January 2017

Financial Planning

INVESTED IN ADVISERS / JANUARY 2017

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150 RIA LEADERS

WHAT IT TAKES

HAVING LOST AUM OVER THE PAST YEAR, ADVISERS ARE INVESTING TIME AND RESOURCES IN NEW ENGINES OF GROWTH

Financial Planning

Vol. 47/No.1

OVERALL MORNINGSTAR RATINGS™ AS OF OCTOBER 31, 2016
(All funds are Institutional Service Share Class)

★★★★ NWSIX

NATIONWIDE SMALL COMPANY GROWTH FUND

Out of 655 U.S. Small Growth Funds 3-yr rating 4 stars out of 655.

★★★★ NGISX

NATIONWIDE GROWTH FUND

Out of 1439 U.S. Large Growth Funds 3- and 10-yr rating 4 stars and 5-yr rating 3 stars out of 1439, 896 and 1252 respectively.

★★★★ NWJFX

NATIONWIDE ZIEGLER NYSE ARCA TECH 100 INDEX FUND

Out of 196 U.S. Technology Funds 5- and 10-yr rating 4 stars and 3-yr rating 3 stars out of 188, 151 and 196 respectively.

★★★★ GRISX

NATIONWIDE S&P 500 INDEX FUND

Out of 1384 U.S. Large Blend Funds 3- and 5-yr rating 4 stars and 10-yr rating 3 stars out of 1384, 1216 and 912 respectively.

★★★★ MUIBX

NATIONWIDE BOND FUND

Out of 965 U.S. Intermediate-Term Bond Funds 3-yr rating 3 stars and 5- and 10-yr rating 4 stars out of 965, 850 and 609 respectively.

★★★★ NWKDX

NATIONWIDE GENEVA SMALL CAP GROWTH FUND

Out of 655 U.S. Small Growth Funds 3- and 5-yr rating 4 stars out of 655 and 591 respectively.

★★★★ NWGSX

NATIONWIDE HIGHMARK SMALL CAP CORE FUND

Out of 659 U.S. Small Blend Funds 3-yr rating 5 stars and 5-yr rating 4 stars out of 659 and 570 respectively.

★★★★ NWJJX

NATIONWIDE HIGHMARK BOND FUND

Out of 965 U.S. Intermediate-Term Bond Funds 10-yr rating 4 stars and 3- and 5-yr rating 3 stars out of 609, 965 and 850 respectively.

★★★★ NWHNX

NATIONWIDE BAILARD INTERNATIONAL EQUITIES FUND

Out of 713 U.S. Foreign Large Blend Funds 3-yr rating 5 stars and 5- and 10-yr rating 4 stars out of 713, 635 and 385 respectively.

★★★★ NWCSX

NATIONWIDE CORE PLUS BOND FUND

Out of 965 U.S. Intermediate-Term Bond Funds 3-, 5- and 10-yr rating 4 stars out of 965, 850 and 609 respectively.

The number of funds represented for each time period are the same for a specific fund regardless of its share class.

Investors should carefully consider a fund's investment objectives, risks, fees, charges and expenses before investing any money. To obtain this and other information on Nationwide Funds, please call 1-800-848-0920 to request a summary prospectus and/or a prospectus, or download a summary prospectus and/or a prospectus at nationwide.com/mutualfunds. Please read it carefully before investing any money.

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Please consult the most recent summary prospectus and/or prospectus for the respective Fund for more details.

NFV-1052A0.10 (11/16)

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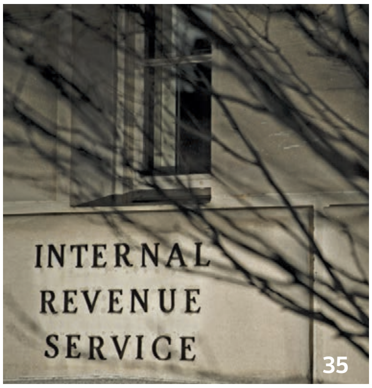

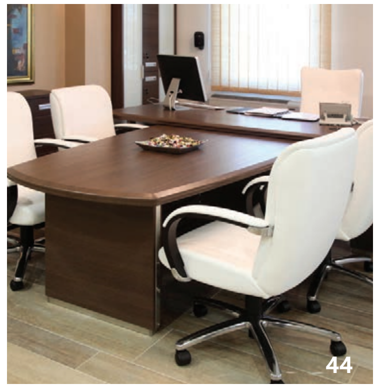

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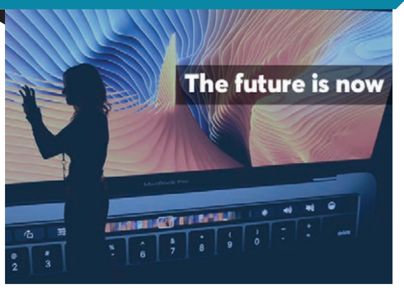
IGNORING THE ROBO TREND?



