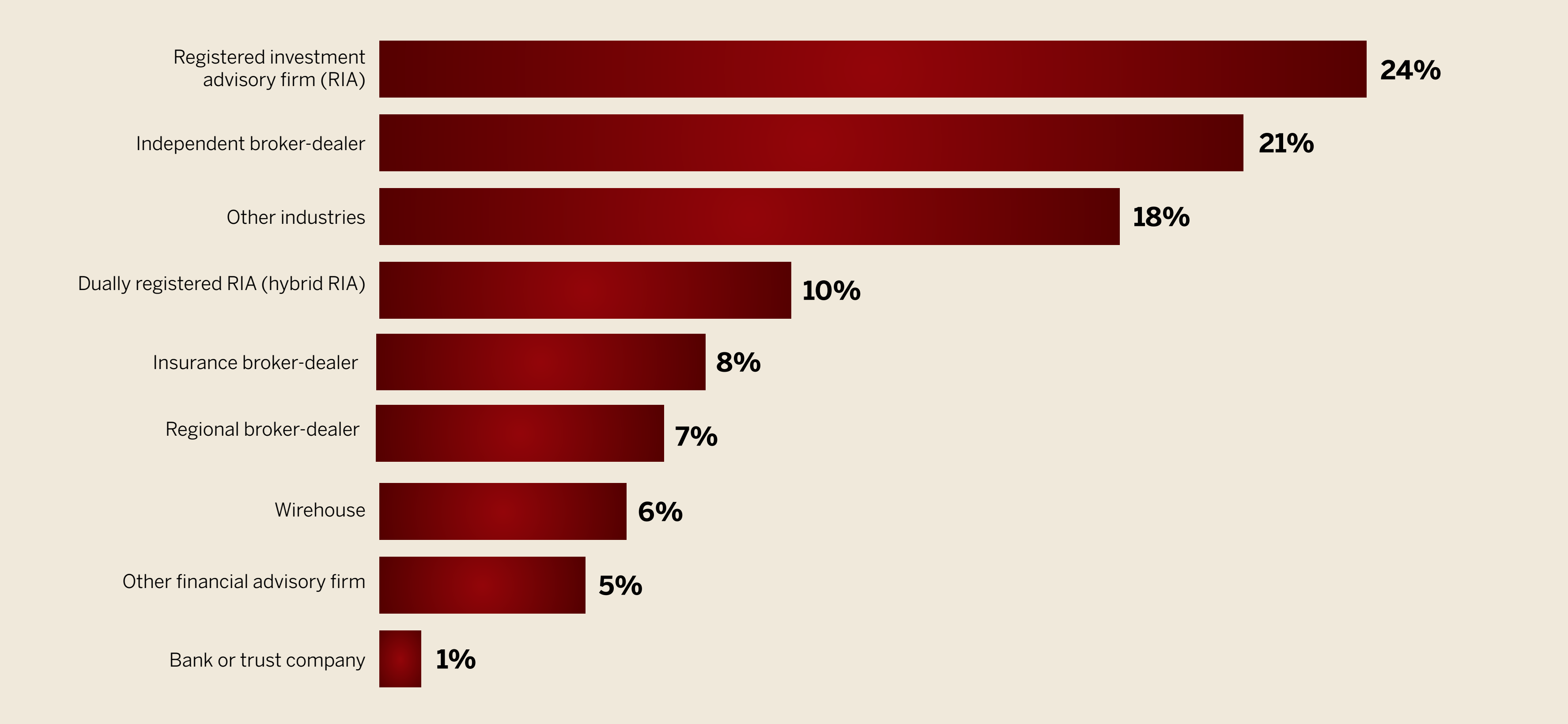
REPUTATION

- **1st: American Funds** 4.60
- **2nd: Vanguard** 4.52
- **3rd: T. Rowe Price** 4.46

The difference maker is ensuring that a fund provider's name equates to a persuasive culture of competence.

"What stands out is not necessarily a particular fund per se, but does a company have a family of funds that have a good, consistent, strong track record?" says Ruggie. "It's not just one particular fund, it's a structure of having best

ARE YOU ASSOCIATED WITH ANY OF THE FOLLOWING TYPES OF ADVISORY FIRMS?



in class across the board."

It's paramount for Ruggie and other industry big names that a provider's reputation stems from specific metrics.

He adds, "When I measure performance, what I'm looking at is performance net of fees. It's kind of tongue-in-cheek, but I always say I would pay a 10 percent fee if I knew I was going to still perform better net of fees."

Fees influence reputation as historical performance shows that generally the less fees, the better the performance due to a reversion to the mean.

"You could look at Fund A and Fund B in one year, and there could be a big disparity in performance, but if they're investing in a similar nature over 10 years, then that disparity probably narrows pretty significantly," explains Ruggie.

Providers burnish their reputation by directly lobbying advisors via their army of salespeople and a cache of information on their various funds. This direct marketing strategy, which often involves dinner meetings and invites to high-profile events, has an indeterminable effect on reputation.

Ruggie admits, "If you were to talk to five advisors, you would probably get a different answer than me. Every conference I go to, every night there's not a conference event, I get invited to a dinner from an investment company and they're going to do a small pitch on their company. I have people sending me gifts, basically hoping that I would reciprocate by taking their phone call."

While the charm offensive can pay dividends, the top advisors are not blinded by glamour as they are acutely aware of their responsibility to their clients.

"I don't want to go to a free show or sporting event," Ruggie says. "I approach it from a standpoint of I'd rather do my own research first because I don't want there to be any bias in my decision-making of who I'm using and why."

TRANSPARENCY

• **1st: American Funds**	**4.33**
• **2nd: Vanguard**	**4.26**
• **3rd: MFS Investment Management**	**4.18**

On the surface level, all providers are transparent in terms of their returns and the assets under management. However, for advisors and those looking to make investments, there are other components to transparency, most notably around strategy.

Ruggie says, "I never put much weight into what they're holding unless there's something specifically that I'm looking for, perhaps if I'm looking for a tech fund. I want to see if they are holding Microsoft, Google, Amazon, but are they holding smaller companies? That gives you an idea of directionally where they're heading."

Other details that play a factor are performance relative to the market and even how long fund managers have been in place.

"Again, what I look for is consistency, even if you're in a fund that lost 20 percent in one year. Were they still in the top quartile versus their peers? If so, that's probably a good manager," adds Ruggie. "A manager could have a tenure track record, but another manager that's only been there for two years – that's a red flag for me because that could change that consistency of performance."

Summing up the transparency factor, Ruggie, a leading light in the alternative investment space encompassing the likes of sports memorabilia collections, cites ice hockey legend Wayne Gretzky.

"They say he was so good because he knew where the puck was going, he wasn't where the puck was. That's what I try to do and utilize wholesalers to absorb the knowledge that they get from their companies to help determine directionally where they want to be going forward."

EASE OF ACCESS

• **1st: American Funds**	**4.68**
• **2nd: BlackRock (iShares)**	**4.52**
• **3rd: T. Rowe Price**	**4.45**

Top advisors ask a series of questions when it comes to accessing funds:

- Can I get the lowest cost?
- Can I get the cheapest fee structure? (Typically, the cheapest fee structure has higher minimums.)
- Can I get into that portfolio with higher minimums?

What stands out about the 5-Star Fund Providers is they work with advisors and waive some requirements.

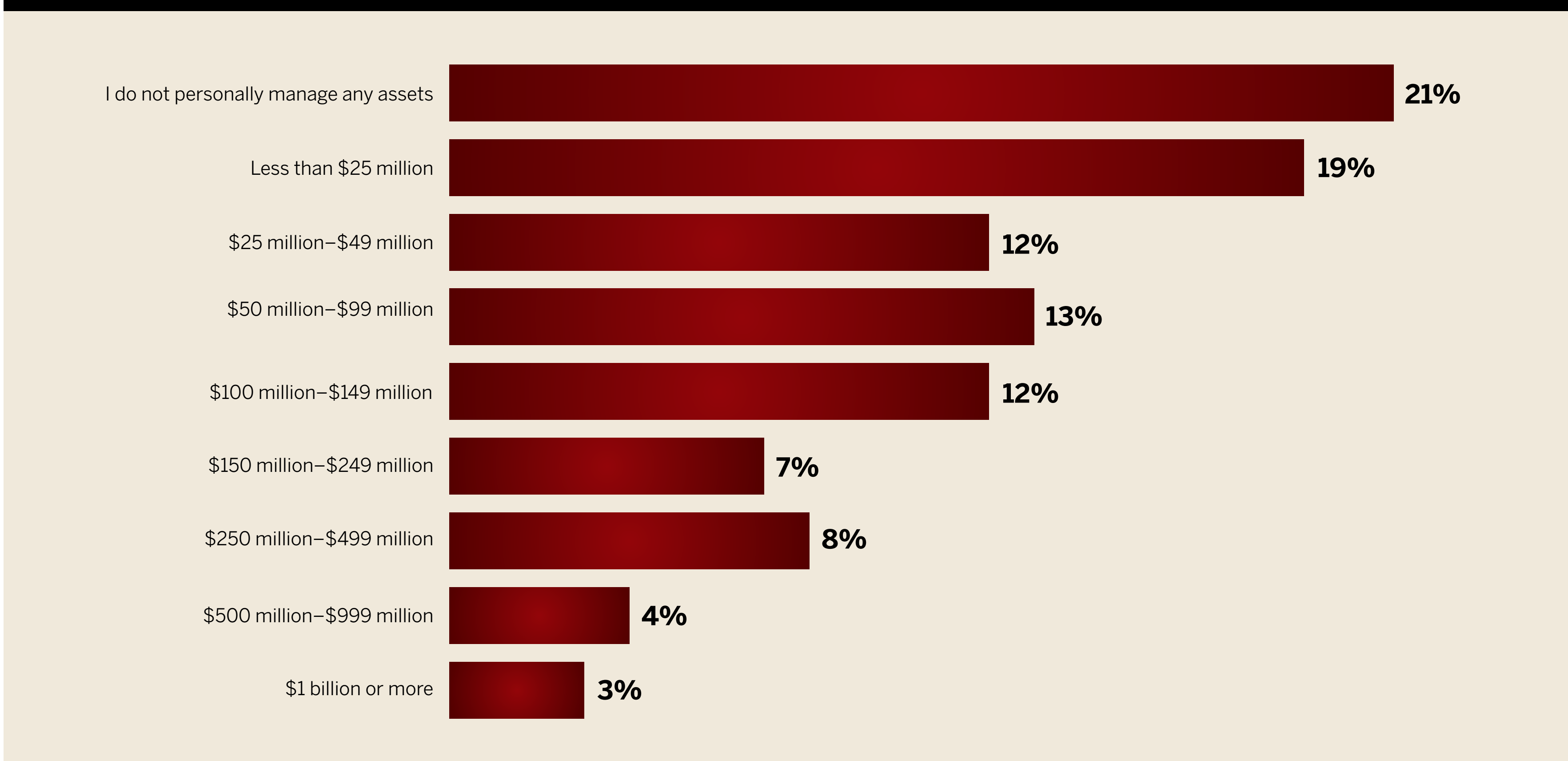
METHODOLOGY

InvestmentNews surveyed its full readership of financial advisors and related professionals between Nov. 20 and Dec. 12, 2023, on 19 of the largest fund providers based on assets. Self-identified users of the providers rated them on a one-to-five scale on the following dimensions: reputation, transparency, ease of access, breadth of investment options, and active management. The 5-Star Fund Providers were identified as those ranking in the top third based on composite average and servicing at least 8 percent of survey respondents.