Here's What You're in Danger of Missing

Why watch the digital wealth management industry? For starters, the sector is a petri dish for the future of advice — and not simply regarding the development of advice technologies. New research from Corporate Insight and other industry consulting firms demonstrates three trends rising from the digital space: more competition, creativity in gaining assets and changes among potential clients. To read more, type this link into your browser: http://bit.ly/2g1NfEs

Sound Off: At Long Last!

In a response to an article about Morgan Stanley's new robo offering, fintech expert Lex Sokolin tweeted:

Morgan Stanley #roboadviser? Well, about time! Seven years after the founding of first B2C wave.

What do you think? Weigh in with your own comments at: http://bit.ly/2fStijf

EVENTS

JANUARY	FEBRUARY		APRIL
23-25 **FSI OneVoice** San Francisco http://bit.ly/2fBNsez	**1-4** **TD Ameritrade National LINC** San Diego http://bit.ly/2dnusSO	**14-17** **Technology Tools for Today Advisor Conference** Garden Grove, California http://bit.ly/2fBL1IF	**24-27** **FPA Retreat** Atlanta http://bit.ly/1SOXINP

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Fidelity INVESTMENTS

EDITOR'S VIEW

Data Surprise

Advisers are attending more funerals than ever before. Does this herald the beginning of decumulation?

A SLIGHT DROP IN AUM. THAT'S WHAT WE EXPECTED TO SEE WHEN WE began preparing this year's RIA Leaders ranking – our 6th annual. We didn't predict that more than a third of the largest independent RIAs would have lost assets under management from a year ago.

Could this be the beginning of decumulation? After all, a growing percentage of baby boomers are retiring and drawing down on their assets, found Senior Editor Ann Marsh when reporting this month's special report, "Top RIAs Lose Ground."

And when those retirees pass away? Their assets are distributed to heirs. Gabriel Garcia, the head of relationship management at Pershing Advisor Solutions, told Marsh he's hearing from planners that they've "attended more funerals in the past year" than ever before.

"It's a reminder that growth doesn't proceed along a smooth trajectory," Marsh tells me. Yet Marsh, who worked with Discovery Data to research our exclusive ranking, is optimistic.

"The overall path is still very much upward for most independent RIAs," she says. "The assets for the group have grown: The smallest firm on last year's list had $840,000 in assets compared with $995,000 for the smallest this year."

As we start our research for next year's RIA Leaders ranking, we'll watch for signs that this downward trend is persisting, or even picking up speed. We'll also look for firms that have the most compelling strategies for countering the trend.

Another factor we'll be watching in coming months: How would a delay or rollback of the Labor Department's fiduciary rule impact independent planners?

"By remaining the one true market segment that has historically and most convincingly portrayed itself as fiduciaries, such a change," Marsh says, "could have a benefit by at least preserving its market differentiation." *–Chelsea Emery*

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BENCHMARK

DATA-BASED INSIGHT FROM *FINANCIAL PLANNING* AND SOURCEMEDIA RESEARCH

RETIREMENT ADVISER CONFIDENCE INDEX

Optimism Rises Post-Election

As the political landscape shifts, planners report a significant boost in clients' risk tolerance and contributions to retirement plans.

AS THE DUST FROM THE PRESIDENTIAL ELECTION settled, advisers reported a significant increase in their clients' appetite for risk.

Increased optimism about the regulatory landscape and economy boosted this month's Retirement Adviser Confidence Index — *Financial Planning's* monthly barometer of business conditions for wealth managers — 7.6 points and back into positive territory at 55.5. The index has reached its highest point in a year.

Client risk tolerance rose 19.8 points to 56 from 36.2, easing comfortably back into positive territory. Many advisers reported the leap in client confidence was the result of the election outcome.

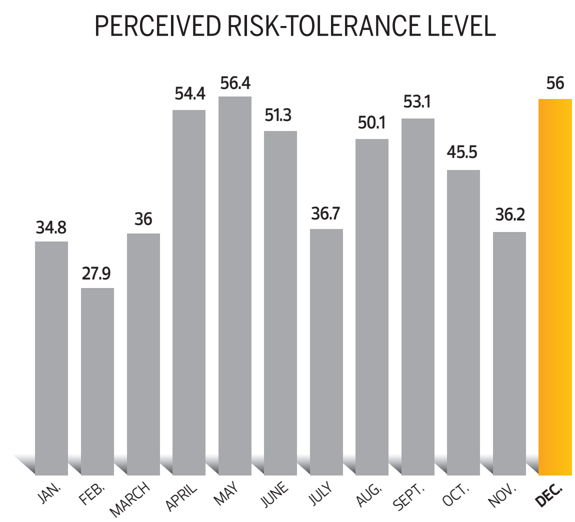
"[We saw] slightly more contributions, as most clients seem happy with the election results and are generally more confident," wrote one adviser.