"What stands out is not necessarily a particular fund per se, but does a company have a family of funds that have a good, consistent, strong track record? It's a structure of having best in class across the board"

THOMAS RUGGIE,
RUGGIE WEALTH MANAGEMENT AT
DESTINY WEALTH PARTNERS

WHICH RANGE BEST DESCRIBES THE TOTAL ASSETS YOU PERSONALLY HAVE UNDER MANAGEMENT?



Ruggie says, "They tend to do it if you're putting $20 million with them, they're not as concerned about a $10,000 account minimum."

At a quick glance, fees may appear to hinder accessibility, but it depends on what the advisor is gaining access to.

"I want best performance net of fees and in some cases, it makes sense to pay higher fees to a mutual fund if you get a good consistent manager," notes Ruggie. "I'm typically getting institutional shares, the absolute most cost-effective shares for our clients."

BREADTH OF INVESTMENT OPTIONS

- **1st: Vanguard** **4.48**
- **1st: BlackRock (iShares)** **4.48**
- **3rd: Fidelity** **4.47**

No matter how experienced finance professionals are, there will always be knowledge gaps. They may be experts in certain sectors, but only have a rudimentary understanding of others. This is something Ruggie relates to.

"I've been doing this a long time, but sometimes you don't know what you don't know," he says.

This is where 5-Star Fund Providers shine, as they have the resources to offer best-in-class investments. Due to their resources, they relate to advisors their strategic positions and most importantly, the rationale behind them.

"What I look for in a relationship is somebody that's going to provide me with insight based on their knowledge or their firm's knowledge of what's going on. Then, I want them to tell me how they would recommend that particular decision to take advantage of it," says Ruggie.

ACTIVE MANAGEMENT

- **1st: American Funds** **4.49**
- **2nd: T. Rowe Price** **4.24**
- **3rd: MFS Investment Management** **4.21**

There's a solid argument that active management could be the most important criterion for a 5-Star Fund Provider.

It's the culmination of all the other elements of *IN*'s 5-Star winners. It relies not only on skilled and adept managers, but also on market-leading research and analysis. It is all fueled by an internal culture of excellence which links to a provider's reputation and transparency.

The element that matters to advisors is showcasing active management to not only offer confidence but also attract more investment.

"Recently, I was on a four-hour-plus flight, my folder was about four inches thick of stuff to get caught up reading on, and I was able to get through it all," says Ruggie.

What he was poring over was information and updates from the funds he is invested in. It goes back to the belief that the performance of two large-cap funds may have differed last year, but over 10 years, the difference will likely be relatively small.

"I'm a believer that strategy trumps performance, and so what's more important to me is the strategy that's put in place and the adjustments of allocation based on where that proverbial hockey puck is going."

This is the crux of active management and by extension what it means to be a 5-Star Fund Provider.

"I read a lot of the information that's sent to me, but companies are so great at saying, 'Hey, we've done this and look at what our performance is.' I want to gain insight as to where they are going, not where things have been."

5-Star FUND PROVIDERS 2024

Winners

Providers	Overall Rating
American Funds	4.47
T. Rowe Price	4.31
Vanguard	4.26
BlackRock (iShares)	4.22
MFS Investment Management	4.19
Fidelity	4.18

Ease of Access

Providers	Average Rating
American Funds	4.68
BlackRock (iShares)	4.52
T. Rowe Price	4.45
Vanguard	4.41
MFS Investment Management	4.37
Fidelity	4.28

Active Management

Providers	Average Rating
American Funds	4.49
T. Rowe Price	4.24
MFS Investment Management	4.21
Fidelity	3.94
BlackRock (iShares)	3.77
Vanguard	3.63

Reputation

Providers	Average Rating
American Funds	4.60
Vanguard	4.52
T. Rowe Price	4.46
BlackRock (iShares)	4.22
Fidelity	4.22
MFS Investment Management	4.16

Breadth of Investment Options

Providers	Average Rating
BlackRock (iShares)	4.48
Vanguard	4.48
Fidelity	4.47
T. Rowe Price	4.28
American Funds	4.26
MFS Investment Management	4.04

Transparency

Providers	Average Rating
American Funds	4.33
Vanguard	4.26
MFS Investment Management	4.18
BlackRock (iShares)	4.13
T. Rowe Price	4.10
Fidelity	3.99

THE INTRICACIES OF INTEGRATING RIAs

Dave Welling, Mercer Advisors' CEO, says the key to succeeding at RIA M&A is what happens after the deal has been struck

BY GREGG GREENBERG

DON'T CALL Dave Welling an aggregator. The executive at Mercer Advisors prefers "integrator" instead.

Welling joined Mercer Advisors as CEO (or perhaps integrator-in-chief) in the summer of 2017, taking over from David Barton, who transitioned to vice chairman and head of the company's mergers and acquisitions division. At the time, Mercer's assets under management stood at $10.3 billion and the firm had completed a grand total of six acquisitions over the previous 16 months.

Since taking the helm, Welling has kept the deals flowing at the Denver-based RIA, not to mention the assets rolling in. Mercer Advisors has subsequently grown to $56 billion in AUM as of the end of 2023 and has raised its total deal count to 85 since 2016, when it started making acquisitions, including a dozen deals last year.

How aggressive has the firm been with its acquisition cum integration strategy during Welling's tenure?

Last December, Mercer Advisors demonstrated its dealmaking prowess by purchasing $495 million Paragon Wealth Strategies in Jacksonville, Florida, and then turning around the following day with the acquisition of $95 million Brighton Financial Planning, which operates in New Jersey and South Carolina.

Yeah, that aggressive.

And Welling hasn't taken his foot off the gas so far in 2024.

On January 3, the firm announced the purchase of Transitions Wealth Management, a Denver RIA overseeing $465 million in assets. Not even a week later, it snatched up Des Moines, Iowa-based River Glen Wealth Counselors, with $275 million. And just last week, it acquired MDK Wealth Management, a Seattle-based multifamily office with $2.5 billion in assets.

"We're very focused on fit, both cultural and strategic, and quality," says Welling. "And we're very focused on areas where there is opportunity for us to turn on growth. One of the things that is very different about our integrated model is our ability to do just that."

MERCER ADVISORS KEY STATS (as of December 31, 2023)

- Founded in 1985
- $56 billion in client assets
- Headquartered in Denver
- 1,060-plus employees
- More than 80 locations
- 85 acquisitions

"It's not about going in there and painting it the Mercer colors on Day 1. There's a process that we go through, but the whole point is to come together"

DAVE WELLING, MERCER ADVISORS

INTEGRATION, UNIFICATION, ASSIMILATION

M&A is a core business practice at Mercer Advisors, and the numbers bear that out. More than 50 of the company's 1,000-plus employees spend almost 100 percent of their time on acquisitions. Furthermore, a healthy 80 percent of those dedicated dealmakers focus on post-purchase integration, Welling says.

"The process of finding sellers is really important, but the value creation for the consumer, the employee, and the shareholder all happen after the acquisition," he says.

Drilling down on the firm's system for welcoming new RIAs into the fold, he says the process starts with operational integration, such as bringing the back offices and technologies together. The unification of service offerings and cultural assimilation that follow are what differentiates Mercer Advisors from other serial acquirers, Welling says.

"You've got integration, unification, and assimilation, and then by the time you get 12 or 18 months after, it's Mercer Advisors," he says.

"But it doesn't happen right away. We gain many capabilities from each acquisition. It's not about going in there and painting it the Mercer colors on Day 1," he adds. "There's a process that we go through, but the whole point is to come together, and I think that's quite different from our competition."

Speaking of competition, Welling is well aware that Mercer Advisors isn't the only growth-bent RIA in the marketplace. And he acknowledges that the contention for even the smallest wealth management shop keeps pushing prices higher, although not yet, in his view, to exorbitant levels. Like Mercer Advisors, the competition also has deep-pocketed private equity players backing them with a seemingly bottomless supply of dry powder, even in the face of higher interest rates.

Mercer Advisors, for the record, is backed by Altas Partners, Genstar Capital, Oak Hill Capital, and Singaporean sovereign wealth fund GIC. Aside from managing the business, Welling spends much of his time managing the expectations of those PE partners, while his CEO predecessor Barton does the dealmaking and, of course, integrating.

"The CEO is a different seat when you're a privately held business," he says. "So that's a group that I'm responsible for and accountable to as owners of the business."

TECHNOLOGY, GROWTH, SERVICE

Considering all his emphasis on M&A, one might think Welling's background would be in investment banking, maybe even at one of the wirehouse banks with which he now competes (more on that in a moment). Nevertheless, it was in the technology arena where Welling had his career breakout as an executive.

He was head of financial technology provider SS&C Advent immediately prior to his current position. Before that, he helped run Black Diamond, a portfolio management and performance reporting technology firm. (Advent Software was acquired by SS&C in mid-2015. Black Diamond Performance Reporting was acquired by Advent in June 2011.)