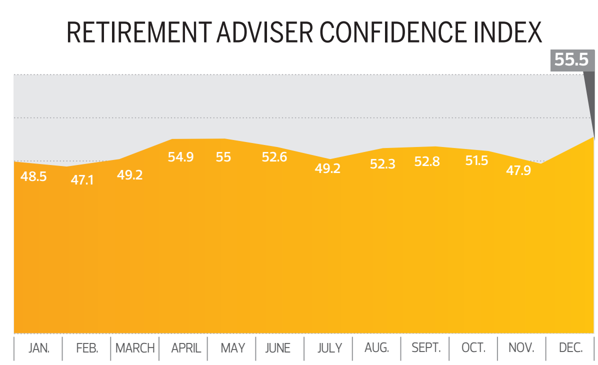
Another adviser said, "With the November elections behind us, my clients' outlook is more positive, and [they are more] willing to invest money back into the market and retirement plans."

Total contributions to retirement plans rose 4.6 points to 60.4. Total number of retirement products sold to clients rose 5.5 points to 56.5.

Some advisers had mixed feelings about a Trump presidency. "Trump winning is a sigh of relief on regulation, but protectionism and foreign policy are a concern," one adviser said.

There were multiple opinions regarding the future of the Department of Labor's fiduciary rule following the election results. Some advisers wondered if the adminis-





The Retirement Adviser Confidence Index, published in partnership with ADP®, is created by the editors of Financial Planning *and is based on a monthly survey of about 300 advisers. Visit financial-planning.com for more results.*

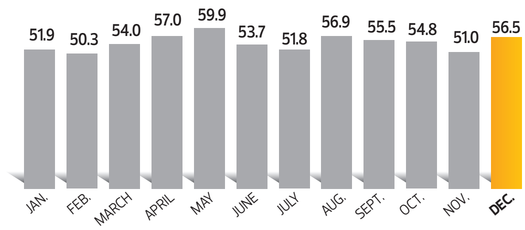
tration of President-elect Trump would change the path of the rule: "The rule will have major negative impact on our retirement business outlook," one adviser said. "Not sure now if [the] Trump administration will delay it."

Others are waiting with bated breath. An adviser weighed in: "The Trump victory helped, but advisers are still scrambling with the ambiguity about the fiduciary rule."

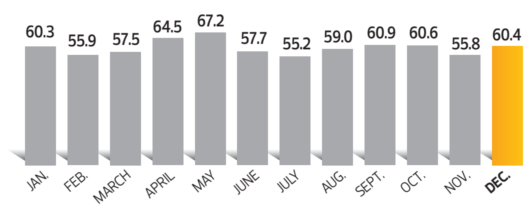
However, some advisers expressed support for the rule and its principles: "We believe the DoL fiduciary rule will continue to highlight their importance to clients and contribute to the migration of assets [toward] RIAs," one adviser wrote.

The Retirement Adviser Confidence Index is composed of 10 factors — including asset allocations, investment product recommendations, economic and risk factors, taxes and planning fees — to track trends in wealth management. RACI readings below 50 indicate deteriorating business conditions, while readings over 50 indicate improvements. —*Maddy Perkins* **FP**

TOTAL RETIREMENT PRODUCTS SOLD TO CLIENTS



DOLLAR CONTRIBUTIONS RECEIVED FOR RETIREMENT PLANS



SourceMedia | Research

GLOBAL ASSET ALLOCATION TRACKER

Enamored with U.S. Stocks

Asset allocations shift after the election, but some wonder if the swing is excessive.

ADVISERS SHARPLY INCREASED allocations of client assets to U.S. equities, but some planners are cautioning against further piling into a stock market where they see valuations as being too high.

Allocations to U.S. and international bonds slipped to levels not seen in a year, while those to U.S. equities reached a level not seen since April, according to the latest Global Asset Allocation Tracker. Allocations to global equities increased slightly, according to the tracker, which surveyed 302 advisers.

Advisers say the shifts in allocations were motivated by post-election expectations of changes in the tax code that would benefit wealthy Americans, an increase in interest rates and the possibility of new economic stimulus under President-elect Trump's proposed infrastructure program.

"With the surprise election result, we think there will be a Trump bump over the next few months," a wealth manager says.

Client risk tolerance has risen markedly since the election, advisers report. A broker, pointing to clients' expectations, had a succinct explanation: "Bull market, baby."

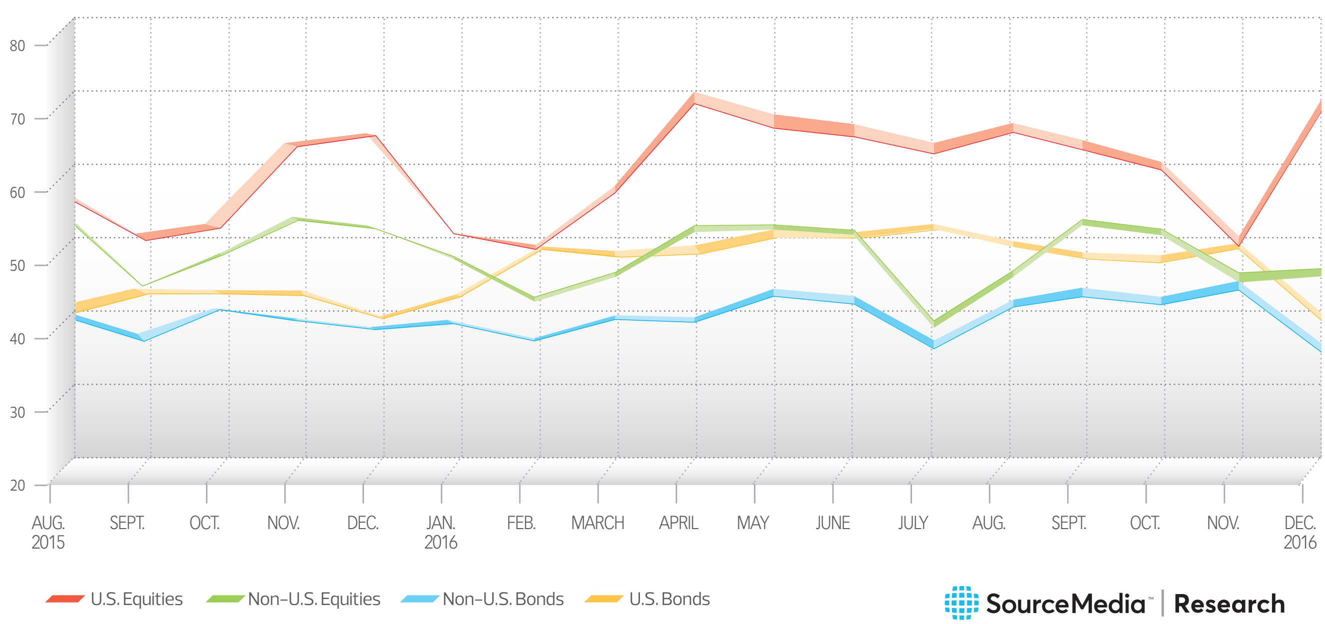
Planners also said they pulled back on global equities for fear of protectionist policies being put in place in the U.S. and other countries. But other advisers expressed caution on increasing allocations to U.S. stocks, citing the risk of trade wars, as well.

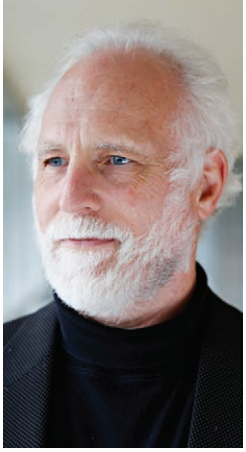
"Relative value for equities seems more favorable in Europe and is starting to look more interesting in emerging markets," an adviser says.

One wealth manager says recent investor reactions are "too much of a knee-jerk reaction."

Another adviser worried about human psychology: "People want to chase gains." *–Andrew Welsch* **FP**

GLOBAL ASSET ALLOCATION TRACKER





INDUSTRY INSIGHT

VERES

What They Say/What They Mean

A guide for advisers, legislators and regulators to decode the jargon lobbyists use about the planning profession, courtesy of Bob Veres.

YOU PROBABLY KNOW ABOUT Investopedia, which does a good job of translating investment jargon into understandable terms, and explaining the technical concepts of finance and investing.

I really like the site, but there's a segment of industry jargon it missed. Why not translate what financial lobbyists say, too? That way, advisers, legislators and regulators could decipher exactly what they're being told by the lobbyists hostile to the planning profession.

I'm offering these translations free of charge. Let's call it a guide to decoding lobbyist jargon.

If legislators and regulators kept this guide handy when industry lobbyists knocked on their doors, they would be better able to decipher the nature of the arguments they're hearing.

A LEXICON

Choice (as in: the preservation of choice in the marketplace): The freedom to believe that a plausible-sounding salesperson is actually acting in your best interests. Also: The freedom to pay a hefty commission to buy equity-indexed annuities and non-traded REITs, when much better investment alternatives are available for free.

Level playing field: Protecting the ability of sales professionals to masquerade as trustworthy advisers without disclosing their conflicts of interest or sales agenda.

Harmonization: Imposing sales-related regulations on professional advisers who don't sell and don't take commissions.

Third-party exams: A license for FINRA to harass and intimidate nonsales RIAs and planners who compete with its brokerage and independent broker-dealer members. Also: The ideal way to thwart the competitive threat of fee-compensated advisers to the sales model.

Regulatory overreach: What the Labor Department did, first by forcing sales organizations to come up with increasingly torturous arguments for why acting in the best interests of a customer was not in the best interests of a customer, then forcing them to adjust their models so people would be aware of sales activities and agendas they would rather not have them know or understand.

Revenue sharing: A method of paying for shelf space by separate account managers that the regulators either don't understand or choose to ignore.

THE F WORD

Fiduciary: A term previously synonymous with an ability to trust professionals to give the same advice they would give to their mother. Soon to be modified to: Anybody who provides hard-to-translate, legalese-larded contracts with conflict-of-interest disclosures deep in the fine print that customers are required to sign.