Yet while Welling made his bones in technology, he sees it as only one leg of the "three-legged stool" that makes Mercer Advisors an attractive alternative for independent advisors seeking to grow their businesses.

"Technology is one of the legs of the stool, the other two are our ability to turn on growth and a fundamentally better service offering for clients," he says. "We provide estate planning complimentary to all our financial planning clients. We have a tax team that could do tax work for individuals. We have an insurance team, and our investment offerings are unparalleled."

Summing it up, Welling says, "Technology is the fabric that integrates that entire experience, all those different service offerings, into one set of capabilities for us to be able to support the advisor and to position the advisor to support the clients."

How about artificial intelligence? Welling has no doubt that it is going to be impactful. The question is over what period.

It's also worth noting that earlier in his career, Welling spent more than a dozen years at Charles Schwab, rising as high as vice president of advisor practice management. It was there, he says, that he learned about the intense daily pressures faced by financial advisors to establish and grow their businesses, as well as why they're so careful when it comes to finding a partner.

"I grew a great respect for the courage that it takes to be an entrepreneur in general, and what it takes to be an entrepreneur specifically in this space," Welling says.

"We're trying to build a firm that can compete with all the wirehouses"

DAVE WELLING, MERCER ADVISORS

WHAT ABOUT COMPETITION?

"I've been around the wealth management industry and, in particular, the independent RIA industry for over 25 years, and I think the future has never been brighter," says Welling, who in his free time can be found on the ski slopes near his Denver home.

That said, he doesn't see it as all downhill from here.

"I do think the industry is approaching a couple of tipping points in terms of the pace of M&A growth and then also in terms of where it breaks through from what it has been historically, which is thousands of small firms doing great work in local markets but not getting the broad national recognition from the consumer that some of the big names do," Welling says.

Finally, concerning his RIA competitors, many of whom spend their days chasing the same deals as Mercer Advisors, Welling has nothing but kind words.

"In a very sincere way I'm rooting for their success, because they're helping us collectively define the category," he says. "Yes, they're competitors, but I think bigger arenas of competition are outside of the RIA industry and outside of those of us who are considered among the largest RIA platforms."

Of course, it makes some sense for Welling to want to be friendly with his RIA competitors when they have an enemy in common.

"We're trying to build a firm that can compete with all the wirehouses. We do that today, but to do that at scale, we are going to work as one in the marketplace," he says.

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News*Analysis*

WHAT A LAWSUIT BY EXXON COULD MEAN FOR SHAREHOLDER RESOLUTIONS

Even though shareholders withdrew their proposals, the company is pressing ahead with its lawsuit, and lobbying groups are supporting it

BY EMILE HALLEZ

Exxon Mobil did something very unusual earlier this year: It sued two of its own shareholders who were seeking to force proxy votes on climate change issues.

Even more unusual is that the oil giant is pressing ahead with the lawsuit after the two groups – Arjuna Capital and Follow This – voluntarily withdrew their shareholder proposal.

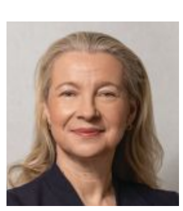
It's a case that's being watched closely by investor groups, environmental advocates, and public companies across industries. There's uncertainty about whether the case is simply a one-off instance of an oil company fending off activist investors on a specific issue or whether it could have broad implications for the shareholder resolution process.

In either case, it's clear that dragging the shareholders into court was effective in getting them to drop their proposals, and that alone could make some investors think twice about filing resolutions.

The company has asserted – both in court and in public statements – that it's defending itself against an onslaught of proposals brought by activists seeking to dismantle its business model.

Another perspective, shared among those in the sustainable investing world, is that Exxon is blatantly intimidating shareholders.

"The Exxon response has been over the top," said Leslie Samuelrich, president of Green Century Funds. "It's an affront to its shareholders. It's dismissive of [Exxon's] role in causing climate change… It feels like an unnecessary escalation in a time when shareholder rights are already being attacked."



"The Exxon response has been over the top. It's an affront to its shareholders"

LESLIE SAMUELRICH, GREEN CENTURY FUNDS

Industry lobbying groups appear to see an opportunity in the lawsuit. Last week, the US Chamber of Commerce and the Business Roundtable filed a brief asking the judge to allow Exxon to exclude the shareholder proposal, claiming that "special interest groups have used SEC Rule 14a-8 to hijack the proxy-vote process."

In mid-December, Arjuna submitted a shareholder proposal asking Exxon to accelerate the pace of the reduction of its greenhouse gas emissions and publish new plans, targets, and timetables. Follow This signed on to the proposal after it was filed, according to Exxon's lawsuit, which the company brought more than a month later in US District Court in the Northern District of Texas.

In its complaint, the oil company detailed the recent history of shareholder proposal filing, the pace

"Our members are very concerned about this case. It could have a real chilling effect on the shareholder proposal process"

BRYAN MCGANNON, US SIF

of which has ramped up quickly since the SEC softened its stance on activist investors in 2021. Since then, the regulator has denied "no-action" letter requests by public companies that ask for its blessing to keep various shareholder resolutions off their proxy ballots. Many of the resolutions over the past several years have focused on environmental, social, and governance issues, although more recently some have taken an anti-ESG stance.

Exxon has noted that Arjuna and Follow This are small shareholders and that they have filed very similar proposals with the company in the past that have won minority support in the proxy votes.

"This proposal was designed to do one thing – put us out of business. That's literally what the proponents said," the company stated on its site. The results of such votes are non-binding, although they put pressure on corporate boards and staff to address issues.

Exxon has stated that it hasn't dropped the lawsuit even after the proposal was withdrawn because it wants the SEC's rules to be clarified in court.

If the case moves forward, that clarification could happen soon, as the company is set to finalize its proxy statement by March 20 for the shareholder meeting scheduled for April 11.

"On the one hand, this is a serious situation with unpredictable results, and we need to take it seriously. But the facts and circumstances of this case are such that this could remain a discrete and contained episode," said Jonas Kron, chief advocacy officer at Trillium Asset Management. "There's a lot going on right now" in the court system, he said.

Danielle Fugere, president and chief counsel at As You Sow, said it's unlikely that Exxon's case will be successful.

"They would very much like this court to say that shareholders don't have the right to bring proposals at all. I can't even imagine a way they could limit who could bring a shareholder proposal," Fugere said. "The size of your holdings does not dictate whether you are bringing an important proposal or not."

Often, it's the resolutions filed by small shareholders that see high levels of support in votes, she notes.

Even if the case goes in the plaintiff's favor, other US District Courts would likely rule differently, meaning that any similar lawsuits potentially brought by other public companies would hardly be guaranteed, Fugere said.

"I don't think it is going to be replicated across the board by companies," she said. "Shareholder

NewsAnalysis

rights go back decades. It is clear that shareholders play an important role in governance."

The defendants filed a motion to dismiss the lawsuit after pulling their resolution.

"Exxon's continued legal attack reveals its true goal: circumvent the SEC in order to seek a court ruling that Exxon is not violating the securities laws by omitting shareholder proposals that support the company to accelerate the pace of reductions for all its greenhouse gas emissions … the root cause of the climate crisis," Mark van Baal, founder of Follow This, said in a statement.

Arjuna Capital did not respond to a request for comment.

Exxon has become a shining example of what's possible through shareholder resolutions, which is likely part of why it is now pursuing litigation. In 2021, the mutual fund company Engine No. 1 succeeded in having three of Exxon's board members replaced as part of a campaign to get the company to expand its energy business beyond oil.

US SIF: The Sustainable Investment Forum is watching the new lawsuit closely.

"Our members are very concerned about this case. It could have a real chilling effect on the shareholder proposal process," said Bryan McGannon, managing director at the group. "I don't see any scenario where this is an isolated outcome."

While sustainable investing advocates say that the case should embolden shareholders to take companies to task, it is also easy to see why Arjuna and Follow This withdrew their proposal.

"There's a clear reality that the shareholder proponents were facing a mountain of legal bills that were not in their interest and would not advance their objectives," McGannon said.

But the case could also cause a backlash against Exxon, Samuelrich said.

"It should embolden other investors to be more assertive in their rights as shareholders. What I hope is that investors see this as the attack it is and respond accordingly, exercising more of their rights," she said.

The case also highlights one of the reasons why Green Century doesn't invest in fossil-fuel companies, Samuelrich said.

"Engaging with fossil-fuel companies in trying to challenge their core business model has never been fruitful," she said. "It's an example of why we and other investors have chosen to stop investing and trying to engage with them."

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> **"Engaging with fossil-fuel companies in trying to challenge their core business model has never been fruitful"**
>
> LESLIE SAMUELRICH, GREEN CENTURY FUNDS

RETIREMENT PLANNING

THE REVERSE MORTGAGE SEEKS A HOME WITH AFFLUENT INVESTORS

Reverse mortgage options are no longer a last resort – used strategically, they can be part of financial planning in retirement, proponents say

BY EMILE HALLEZ

Home equity among people 62 and older reached an all-time high of more than $13 trillion late last year, coinciding with a record wave of people turning 65.

That combination of housing wealth and retirement could mean a lot of new business for the reverse mortgage industry, particularly from people whose homes constitute the majority of their assets. But even for those financially well-off, a market downturn could make the idea of a reverse mortgage attractive as a way to reduce sequence-of-returns risk, and one that financial advisors are increasingly open to.

Reverse mortgages provide payments based on home equity, and the loans don't need to be repaid until homeowners move out, sell the property, or die. The minimum age for getting a reverse mortgage insured by the Federal Housing Administration is 62, although proprietary versions can be issued for those as young as 55.

It's no longer just a last-resort income option. When used strategically, the reverse mortgage can be part of careful financial planning in retirement that helps people maximize their invested assets and end up leaving heirs with more than they otherwise might, said Wade Pfau, retirement researcher and professor at The American College of Financial Services.

When a portfolio's performance is low and that coincides with income needs, there's a strong case for it, as the market tends to recover quickly in the US, said Pfau, who cites reverse mortgages as a buffer asset.

USING THEM STRATEGICALLY

Strategic use of reverse mortgages "is really the intention in the financial planning space," he said. "A lot of reverse mortgage lenders have focused on meeting with financial advisors and trying to get them to understand it."

The recent rise in interest rates doesn't help. But that increase, combined with the fact that so many homeowners got mortgages when rates were incredibly low, has discouraged people from moving or upgrading, contributing to the housing shortage that has continued to prop up home values. In the third quarter of last year, housing wealth in the US for people 62 and older increased by more than $178 billion, reaching nearly $15.4 trillion, which was offset by $2.3 trillion in mortgage debt, data from the National Reverse Mortgage Lenders Association show.

> "Interest rates are still not high from a historical average perspective. The reverse mortgage is the one financial tool that benefits from low interest rates"
>
> WADE PFAU, THE AMERICAN COLLEGE OF FINANCIAL SERVICES

"When interest rates were low, that was really great for reverse mortgages," Pfau said. But "interest rates are still not high from a historical average perspective. The reverse mortgage is the one financial tool that benefits from low interest rates."

Current rates aren't so high that they totally negate the potential benefits of reverse mortgages, he said.

"It's all about the sequence-of-returns risk in retirement planning… Spending from the home equity helps you preserve more investments, so there is going to be a bigger legacy at the end," Pfau said. "The beneficiaries can get more. They can pay off the loan and still have a net windfall."

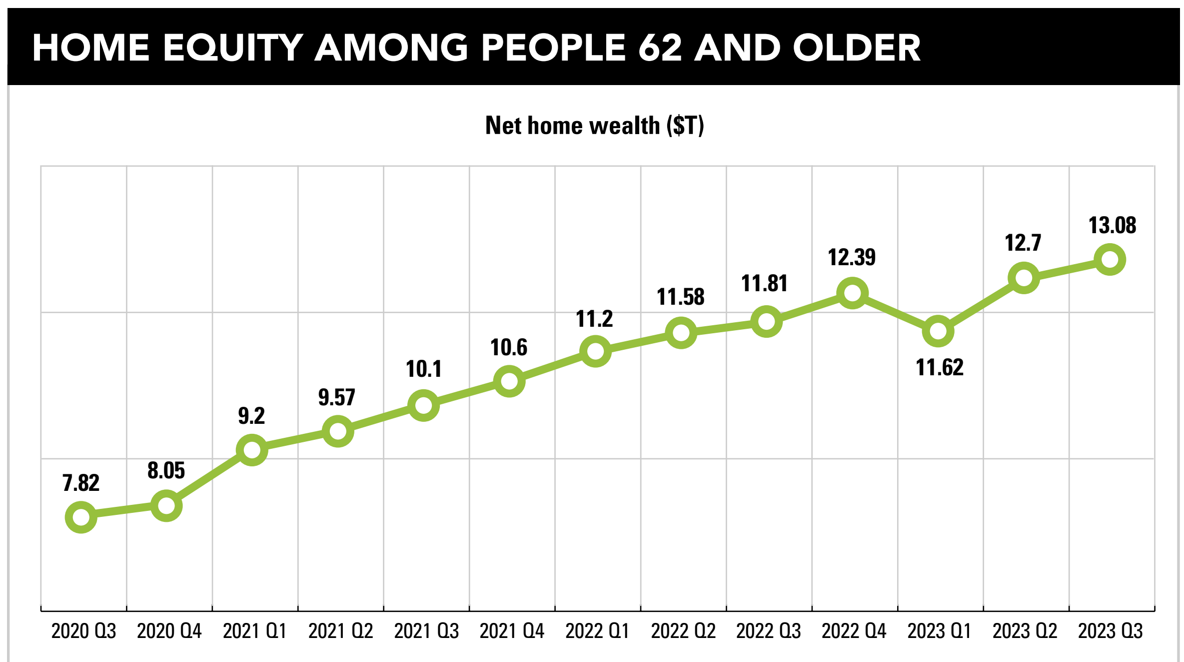
Based on interest rates, people can typically borrow about 37 to 38 percent of their property value in their 60s, said Steve Resch, vice president of retirement strategies at Finance of America Reverse. As equity levels have increased, people have felt more comfortable leveraging a portion of their home values, he said.

"The goal is for the client or the family to always retain an equity position in that property… Years ago, that wasn't the case," Resch said, pointing to the housing crisis as a reckoning time for the industry. Reverse mortgages are "non-recourse" loans, meaning that if borrowers end up owing more than the value of the property, they aren't liable for more than 95 percent of the appraised values, and surviving family members can buy the home for that amount as well, he noted.

INCREASING USE

"It's simply a matter of demographics. We have an enormous population that is moving into retirement. We've got a massive amount of equity available," Resch said. "We're looking at 20- to 30-year retirements. Bringing home equity into that plan really makes sense."

Like others in the industry, Finance of America



Source: National Reverse Mortgage Lenders Association

Reverse has been ramping up its relationships with financial advisors. Those professionals are the only ones Resch works with, he said.

One of the main concerns advisors have "is paying off the current mortgages a client may have – that is primarily for cash management purposes," he said. That part of the business has slowed as interest rates have swelled, but advisors are still interested in using reverse mortgages strategically, he noted.

That isn't the case among most broker-dealers, which have not endorsed reverse mortgages, something Resch said he and others would like to see change.

There are some important considerations for anyone before they go forward with a reverse mortgage. Among other things, even though there are spousal protections for borrowing, people might want to wait until both partners are 62 or older at issuance. And it could be wise to avoid taking out a reverse mortgage if the homeowner plans to move soon – unless the point of the debt is to help finance a new house.

"You can use a reverse mortgage for purchasing a property as well. There is definitely more interest in that," Resch said.

"I have found it extremely difficult to have a rational conversation with my clients about reverse mortgages. Most people who've paid off their house just cannot fathom the idea of going back into debt"

DAVID FOSTER, GATEWAY WEALTH MANAGEMENT

WHAT ADVISORS SAY

"I think reverse mortgages might be the single most underutilized retirement planning tool," David Foster, founder of Gateway Wealth Management, said in an email, citing Pfau's work to show how affluent retirees can use them proactively.

But convincing clients is another matter.

"I have found it extremely difficult to have a rational conversation with my clients about reverse mortgages. Most people who've paid off their house just cannot fathom the idea of going back into debt," Foster said. "No amount of logic will be able to convince them that it is wise to borrow against their house in retirement after having worked so hard to pay off their home prior to retirement. I've even had people get borderline angry with me for even suggesting the idea."

Because of that, he has started having conversations about reverse mortgages well ahead of time with clients who are in their 40s and 50s, he said.

Another advisor, Andrew Herzog, associate wealth manager at The Watchman Group, said he has warmed somewhat to the idea of reverse mortgages for clients who need the income and don't have better options.

"If Social Security, pensions, and personal savings aren't enough to live off, people have turned to the equity in their home to help supplement monthly expenses. Of course, though, this isn't free money – it's a loan, and that means interest and fees," he said in an email. "I suppose I am more open to recommending them on rare occasions, where someone is house-rich and truly needs the income to survive and is OK with the idea that he/she is slowly accumulating more debt over time, instead of paying off debts in old age."

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GOLD STANDARD DRIVES STEWARD'S GROWTH

Steward Partners CEO talks about the value of its equity ownership model, why the wirehouses have already lost, and plans to continue the firm's M&A momentum

BY JAMES BURTON

FOR SOME, the battle for market share between wirehouses and RIAs rages. For others, it's done and dusted. "The war is over and they lost; that game is over," says Jim Gold, chief executive officer at Steward Partners, an employee-owned, hybrid RIA.

A study by Cerulli Edge in early January suggests he might be right. It projected that the wirehouses' share of assets under management will decrease from 34.1 percent in 2022 to an estimated 27.7 percent in 2027, a drop of 6.4 percentage points. In contrast, over the same period, the AUM share of independent RIAs and hybrid RIAs is predicted to go from a combined 26.7 percent to 31.2 percent.

"We're passing each other on the elevator," Gold says. "For every percent they go down, it literally goes to us because we're taking it."

He expects the wirehouses' share of the pie to eventually level out in the teens and believes they remain the ideal home for some advisors, thanks to their depth of resources. But he says they're not investing in the next generation, who can find the autonomy, flexibility, and reduced bureaucracy they crave at an independent firm.

Gold instead sees more intense competition on another battle line – within the RIA space. Private equity money has flooded in, allowing some firms to hoover up rivals and smaller players.

It's dog eat dog, and while Gold is easy company – a colleague described his leadership as "fun, fair, but firm" – he says he's relentless when it comes to the evolution of Steward. Central to that has been giving his network of about 250 advisors what they want, not what he thinks they want. Providing options is key, and Steward offers a range of affiliation models, including W-2, 1099, and RIA-only (IAR). In 2023, it went multicustodial, adding Pershing to its established partnership with Raymond James.

It's an approach that has helped Steward become one of the top corporate RIAs in the country, with more than $32 billion in AUM. Last year, armed with a credit facility of $150 million to use only on growth, Gold put it to good use, capping the firm's M&A activity with the late-year acquisition of Freedom Street Partners, which alone added $3.2 billion in assets and 38 advisors.

Overall, 2023 was a record growth year for Steward, with $43 million in additional revenue growth through recruiting and M&A, and more than $7 billion in assets brought onto its platform. Its legacy advisors – those who have been with the company for two years or more – brought in another billion dollars.

> **"We have a ton of recruits coming in, and we're teed up to have another record year. We could see $10 billion net new assets this year"**
>
> JIM GOLD, STEWARD PARTNERS

"We have a ton of recruits coming in, and we're teed up to have another record year," Gold says. "We could see $10 billion net new assets this year, and I think you could see $50 to $70 million in revenue attracted as well."

'DESTRUCTION OF THE WIREHOUSE CULTURE'

Gold has come a long way since he cold-called New Yorkers as a Smith Barney trainee before taking on various roles at the firm, including branch management. The company believed its leaders should be people who had done the job of the people they were leading. He learned a lot and believes there is a lineage of Smith Barney culture that has carried through to Steward.

Morgan Stanley acquired Smith Barney in 2009 (Citigroup was also part of the deal but soon sold its shares to Morgan Stanley), and by then, Gold was hearing more and more about independent firms like Hightower and Dynasty. He saw what he calls "the destruction of the wirehouse culture from the inside," and, in 2013, as a co-founder, he launched Steward with the aim of building a true partnership. To that end, everyone who works for Steward is an equity owner. "It's *our* firm," Gold stresses. "It created a real alignment."