Conflict of interest: Something to be disclosed as subtly and invisibly as possible, because avoiding it would require an alarming diminution of industry profits.

Rogue broker: Any adviser who has left a brokerage firm to become a fee-only professional. This person is assumed to be escaping FINRA oversight so he or she can do awful things to customers.

Open mind: Where the industry asks elected representatives and regulators to put aside the fact that its firms nearly brought down the global economy with their reckless investment schemes, and that they would do it again in a heartbeat if they could find the means and the revenue opportunity.

Campaign contribution: A naked bribe to promote the industry's revenue model over a professional one that is gaining market share. A reminder that professionals can't afford multimillion-dollar contributions because their client-friendly advice model isn't nearly as profitable as the industry's.

Full disclosure: Something that should be hidden deeply in the client agreement in the smallest possible print.

ABOUT PAYMENTS

Fees: What wirehouses pay their employees and what independent broker-dealers reallocate to their independent contractors when they gather assets, allowing both to claim that their revenue model is the same as fee-only planners who receive compensation directly from clients.

Commissions: A superior way for less-wealthy clients to pay for advice. It's much more efficient for a nonwealthy person to buy a product, have a commission deducted by an insurance firm or nontraded REIT, then have a portion of it returned to a broker-dealer and a portion of that eventually paid to an advice-providing salesperson. This is better than if the same amount were simply paid directly to the adviser from the non-wealthy client.

Middle market: A broad term for the people the industry says, during lobbying arguments, it simply would not be able to serve if the SEC or Department of Labor makes it disclose its sales agendas or act in their best interests. Then, when the SEC or DoL makes the industry disclose its sales agendas or act in their best interests, the industry will find a way to serve them anyway.

Nontraded REIT: A near-perfect investment, in that no rational consumer would voluntarily buy it unless persuaded by a well-compensated salesperson. This is because for every transaction, a broker-dealer is paid multiple times what it would collect for more-mainstream investments. Also: A future product collapse, costing gullible investors billions of dollars, which the industry is eventually going to have to explain away as a perfectly natural investment phenomenon that had nothing to do with commission incentives.

God's work: What the wirehouses do every day that, at the end of each year, generates seven-figure bonuses for thousands of sales agents.

War on sales: A broad term for various efforts to protect consumers from conflicted advice that is not in their best interests.

Right: What lobbyists on behalf of consumers and the profession say they have on their side in the arguments.

Money: What industry lobbyists actually have on their side of the arguments.

USING THIS GUIDE

This isn't a comprehensive lexicon. But if legislators and regulators were to keep this guide handy when industry lobbyists knock on their doors, they would be better able to decipher the arguments they're hearing.

It will also help the rest of us understand that innocent-sounding words and phrases used by the industry are actually powerful weapons wielded against competing professionals who sit on the same side of the table as their clients.

I hope this exercise shows something important — that protecting the consumer is a threat to the brokerage industry's revenue model, and to the sales element in the independent broker-dealer world.

Our regulators and members of Congress will eventually have to decide who they stand for: the public and the profession that serves it, or the industry that has fed greedily off the public. I wish I were more optimistic about which one they'll choose. **FP**

Innocent-sounding words and phrases used by the industry are actually powerful weapons wielded against competing professionals who sit on the same side of the table as their clients.

Bob Veres, a *Financial Planning* columnist in San Diego, is publisher of Inside Information, an information service for financial advisers. Visit financial-planning.com to post comments on his columns or email them to bob@bobveres.com. Follow him on Twitter at @BobVeres.

ELITE ADVISER
BOWEN

Positioning for the Future

From heightened competition to the potential for more M&A, here's what the coming years may hold for planners, John J. Bowen Jr. says.

WHEN IT COMES TO THE FUTURE OF their practices — and the advisory industry as a whole — what are planners most concerned about? More important, what can they do now to prepare?

I sat down with Ric Edelman, CEO of Edelman Financial Services, to discuss the key questions and worries we're hearing from advisers. Here are some of the insights we gained.

THE COMPETITIVE FACTOR

Our industry is going through a major evolutionary process. Competition is getting more intense. There are greater challenges with technology, with the regulatory environment and in the markets.

The days of being a successful sole practitioner with 100 clients managing a couple hundred million bucks are going, if not gone already. Advisers in that position will not be able to provide the services and technology tomorrow's clients want.

They also can't manage the branding that will help keep current clients or add new ones. The only types of firms that will make it using this model will be those that are extremely specialized in serving a highly profitable niche.

THE ROBOS

It's unlikely that the standalone robos have a sustainable business model. They'll probably struggle to stay in business once their venture capital dries up. Many have already been acquired by a big player. Others are changing their business model radically to be economically viable.

Still, investor demand for a robo-based approach will be robust enough to make this a viable advice channel, but probably with a different business model. So if you haven't already, move to incorporate the technology into your practice in some way.