In a nod to what he sees as the positive side of working for a wirehouse, Steward wanted a high service level and coined the phrase "independence with infrastructure." The mission was to give advisors the best of both worlds – the resources and platform of a Big Four firm and the superior payout and autonomy synonymous with independence – and get rid of the downsides of both.

READY FOR MORE

After taking in capital for the first time in 2019 and 2021, Gold foresees a series of further liquidity events that will provide more ammunition for growth as well as allow advisors to benefit from profit-sharing. Steward has also extended its credit facility to continue its M&A momentum in 2024.

While regulation, compliance, and cybersecurity requirements are beating up many smaller RIAs, the cost of financing is also pushing down the valuation of these firms at the same time the valuation of firms like Steward increase. Gold believes this price divergence leaves Steward well positioned.

"I'm not a doomsday guy," he says, "but you can

NAME: Jim Gold

FIRM: Steward Partners Global Advisory

POSITION: CEO

PARTNERS: 500

ADVISORS: 250

OFFICES: 59

AUM: $32 billion

see a flat to down market this year. There was all this euphoria about rates coming down, but it looks like they're not going to come down as quickly [as expected]. If you go into a period where markets are flattish to maybe down a hair, capital is still constrained by that, and firms like Steward are just primed to win even more."

Equity ownership is a major differentiator for Steward, but Gold also cites the firm's ambitious goals as a reason it has attracted top talent. He also points to the caliber of outside investors it has in Cynosure and The Pritzker Organization, while board members include Charlie Johnson, who was president and CEO of Smith Barney, and Janet Robinson, the former president and CEO of *The New York Times*.

From just 10 employees little more than 10 years ago, Steward's rise has been eye-catching, but Gold believes the best is yet to come.

"It's been an amazing journey, and we feel like we're just getting started."

james.burton@keymedia.com

PROJECTED ASSET SHARES 2022–2027

CHANNEL	2022	2023E	2024E	2025E	2026E	2027E	2022–2027E GAIN/LOSS (PERCENTAGE POINTS)
Wirehouse	34.1%	33.1%	32.0%	30.7%	29.3%	27.7%	-6.4pp
National and regional B-D	16.4%	16.7%	17.1%	17.4%	17.8%	18.2%	1.8pp
IBD	12.3%	12.3%	12.4%	12.6%	12.7%	12.9%	0.7pp
Hybrid RIA	11.0%	11.5%	12.0%	12.6%	13.3%	14.0%	3.0pp
Independent RIA	15.7%	15.9%	16.2%	16.5%	16.9%	17.2%	1.6pp
Insurance B-D	3.2%	3.2%	3.2%	3.3%	3.3%	3.3%	0.2pp
Retail bank B-D	7.4%	7.2%	7.0%	6.9%	6.7%	6.5%	-0.9pp

Source: Cerulli Associates

Industry

New research highlights importance of IRAs in retirement planning

MORE THAN four in 10 US households (42 percent) own individual retirement accounts, amounting to 55.5 million households.

Newly published research from the Investment Company Institute found that traditional and Roth IRAs account for 36 percent of household financial assets among those owning them, and those individuals were more likely to have engaged in rollover activity, with those owning Roth IRAs also having higher contribution rates.

The study also reveals that IRA holders are generally willing to take some investment risks, with more than 70 percent holding mutual funds and more than 30 percent holding ETFs within their IRAs.

Digital assets custody firm hires former Morgan Stanley exec as CFO

A FIRM that aims to be the go-to digital asset securities custody platform has hired a Wall Street veteran as its chief financial officer.

Albert P. Meo, former Morgan Stanley executive director of regulatory policy, becomes CFO of Prometheum, a firm founded in 2017 by a group of Wall Street attorneys to offer an end-to-end, blockchain-enabled ecosystem for the trading, clearance, settlement, and custody of digital asset securities.

Meo has wide experience in the financial industry, including roles at Goldman Sachs and Nomura, as well as in-depth knowledge of regulatory compliance and risk management. He will oversee financial planning, reporting, and liquidity risk management for the firm.

FOCUS

What are LPL and Cambridge paying for advisors' businesses?

NOW THAT independent broker-dealers are competing in the red-hot mergers and acquisitions market to buy registered investment advisors and wealth managers, they're paying millions of dollars for the businesses of financial advisors – the same non-employee advisors who are already registered with the firms.

IBDs like LPL Financial and Cambridge Investment Research have recently reported details about deals they completed last year in filings with the Securities and Exchange Commission. One striking aspect of the acquisitions is that the adage of the independent broker-dealer industry, that a firm like LPL or Cambridge would never own a broker's book of business, has disappeared over time.

IBDs want to buy their advisors' practices, and in abundance.

In its annual audited financial statement, known as a Focus report, LPL Financial reported on February 21 that last year the IBD giant, with 21,000 advisors, completed a total of 19 acquisitions using a program called its "liquidity and succession" solution, in which it buys advisors' practices. The total consideration for just five of those

RIA M&A bounces back to start 2024: Report

AFTER A slightly down year for deal-making in the registered investment advisor market in 2023, the first two months of this year saw a 20 percent increase in transactions when compared to the same period a year earlier, according to DeVoe & Co., a consulting and investment banking firm for RIAs.

Year to date, 49 transactions have been announced, versus 41 transactions during the same period last year, according to DeVoe. The increase in activity follows the full-year decline in 2023, which was the first downtick in annual M&A volume in more than a decade.

High interest rates make borrowing more expensive, and global economic fears also contributed to the slowdown.

Ameriprise bracing for $50 million penalty over messaging

AMERIPRISE FINANCIAL SERVICES is the latest major broker-dealer to reveal that it's expecting a significant penalty from regulators as a result of unapproved electronic communications by financial advisors and employees, disclosing that it's preparing to book up to a $50 million expense to resolve the issue with the Securities and Exchange Commission.

LPL Financial reported last month that it was on the hook for a $50 million settlement and penalty from the SEC over compliance failures in keeping records of financial advisors' and employees' electronic communications, such as text messages and apps.

In February, the SEC penalized 16 wealth management firms a total of $81 million over mishandled electronic communications.

"If the broker-dealers want assets on their platforms, they need to be aggressive, and they are throwing a lot of money at this"

JODIE PAPIKE, CROSS-SEARCH

transactions was $190.2 million, with potential future payments of another $107.2 million for those firms.

Meanwhile, Cambridge Investment Research, another industry leader, said February 27 in its 2023 Focus report that last year it acquired the commission business of Antaeus Wealth Advisors, which uses Cambridge as its broker-dealer, for a total consideration of close to $4.4 million.

The managing partner of Antaeus, A. J. Sohn, did not return a call to comment. A spokesperson for Cambridge did not comment.

For years, broker-dealers have had a variety of succession plans to acquire retiring financial advisors' clients. But the outright purchase of advisors' businesses, particularly as private equity managers are snapping up wealth management firms, is a more serious step.

"For the next decade, we are going to be in a succession planning landslide, so IBDs need to compete with the private equity buyers for advisors' practices, or they will suffer and see advisors' assets taken off their books," said Carolyn Armitage, an industry consultant. "Private equity buyers are willing to pay more for those assets. A firm like LPL also has a big advantage since they self-clear, and that's a more diversified way to earn money on those assets."

"This strategy by IBDs makes so much sense, because all the statistics show that a lot of financial advisors are going to be retiring in the next decade and firms have gotten wise to that," said Jodie Papike, president of Cross-Search, a third-party recruiting firm. "If the broker-dealers want assets on their platforms, they need to be aggressive, and they are throwing a lot of money at this."

99.9 percent of RIAs are 'monkey see, monkey do'

INDUSTRY ICON and pioneer Joe Duran has one goal in mind when he addresses advisors attending *InvestmentNews*' RIA Connect New York event next month – helping them be competitive in a changing world.

"The importance now of managing and delivering on your brand, ensuring that you have a truly exceptional and memorable client experience, and that you have operational excellence so you can be competitive … the pressures are much greater than ever," Duran says.

Duran, who founded national RIA United Capital in 2005 and sold it to Goldman Sachs in 2019, will be the keynote speaker at the April 16 conference.

Raymond James adds teams from Morgan Stanley, UBS

RAYMOND JAMES is fortifying its leadership in the wealth space as advisors join its network from Morgan Stanley and UBS.

The firm announced that it recently added financial advisors Eric G. Werner and Vincent "Randy" Whatley to its employee advisor channel, Raymond James Advisors.

The seasoned duo, who are joining RJA from Morgan Stanley, bring with them a portfolio of approximately $350 million in client assets.

Raymond James also recently welcomed a Florida-based financial advisor, James "Buck" Williams, who had managed more than $235 million in assets at UBS, to its independent advisor channel.

JPMorgan acquires ex-Fortress investment tech firm LayerOne

JPMORGAN CHASE & CO. acquired LayerOne Financial, an investment management platform that was spun out from Fortress Investment Group, as it seeks to improve its offerings for hedge funds.

JPMorgan's wholly owned subsidiary Neovest did the deal, according to a statement. The acquisition will allow Neovest's clients to monitor their portfolios, conduct risk assessments, send orders to their brokers, and perform compliance checks all from one platform, the companies said in the statement.

"Following this acquisition, Neovest can enable clients to manage their full investment life cycle with one software provider," Jimmi Shah, Neovest's chief executive, said in the statement.

Mercer Advisors lands $2.5 billion mega-practice

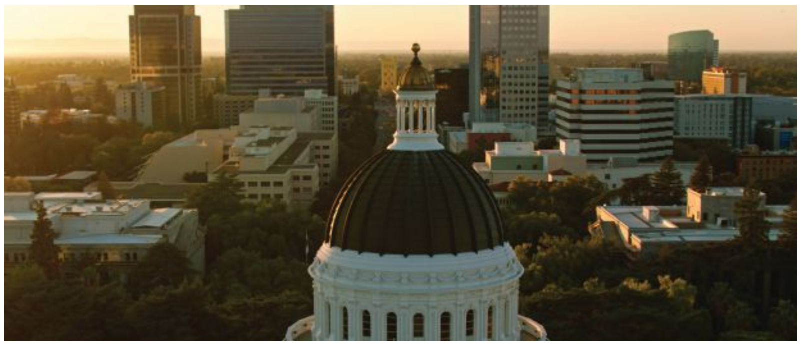
MERCER ADVISORS is bolstering its presence in the ultra-affluent wealth space with the acquisition of another mega-practice, Seattle-based MDK Wealth Management. Established in 2020 by a trio of co-founders, MDK caters to the ultra-high-net-worth segment and has more than $2.5 billion in assets under supervision.