This applies to higher-end advisers as well as those serving the mass affluent. Robos are already adding value in areas including estate and charitable planning, both things that more-affluent clients tend to want to address.

GENERALIST OR SPECIALIST?

Both can win, depending on how advisers leverage these models. Generalists will need to have very large practices, with multiple locations that have a consistent look, feel and experience.

Edelman sees these firms as the Starbucks of the financial services world. Just as customers know exactly what they'll get when they go into any Starbucks, clients of generalists will know what the experience will be at every step.

In contrast, specialists will do very well if they pick the right niches and establish themselves as true experts and authorities in those markets, through content marketing and the right positioning. Alliances with

The mom-and-pop shops of the past are morphing into bigger businesses.

other professionals who serve their chosen niche — including CPAs and attorneys — will also be sources of new-client introductions.

HIGH-QUALITY EXPERIENCE

Advisers are well aware that a great client experience is vital if they want to differentiate themselves. However, it's become significantly more challenging to deliver that exceptional experience.

Today, advisers have to address investments and advanced non-investment issues such as estate, retirement and insurance planning. Many affluent investors won't even consider working with an adviser who cannot accomplish these tasks.

Addressing this concern requires having systems in place to make your client experience replicable and scalable.

That doesn't mean becoming a cookie-cutter practice. It simply means delivering excellence every time. Advisers often need to narrow what they offer and to whom they offer it — for example, by serving one unique niche market or specializing in a particular solution.

If a prospect isn't aligned with what you offer and who you are, don't take him on.

STRONGER RELATIONSHIPS

Advisers are (finally) beginning to see that they must engage with clients' extended families — spouses, children and even grandchildren — to retain accounts and assets. Failure to do so can be extremely costly. It's not uncommon to see advisers lose half of a household's assets when a spouse dies.

CEG Worldwide research found that advisers report having 15 touches with their clients, on average, annually. But the affluent actually want to have 28 check-ins.

Here, again, you need a system in place to reach out. Financial matters can be handled in person, via email, through webinars and through live presentations, seminars and client events.

But there should also be communications that focus entirely on the client — his or her life, family, etc. Cards, emails, quick videos made from your phone — these can all reinforce the adviser-client relationship.

IMPROVING CLIENT SATISFACTION

One of the most effective and obvious, yet most overlooked, ways to improve client satisfaction is to measure it in the first place.

Client satisfaction surveys, done annually, can help you assess your strengths and, more important, your weaknesses.

SIGNIFICANTLY GROWING AUM

This task is also proving to be more difficult than ever. Ask yourself how you spend your time. If you're dealing with back-office duties and copiers and phones and routers, you're not putting the focus on where it needs to be: getting new clients and getting more from existing clients.

For everything else that isn't client-focused — human resources, trading, compliance and so on — you should be hiring others. Still need convincing? Our research has shown that advisers who increased their focus on business operations saw an average income drop of $13,567.

QUALIFIED PROSPECTIVE CLIENTS

Placing significant focus on new-client attraction yielded an estimated average increase of $10,441 in annual net income, according to CEG Worldwide research.

The key is to get in front of the right clients, those you can serve exceptionally well and who will pay you well to do so.

Too often, advisers focus on bringing on as much new business as they can. Many of these clients don't have the amount of assets needed to compensate advisers adequately for their time.

Meanwhile, advisers are so busy trying to serve all these clients that they don't have the time or resources to pursue the larger, more profitable clients.

The end results: stagnant growth, overworked advisers, subpar client service and diminished profits. Staying nimble and flexible, and always looking ahead to future trends, will help put advisers on the path to great success. FP

Specialists will do very well if they pick the right niches and establish themselves as true experts and authorities.

John J. Bowen Jr., a *Financial Planning* columnist, is founder and CEO of CEG Worldwide, a global coaching, training, research and consulting firm for advisers in San Martin, California.

HUMAN CAPITAL
CRUZ

Holding on to Employees

By making a few tweaks to their management style, firm owners can better retain talent — and grow the business, Kelli Cruz says.

IF ADVISORY FIRMS CAN TACKLE career development problems before they start, they'll also solve their succession challenges by developing the next generation of leaders.

The industry is evolving, and advisers need to move away from the kind of ad-hoc career development that has defined the business in the past. This has meant that employees' jobs have just morphed as firms grow, without any systematic management changes or guidance.

The bigger a practice is, the more diverse it is, and the more it is in need of a disciplined and purposeful management style. One component to this reimagined management style is assessing the skills needed for the future of the firm, defining the necessary roles within and creating a plan to find the right talent.

The other component is ensuring that, once the best talent is hired, there are sufficient career paths that keep them engaged and committed to the firm's long-term success.

When working with firm owners, I typically hear, "We don't have people with the right skills for the demands of this business."

Conversely, when I interview employees of advisory firms, I often hear, "This firm doesn't take advantage of half of the skills that I have to offer."

It is often evident that there is a lack of career development and training, not to mention a lack of communication about the needs of the firm, and the desires and skills of the existing team. Too often, firms go outside to hire (an increasingly challenging task), rather than taking stock of the inventory of talent already at the firm, and creating a path for developing it.

WHAT IS A CAREER PATH?

A career path is a track or defined plan for progress, development and growth over an employee's tenure at a firm. A career path should cover the progression of an employee's capabilities, skills and experience. It should also include the opportunity for employees to move laterally, in addition to the more traditional approach of moving up in the organization's hierarchy.

For many employees, gaining in-depth knowledge and experience across the organization can be far more rewarding than moving up that proverbial ladder.

Why should you care about developing a framework for career advancement in your firm? Simply put, it can lead to an increase in your firm's productivity, and an upsurge in employee retention.

According to research by human resources association WorldatWork, organizations that do not invest in training and development for their employees lose valuable workers to their competition. Firms can easily differentiate themselves from their competitors by investing in their employees'

The bigger a practice is, the more diverse it is, and the more it is in need of a disciplined and purposeful management style.

career development.

A well-defined career plan spells out what is expected of employees, and keeps them motivated and contributing to the growth and success of the firm. Additionally, employees usually feel more engaged when they believe their employer is concerned about and invested in their individual growth.

Many employees, including advisers, have entrepreneurial drive and ambition. But most, if not all, require guidance to translate their personal ambition into action that creates positive contributions to the firm.

A defined career path, outlined in a succinct development plan, provides employees with an ongoing mechanism to enhance their skills and knowledge, which can lead to mastery of their current jobs. The career path will also foster promotions and transfers to new positions within the firm.

When career paths are defined and implemented, this should increase employees' morale, career satisfaction, motivation, productivity and responsiveness in meeting the firm's goals and objectives.

SIZE MATTERS

We begin to see the need for creating employee career paths at or about the firm size of $170 million in AUM, with approximately seven staff members and the business model of a team approach.

The team-based culture of the ensemble service model is where I see future growth for the industry as a whole. These firms are multi-adviser businesses that deliver products and services as a team, utilizing pooled resources, shared clients and profits.

This system allows principals to spend more time with clients by pushing down work that can be completed by more-junior team members. It also creates development opportunities for career-minded employees who are looking to expand their skill sets and advance their careers. For these employees, the team model provides a needed career path. For a career path to be meaningful and effective, it should be:

- Clearly defined
- Goal-driven
- Communicated and understood by the employee
- Based on knowledge and experience
- Consistently implemented
- Realistic and achievable for both the employee and the firm

The framework should cover the following for each position within the career path:

- Number of years' experience
- Time in the role/position
- Training targets
- Additional credentials/education
- Performance rating
- Leadership and management skills
- The firm's core values
- A well-defined compensation plan

I typically design two career tracks in a firm: the advisory track and the operations/administrative track.

For firms that have an investment function, there can be an additional investment track.

Adviser Track Roles:

- Partner

A defined career path, outlined in a succinct development plan, provides employees with an ongoing mechanism to enhance their skills and knowledge.

Operations/Administration Career Progression (SAMPLE)

	Administrative Assistant	Client Service Administrator	Operations or Client Service Manager	Chief Operations Officer/Partner
Responsibilities:				
Years of Experience:				
Time in Role:				
Training Targets:				
Additional Credentials/Education:				
Performance Rating:				
Leadership/Management Skills:				
Demonstrates Firm's Core Values:				
Compensation: Salary Range & Incentive Opportunity:				

- Lead adviser
- Service adviser
- Support/associate adviser

Operations/Administration Track:
- Partner
- Chief operations officer/compliance chief
- Operations/client service director
- Client service administrator
- Office/administration assistant

Investment Track:
- Partner
- Chief investment officer
- Senior portfolio manager
- Portfolio manager
- Trading/portfolio administration

VARIATIONS WITHIN CAREER TRACKS

Not every advisory firm is structured exactly the same, so there are some variations in the positions and job titles found within.

Generally, the lead adviser role includes business development goals as a primary responsibility. Additionally, a lead adviser may be required to manage a team of advisers.

The service adviser handles existing client relationships independently, but they are not responsible for developing new business. In some firms, the difference between lead adviser and partner may be the development of new business, along with criteria including culture, vision, leadership, tenure, and the development and mentoring of staff.

For firms that generate between $2 million and $3 million in revenue, we begin to see the emergence of the support, or associate, adviser role.

Firms that are smaller in revenue size may not need support advisers, and thus, their entry-level positions are a combination of the service- and support-adviser positions. This is very typical for firms that do not plan to ever have three professionals involved in servicing a client relationship.

Whatever the variation of roles within your firm, I recommend creating a criteria and path for how an employee moves within your structure. This will ensure that there is a complete understanding of opportunities.