According to Mercer Advisors CEO Dave Welling, the deal for MDK gives his firm an expanded Pacific Northwest footprint, as well as a stronger presence in the Seattle area.

"MDK is a respected multifamily office led by highly qualified professionals with deep expertise serving the ultra-high-net-worth space," Welling said in a statement.

Regulation

California governor backs best-interest bill for annuity sales



IN A move contrary to the wishes of consumer groups, the governor of California has signed a bill to adopt a standard that seeks to harmonize Regulation Best Interest with the sales of annuities.

California Gov. Gavin Newsom signed state Senate Bill 263, making the state the 44th to adopt the National Association of Insurance Commissioners' controversial annuity sales model update.

Under the NAIC's update, which is based on the SEC's Reg BI, sellers of annuities must act in the best interest of consumers and use disclosures to address potential conflicts of interest. However, the measure does not obligate sellers to act as fiduciaries or to abandon commission-based sales models.

SEC announces new director for investment division

THE UNIT of the Securities and Exchange Commission that oversees investment management has a new director as incumbent William Birdthistle has departed the agency.

His successor is Natasha Vij Greiner, currently the deputy director of the SEC's examinations unit and a long-time member of the regulator's team, with more than two decades in leadership roles.

Greiner's experience includes working in the asset management unit of the SEC's enforcement division, where she investigated possible violations of federal securities laws and litigated matters in federal district court and administrative proceedings.

FOCUS

SEC passes climate rule that leaves no one happy

MANY LARGE public companies will have to report climate-related risks under a final rule passed by the SEC last Wednesday – but the requirements are significantly more limited than what the agency initially proposed and what climate groups wanted.

The final version of the agency's rule does not include disclosures related to the wide-ranging "Scope 3" greenhouse gas emissions, a category that covers carbon in the supply chain and among end users and represents the bulk of greenhouse gases for companies like retailers. Sustainable investors and environmental groups had lobbied the Securities and Exchange Commission to include Scope 3, but the agency noted that feedback from companies about the likely costs and complexity made it pull back from the proposed requirement.

The SEC also made various requirements of the final rule less prescriptive than the proposal's and gave a longer phase-in time for companies to make disclosures. But the concessions did not satisfy the conservative members of the commission, as commissioners Hester Peirce and Mark Uyeda voted against it. And the liberal commissioners said leading up to their votes that the final version left much to be desired.

"This is not the rule I would have written. While these are important steps forward, they are the bare minimum"

CAROLINE CRENSHAW, SEC

"This is not the rule I would have written. While these are important steps forward, they are the bare minimum.

IRS targets those with high incomes who haven't filed returns

WITH TAX filing season underway for 2024, the Internal Revenue Service is chasing 125,000 cases of people with six- or even seven-figure incomes who haven't filed their returns, some since 2017.

The agency says that this includes 25,000 cases with incomes of more than $1 million and 100,000 with incomes of between $400,000 and $1 million. As some people haven't filed for multiple years, the actual number of individuals will be smaller.

Collectively, third-party data (such as W-2s and 1099s) show these people's financial activity is $100 billion, and the most conservative estimate puts their unpaid tax at hundreds of millions of dollars.

Minnesota advisor charged in alleged $1.6 million wire fraud

A MINNESOTA-BASED financial advisor has found herself in the crosshairs of authorities after an investigation found she misappropriated clients' funds to support her real estate business.

Kristi Margaret Berge, 47, is facing wire fraud charges after she purportedly used more than a million dollars that clients entrusted to her.

Berge founded Keep Safe Investments in 2013 and headed the firm as its CEO for 10 years. The US Attorney's office for the District of Minnesota said in a statement that Berge was also a co-owner and operator of J&K Connect, a real estate investment company that buys, renovates, and resells properties.

Ultimately today's rule is better for investors than no rule at all, and that is why it has my vote," commissioner Caroline Crenshaw said. "But, while it has my vote, it does not have my unencumbered support."

Crenshaw, chair Gary Gensler, and commissioner Jaime Lizárraga voted in favor of the rule.

The rule will require major public companies to disclose climate-related risks, including Scope 1 and 2 emissions, which pertain to the greenhouse gases the businesses directly emit, as well as those related to the energy they consume. However, such disclosures are required by companies only if they determine on their own that the data are materially financial in nature or if they have set targets or goals around emissions reduction. Companies will also have to disclose the material risks they face around severe weather events, like floods and hurricanes.

Further, many public companies' disclosures will be subject to third-party review by independent auditors. That will help ensure that the data and methods used to present the data are consistent and comparable for investors, SEC staff said.

The need for such disclosures is evident because most public companies, including an estimated 90 percent of those in the Russell 1000, already provide some type of climate reporting in documents not governed by the agency, SEC chair Gary Gensler said. And about 60 percent of companies already disclose their greenhouse gas emissions in a variety of formats and with differing methodologies, which makes comparison difficult, he said.

Industry awaits clarity on donor-advised fund regs

NOW THAT the comment period on the IRS' proposed regulations for donor-advised funds has ended, the waiting game has begun – along with a whole lot of simmering criticism.

The proposals impose a 20 percent excise tax on a sponsor that makes a taxable distribution from a DAF and a 5 percent excise tax on a fund manager who knowingly agrees to make a taxable distribution.

Amy Freitag, president of the New York Community Trust, wrote: "We are concerned that the proposed regulations will add substantial and vague new compliance obligations which will add to our costs, create new and needless risks of non-compliance, and limit the ability of community foundations to work with donors in ways that promote volunteerism, community engagement, and innovation."

Social media scams, crypto fraud on the rise: NASAA

INVESTIGATIONS AND enforcement actions taken by state securities regulators are soaring, thanks to advances in technology and social media, according to a report released by the North American Securities Administrators Association.

NASAA's report shows state securities regulators were responsible for nearly $1 billion in monetary relief resulting from enforcement actions in 2022. In total, state securities regulators investigated 8,538 cases in 2022, up from 7,029 in 2021.

Regulators also initiated 1,163 enforcement actions, including 136 criminal actions, 59 civil actions, and 825 administrative actions, the report said.

Furthermore, state regulators clawed back $702 million in restitution and more than $223 million in fines, in addition to nearly 5,337 months in prison sentences.

Taxpayers reveal plans for refunds

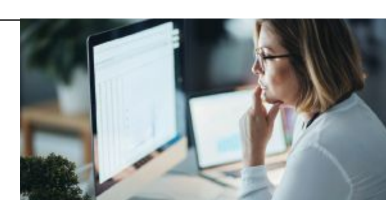
MORE THAN two-thirds of US adults are expecting a tax refund this year, and the IRS has confirmed a larger average refund so far.

But how do those who get money back intend to use it? A Bankrate.com survey asked more than 2,000 people about their plans for a refund, with boosting savings the top answer given (28 percent), ahead of paying down debt (19 percent) and paying for everyday expenses (11 percent).

Meanwhile, the IRS said that through February 24, it had delivered almost 29 million refunds with an average amount of $3,213, which was up 4.3 percent year over year.

Senate bill promotes e-delivery of investment documents

BIPARTISAN LEGISLATION that's been introduced in the House would require the Securities and Exchange Commission to propose new rules allowing for the electronic delivery of regulatory documents to investors.



"It is past time that we bring disclosure requirements into the 21st century," Sen. Thom Tillis, R-N.C., said in a statement. "This common-sense legislation will heighten efficiency and cut down on paper while preserving investors' ability to receive hard copies."

Sen. John Hickenlooper, D-Colo., added: "Today's economy runs in the digital age, and we need to catch up. Cutting red tape is as simple as going paperless."

Retirement

Just three hours can improve retirement readiness: Study

THERE'S A lot people don't know when it comes to saving for retirement, but even a few hours of instruction can make a big difference.

Recent research from Macquarie University in Australia found people who took a three-hour online course designed by the school were more confident about making financial decisions and determined they could retire a year earlier than initially planned. Researchers included more than 800 people in the study.

The best results were seen in the group with holistic planning, which had access to the course and advisors. After that, the group taking just the online course did best, followed by those receiving only financial advice.

SECURE 2.0 Saver's Match could help 21.9 million Americans

MORE THAN 20 million Americans stand to benefit from a federal government matching contribution to their retirement plans under a SECURE 2.0 provision slated for implementation in 2027.

The Employee Benefit Research Institute conducted research to estimate the potential reach of the Saver's Match provision, one of SECURE 2.0's clauses aimed at enhancing the American retirement plan system.

Under the provision, the current Saver's Credit will be replaced in 2027 by a federal matching contribution for workers in lower income tax brackets – the government will kick in 50 cents for every dollar a worker contributes, with a $1,000 cap on the federal match per year to a qualified retirement plan.

FOCUS

Keeping retirement planning personal

RETIREMENT PLANNING is no longer an old man's game; it's a core component of generational wealth management. Trevor Wilde, CEO of Wilde Wealth Management, says that retirement planning is a core foundation and focus for every client he has, regardless of age.

"More broadly, we use the term financial planning – and one element of that is [always] going to be retirement planning," Wilde says. "When I think about my peers, the financial plan that we have has a pretty keen focus on retirement as one element, but there's other elements [too] – college planning, for instance. My oldest has just turned 18, so that's where we're at in our lives right now."

What makes Wilde's whole approach to retirement planning, and wealth management in general, stand out is one underlying principle: that financial planning is inherently personal and should evolve with an individual's changing needs and circumstances.

"At the cornerstone of every relationship, whether you're 20 or 70, is going to be a financial plan that has a heavy focus not only on retirement planning but then the other things that might be important to the client," he says.

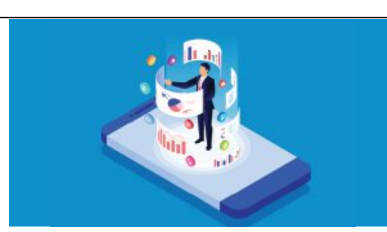
This approach ensures that clients feel seen and supported in all aspects of their financial journey, not just the destination. Having won significant awards nationally and for best in state, the Arizona-based advisor's methods have made him somewhat of an icon in the industry – something he says springs once again from that inherently personal approach to financial planning.

"What we really focus on at Wilde [is] to differentiate how we work with our clients, which was modeled after the family office concept," Wilde explains.

This holistic model is not merely a buzzword for Wilde and his team; it's a practical methodology underpinned by a diverse team of experts – especially where estate planning is concerned.

"We have three different insurance specialists under our roof: one that predominantly focuses on health insurance and disability insurance, one that focuses on liability insurance, and one for life insurance. Our leverage with our life insurance specialist is primarily

Robinhood wants gig workers' IRA business



ROBINHOOD IS going after more IRA business, announcing a product that's aimed at gig workers.

The service, Robinhood Retirement For Independent Workers, will be offered to workers at Grubhub, Taskrabbit, and Gopuff, although the firm says it expects to expand the individual retirement account to other companies.

Like its existing IRA service, which is available to anyone, the new one includes a matching contribution from Robinhood equal to 1 percent to 3 percent of an account holder's contributions, which must be held for five years to avoid an early withdrawal fee. Another part of the service is a hotline for financial counseling from GreenPath Financial Wellness.

Kodak considers tapping pension fund surplus

EASTMAN KODAK CO. is considering a move to unlock gains created by its overfunded pension system, according to people with knowledge of the matter.

The company is weighing a so-called pension reversion, which would enable it to take control of the surplus rather than leaving excess capital to current and future retirees, said the people, who requested anonymity to discuss confidential information. The maneuver would involve selling its portfolio of illiquid investments while liquidating other positions, the people said.

The proceeds may be used for corporate purposes, such as paying down debt and investing in growth initiatives, according to the people. No final decision has been made.


TREVOR WILDE

“What we really focus on at Wilde [is] to differentiate how we work with our clients, which was modeled after the family office concept”

TREVOR WILDE, WILDE WEALTH MANAGEMENT

on estate planning – making sure there’s a plan in place if a primary wage earner passes away. What really differentiates us is a focus on changing the structure of an organization.”

For Wilde, this structure isn’t just a convenience; it shows a fundamental shift in how investment management services are delivered. And rather than relying on external referrals, Wilde Wealth Management’s integrated model ensures that clients have direct access to a multidisciplinary team.

“What differentiates us, what we did a long time ago, was a focus on changing the structure of our organization,” Wilde says. “We have specialists in each one of those roles – not just in a referral format. I think a lot of people in our business have the CPA on speed dial or they have an estate planning attorney they refer to and get referrals from. However, [it’s about] bringing all those trusts and resources under one roof so that when we’re meeting with clients, it’s truly an integrated process.”

Research hints at vicious mental health-wealth cycle

A NEW study from TIAA adds to the body of knowledge on financial stress and its influence on mental health.

The research, which underscores employers’ roles in supporting the mental and financial well-being of their employees, draws from a survey by the TIAA Institute, TIAA’s research arm, and High Lantern Group.

The study comes as over 40 percent of Americans face the risk of depleting their retirement savings, according to data from the Employee Benefit Research Institute. On the mental health front, the World Health Organization says 12 percent of the global population lives with a mental health condition, yet fewer than half receive necessary services.

How do you choose a CIO for a $490 billion pension fund?

THE LARGEST US public pension fund is looking externally for its next chief investment officer, following a long spell of lackluster returns and leadership churn.

The short list of candidates to run the California Public Employees’ Retirement System’s roughly $490 billion portfolio includes Jonathan Grabel, CIO of the Los Angeles County Employees Retirement Association, according to people familiar with the matter.

He’s among the final four candidates – all from outside the pension fund – being considered, one of the people said. The short list doesn’t include interim CIO Dan Bienvenue, a 20-year CalPERS veteran, who was reportedly passed over in two past CIO search rounds.

Older homeowners confident about retirement

THE POTENTIAL for building wealth via homeownership hasn’t been lost on the millions of Americans who did so and now enjoy a mortgage-free home with substantial value.

Not surprising, then, that people over 60 are proud of their largest investment and aren’t likely to give it up in retirement.

A Fannie Mae survey found 72 percent of older homeowners are confident that they’ll have sufficient retirement income. This contrasts with 55 percent among a separate sample of older homeowners who have lower levels of

retirement assets and savings. Across all respondents, just 15 percent said they would consider using home equity to fund their retirement.

Retirement savers ended 2023 on high note: Fidelity

IN A year marked by resilient economic growth and a notable uptick in consumer confidence, the US saw substantial positive shifts in retirement savings plans. That’s according to the latest retirement data from Fidelity, which showed more than a third (37 percent) of American workers took proactive steps toward their financial future by increasing their retirement savings contribution rates in 2023.

That surge in savings activity occurred as US payrolls rose by 2.7 million and consumer confidence rebounded. At the same time, employers kicked in an average of $4,600 to their workers’ retirement accounts, helping lay a strong foundation for their future financial well-being.

YourPractice

Fearless conversations with clients about divorce can change lives

ASK SAMANTHA GARCIA why she decided to specialize in divorce at Halbert Hargrove and she'll laugh, saying it's what she's asked all the time, since she's not divorced herself.

Garcia, a senior wealth advisor at the California-based firm and one of three advisors at the firm who's a certified divorce financial analyst, noted that while she hasn't had to go through it herself, she has seen divorces occur among friends and family.

Garcia said that while the industry is seeing more advisors earn their CDFA designation, it's important for advisors to ask for help if they don't know because there are nuances, such as qualified domestic relations orders, that can harm clients.

SmartAsset woos growth-focused advisors with new platform

SMARTASSET, an online platform connecting consumers with financial advisors, is stepping up its advisor growth game.

The fintech announced the launch of the SmartAsset Advisor Marketing Platform, a subscription-based service aimed at helping advisors acquire new clients and more easily retain their existing relationships.

"SmartAsset AMP is a true marketing platform, providing the referrals and tools to make it easier than ever for advisors to scale their business," Michael Carvin, SmartAsset founder and CEO, said in a statement.

SmartAsset AMP provides a comprehensive suite of advisor marketing tools including referral generation, nurture campaigns, automated calls and texts, and live connections.

FOCUS

'Our clients are part of our family'

AT THE heart of Larry Sprung's philosophy is the belief that financial advising is more than just managing assets; it's about building relationships. Now, as the founder of Mitlin Financial, Sprung has embedded these values into his culture.

"Our clients are part of our family, our team is part of our family – and that's the way we want to look at things," he says.

Mitlin Financial caters to a diverse clientele, including romance authors, entrepreneurs, business owners, and regular families. Sprung's primary criteria for client relationships are mutual respect and enjoyment. This approach to client selection is not just about professionalism; it's about creating a positive, collaborative environment.

"We want to work with good people who we enjoy working with," says Sprung. "If you don't pass those criteria, we're not going to work with you."

This dedication to family-led values and culture really shines through in Sprung's new book, *Financial Planning Made Personal*, which also generated interest in the sector.

"The book has been extremely helpful, actually," Sprung says. "Next week we have a meeting with a gentleman who reached out to us – he borrowed the audiobook from his local library, looked us up, and booked us as a result of that."

In an era in which digital presence is crucial, Sprung has leaned into various media to reach and educate potential clients – including podcasts and blogs.

"Some people are not going to be bothered with reading a book, but they'll listen to a 45-minute podcast or read a five-minute blog," he says.

The subsequent growth of Mitlin Financial, which is headquartered in Hauppauge, New York, has been noteworthy. Sprung attributes this success to strategic partnerships and a

> **"We want to work with good people who we enjoy working with. If you don't pass those criteria, we're not going to work with you"**
>
> LARRY SPRUNG, MITLIN FINANCIAL

HNW advisors see edge in customized portfolios

AS UNCERTAIN economic, monetary, and political conditions take the shine off traditional asset classes, wealth firms vying for high-net-worth business are sharpening their focus on customization and private market investments, Cerulli says.

Active management and portfolio customization are increasingly

in vogue among wealth managers looking to provide additional value for HNW clients. That includes direct indexing, which more than half of advisors surveyed by Cerulli (55 percent) said they're planning to use, already using, or would employ if they had access.

While fewer than half of all advisors use separately managed accounts, Cerulli expects big things for the space as growth in the HNW demographic outpaces that of lower-wealth tier groups.

Invesco, Vestmark partner on RIA portfolio solution

A STRATEGIC partnership between global investment management firm Invesco and Vestmark, and a provider of wealth management software and services, aims to transform the RIA channel.

Invesco and Vestmark announced that registered investment advisors who use new and existing Invesco models will benefit from the personalization and tax management capabilities of Vestmark VAST, a software solution that enables advisors to create personalized and tax-optimized portfolios at scale and aligned to each client's individual circumstances. Additionally, it enables the tax-efficient transition of legacy positions from other accounts or firms.

Invesco's custom model portfolios provide clients with cost-effective multi-asset solutions and diversification across investment managers and factors.

LARRY SPRUNG, FAR LEFT, AND TEAM

commitment to continuous expansion and improvement. The partnership with RIA Carson Partners, a decision made three years ago, has been particularly influential. Reflecting on the options he had – aligning with a firm, selling his practice, or building something independently – Sprung believes that this relationship was a pivotal decision that spurred on Mitlin's significant growth.

As for the future, Sprung isn't one to rest on his laurels. He plans to increase his speaking engagements, further driving the firm's business and fostering connections.

"Four or five years ago, I was thinking, 'I'm a stand-alone lifestyle practice – how do I get to the next level?' I could either strategically align myself with a firm like a Carson, I could sell my practice into a larger firm and tap into their resources, or I could build something huge myself – which you know from a technology, time, and money standpoint probably wasn't that reasonable. And now, we've basically doubled in the last three years.

"We're looking to continue that progress into 2024 – hopefully double down and increase our growth, as well as the impact that we're having, not only on the current families we serve but also to allow us to extend that to many more families as a result."

Cetera partnership promises 360-degree view of clients' finances

CETERA ADVISORS looking for a holistic view of their clients' finances may soon see that wish granted, thanks to a new technology partnership.

The broker-dealer giant has teamed up with Wealth Access, an enterprise fintech provider that specializes in unifying and enriching data from across multiple sources to let financial institutions deliver hyper-personalized experiences to their clients.

"The industry has long needed an efficient solution to gather data from a client's financial portfolio and have it in one place," David Benskin, founder and CEO of Wealth Access, said in a statement. "I am proud to say it now exists."

Meeting remotely suits clients

IT'S BEEN four years since the world went into lockdown amid COVID, and although restrictions and mandatory remote work are over, people still want to meet remotely with financial advisors.

Even in the absence of the pandemic, that might have been the case with younger investors. But results of a recent survey show that more than half of people 60 and up say they're open to working with a remote advisor, while less than one in five are totally against it. Those data, from website Comparison Advisor, also show that more than 70 percent of people under 50 like the idea of meeting advisors virtually.

Americans paying as much interest on other debt as on mortgages

US HOUSEHOLDS are now paying roughly as much interest on other kinds of debt, from credit cards to student loans, as they are on their mortgages, according to the latest numbers from the Bureau of Economic Analysis.

Non-mortgage interest payments climbed to an annual rate of $573.4 billion in January. That's the highest on record even after adjusting for inflation – and within a hair's breadth of the $578.3 billion in annual mortgage interest that households were shelling out as of the last quarter of 2023.

The near parity between the two series over recent months is unprecedented in data going back to the 1970s.

Tech team-up aims to ease payment pain for advisors

ADVICEPAY, an industry-leading platform for processing payments and managing compliance in fee-for-service financial planning, has announced a collaboration aimed at simplifying the payment process for advisors.

The fintech firm has partnered with eMoney Advisor, a top provider of technological solutions facilitating financial conversations, to enhance operational efficiencies for advisors using both services.

"As the industry shifts toward a model where financial planning becomes the primary service offering, integrating fee billing capabilities directly into financial planning software is a logical step," said Michael Kitces, a financial planning thought leader who's also a co-founder of AdvicePay.

US bitcoin ETFs face demand test as volatility spikes

BITCOIN SWINGS are becoming more intense following the digital asset's run to a record high, and a key question now is how investors in US exchange-traded funds holding the cryptocurrency will react.

The T3 Bitcoin Volatility Index, which uses options prices to give a sense of expected 30-day swings in the token, jumped to the highest level since the aftermath of the collapse of Sam Bankman-Fried's FTX exchange. The spike suggests the crypto market should brace for more bitcoin gyrations.

A net $8.9 billion has poured into US spot bitcoin ETFs since they went live on January 11, catalyzing the digital asset's surge to a peak above $69,000.

Where are the private market wins in 2024?

PRIVATE MARKET investors are growing in confidence as headwinds ease and are preparing to increase their deployments this year.

A survey of institutional investors in the US, Europe, and Asia Pacific by private markets investment firm Adams Street Partners shows sentiment that private market investments are more resilient than their public market counterparts. It's the fourth straight year that the firm's survey has supported that opinion.

Almost 90 percent of respondents believe that private market investments will outperform public market equivalents in 2024, and two-thirds intend to increase their deployments to these investments.

FOCUS

Helping debt-ridden physicians thrive

GROWING UP with a father well versed in investment strategy, Tyler Olson was always destined for the financial industry.

Now, as founder of Olson Consulting, he recalls his father's teachings and how they directly shaped his outlook on the investment scene.

"I was introduced to investing pretty early on because my father is an investment advisor, and when I was a teenager, he would teach me about stocks," Olson says. "I'd learn all sorts of things from him."

His professional path initially aligned with traditional structures, working as an employee at a larger firm. However, Olson's vision for a more client-centric approach led him to establish his own practice, emphasizing a commitment to providing tailored financial planning without directly managing client funds.

Olson's approach is not merely about offering advice on investments; he strives to craft comprehensive financial plans, ensuring that clients' decisions are harmonious and well informed. This philosophy diverges from the typical focus of advisory firms on investment management.

"For me, I just wanted to do planning work," he says. "To create a scenario where people could come get advice on their investments without turning over control of their investment accounts."

The turning point in Olson's career came through his interactions on social media, particularly Twitter. He noticed a significant gap in financial guidance for medical students and physicians early in their careers who were grappling with student debt and complex financial decisions. Recognizing the growing need, Olson began offering free help online to medical professionals, which eventually led him to pivot his practice exclusively toward helping physicians.

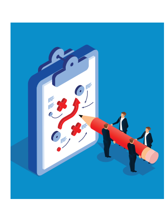
Goldman predicts $1 trillion in S&P 500 share buybacks

US SHARE buybacks are set to surpass $1 trillion next year for the first time ever, thanks to strong mega-cap technology earnings, strategists at Goldman Sachs Group said.

The bank expects S&P 500 stock repurchases to grow by 13 percent to $925 billion this year, then a further 16 percent in 2025 to just over $1 trillion. Easier lending conditions as central banks cut rates, as well as the removal of political uncertainty after the US election, should also help, Goldman added.

Technology revenue "will be supported by strong consumer spending and increased demand for AI-related products," Goldman Sachs strategists wrote.

BlackRock says more active management needed in 'new regime'



BLACKROCK, which capitalized on a decade-long boom in index investing, said investors should rely more heavily now on actively managed strategies.

Higher interest rates, persistent inflation, and more geopolitical risk offer active managers and hedge funds a bigger opportunity to beat simple buy-and-hold portfolios, BlackRock analysts wrote in a paper that referred to the environment as a "new regime."

"Static asset allocations – or set-and-forget portfolios – are a reasonable starting point, but we don't think they will deliver as in the past," BlackRock Investment Institute analysts said. "The era of ultra-low interest rates is in the past, and future expected returns look less attractive."

“[I wanted to] create a scenario where people could come get advice on their investments without turning over control of their investment accounts”

TYLER OLSON, OLSON CONSULTING

“Residents only make around $3,000 to $4,000 a month,” he says. “It’s not like they have a ton of money sitting around to invest or to pay me a fee to do planning work.”

A notable example of Olson’s impact is his work with a pediatrician burdened by debt. Through his guidance, the pediatrician was able to have about $375,000 of her loans forgiven, allowing her to continue her work without the pressure of increasing her patient load.

“I make sure to give them a lot of time – explaining why and asking questions so that I can better understand their thinking and their level of knowledge,” he tells *InvestmentNews*. “That way I’m able to more effectively teach them, show them how to do what needs to be done – so they have the knowledge, and they have the reason behind it.”

Blackstone REIT hits key milestone

A MAJOR Blackstone property trust flashed the strongest signal yet that investor pressure for cash is abating.

The firm’s $60 billion real estate trust for wealthy individuals is finally letting customers draw money without any constraints for the month. Blackstone Real Estate Income Trust said redemption demands fell below a key threshold, meaning the trust could return as much as investors wanted to pull out.

Since November 2022, BREIT has returned less money than investors requested each month, enforcing a key limit that helps it avoid forced selling. BREIT allows withdrawals of as much as 2 percent of the fund’s net asset value monthly or 5 percent each quarter.

Froth or justified rally? Wall Street titans do not agree

THE SHARP rally in US stocks this year has left strategists at JPMorgan Chase and Goldman Sachs divided about whether a market bubble is forming.

To JPMorgan’s chief market strategist, Marko Kolanovic, the dramatic rally in US equities and bitcoin’s quick surge above the $60,000 mark signal yes. He sees those as indicative of accumulating froth in the market and joins a chorus of warnings from Wall Street citing the dot-com boom of the late-1990s, or the post-pandemic mania of 2021, when stock prices ballooned and then burst.

David Kostin at Goldman Sachs is among those who think the risk-on mood is warranted, arguing big tech’s lofty valuations are supported by fundamentals.

How do model portfolios improve the client experience?

MANAGING INVESTMENTS can become a large part of a day’s work for advisors. Model portfolios are an option that offers efficient diversification, transparency, and robust reporting; they also give advisors a chance to focus more on their clients.

Curtis Congdon, president at XML Financial Group, says advisors have a choice of building out their own model portfolios or using a third party’s. Advisory teams who build out their own models will be more popular, he said.

“They want to be able to tell their story through those holdings, but they don’t want to have to do that for each client,” Congdon says.

Fed can’t cut until sure of inflation win, Powell says

FEDERAL RESERVE chair Jerome Powell reiterated to lawmakers that the US central bank is in no rush to cut interest rates until policymakers are convinced they’ve won their battle over inflation.

In testimony before a House panel, the Fed chief said it will likely be appropriate to begin lower borrowing costs “at some point this year,” but made clear that officials are not ready yet.

The remarks echoed a consistent message from nearly every Fed official in recent weeks: The economy and labor markets are strong, meaning policymakers have to wait for more evidence that inflation is headed back to their goal before cutting rates.

What to do with all that cash coming off the sidelines?

MORE THAN $1.2 trillion flowed into money market funds last year, so what's going to happen to all that moolah when – and if – the Fed starts cutting rates?

For fixed-income investors, it most likely means they're going to be reinvesting those dollars at lower yields. That's why Dhruv Nagrath, director of fixed-income strategy at BlackRock, has been talking to clients about adding duration to their portfolios to try to capture potential price appreciation further out the yield curve.

"This is really the sweet spot of when you make your money in bonds, in between the last Fed hike and the first cut," Nagrath said. "We're kind of targeting the five-year part of the yield curve."

Small-caps ready to take over market leadership

TAKE NOTE, advisors. The market's Davids are finally taking over from the Goliaths.

The small-cap Russell 2000 index is up 14.5 percent over the past three months, handily outperforming the S&P 500 index by more than 3 percentage points. Small-caps are historically cheap on both an absolute and relative basis, trading at 25-year lows relative to large-cap names.

Of course, the market's whales, led by the so-called Magnificent 7 tech stocks, have been on a phenomenal run, but the recent run in small-cap and microcap stocks has a number of advisors, fund managers, and strategists telling their clients that it's time to think small.