Adviser Career Progression (SAMPLE)

	Support Adviser (Level 3)	Service Adviser (Level 2)	Lead Adviser (Level 1)	Partner
Responsibilities:				
Years of Experience:				
Time in Role:				
Training Targets:				
Additional Credentials/Education:				
Performance Rating:				
Leadership/ Management Skills:				
Demonstrates Firm's Core Values:				
Compensation: Salary Range & Incentive Opportunity:				

Attracting and retaining talent requires more than just the promise of a traditional, linear career path.

THE TAKEAWAY

Today's employees aren't just looking for promotions; they're increasingly interested in opportunities that enable them to develop skill sets across a wide range of roles and functions.

Employees' views of work and growth opportunities vary by generation.

For example, millennials are less likely to be interested in pay increases, and they are more interested in learning new skills. They also value a career path more than any other generation. Both millennial and Generation X employees want to find pathways to personal growth.

By connecting workers to internal opportunities to learn and grow, you can help combat employee attrition while building agility for the organization.

Creating a culture of growth and mobility ensures your employees will stay engaged and stick around to potentially be the next generation of leaders and owners of the firm. FP

Kelli Cruz is a *Financial Planning* columnist and the founder of Cruz Consulting Group in San Francisco. Follow her on Twitter at @KelliCruzSF.

ALSO IN RIA IQ: P. 23: Innovative Ways to Find Clients

A Cloud on the Horizon

FINRA fines Lincoln Financial Securities $650,000 for failing to monitor a third-party vendor's security and falling victim to a hack attack.

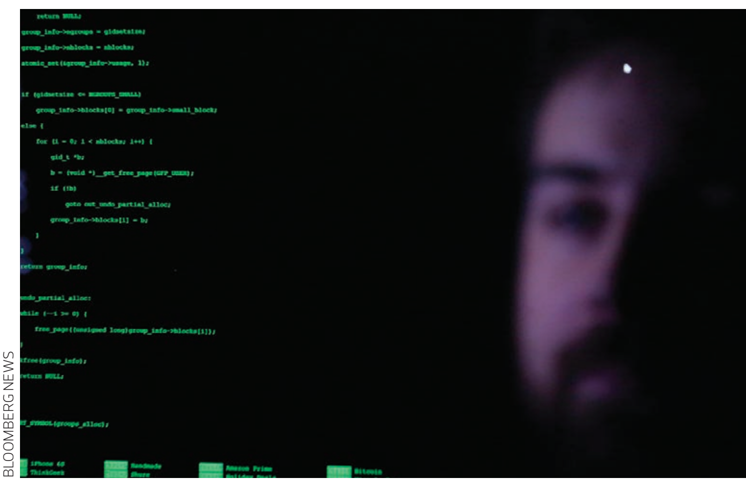
BY CHARLES PAIKERT

IBDs: KEEP YOUR HEAD — OR SOME INFORMATION technology supervision — in the cloud.

The independent broker-dealer Lincoln Financial Securities found out the hard way what happens when an office of supervisory jurisdiction's cloud server vendor failed to protect customer information from hackers.

As part of a FINRA enforcement action, the Fort Wayne, Indiana-based firm agreed to a censure and a $650,000 fine for failing to reasonably "safeguard confidential customer data" and "supervise and retain consolidated reports."

According to FINRA, foreign hackers penetrated the OSJ's cloud-based servers and had access to customers' nonpublic personal information. In a letter of acceptance, waiver and consent, FINRA faulted Lincoln for failing to monitor or test the third-party vendor's information security.



BLOOMBERG NEWS

FAILED TO ADOPT

FINRA also alleged that the IBD had failed to adopt reasonable data security policies that included specific firewall policies and related testing, and cited violations of Rule 30 of Regulation S-P, which requires the protection of customer records and information.

In a statement, Lincoln "accepted and consented" to the findings, without admitting or denying them.

The firm says it has implemented "corrective actions or enhancements" to address the security of confidential customer information and account statements.

"Firms must go the extra mile to protect customer information and not just rely on hiring a third party," warned financial consultant Cipperman Compliance Services, in one of its regulatory releases. "FINRA will hold broker-dealers strictly liable for data breaches, even those occurring at the vendor."

> **"FINRA has sent a loud and clear message that broker-dealers are ultimately responsible for data that they place with third parties."**

The legal cybersecurity expert Kenneth Rashbaum agrees. "FINRA has sent a loud and clear message that broker-dealers are ultimately responsible for data that they place with third parties," says Rashbaum, partner and head of privacy and cybersecurity practice at Barton in New York.

"This is settled law but the agency, by the amount of the fine, apparently believes a reminder is necessary due to the growing amount of data placed with third parties such as cloud providers," Rashbaum says. FP

Charles Paikert is a senior editor at *Financial Planning*. Follow him on Twitter at @paikert.

Innovative Ways to Find Clients

Some firms bypass traditional client acquisition methods and offer points and rewards programs, among other innovations.

BY BRUCE W. FRASER

IN A RAPIDLY CONSOLIDATING INDUSTRY, SOME RIAs are finding and retaining clients in innovative ways and bypassing the more traditional techniques.

Some, for example, are teaming up with larger partners, which gives them greater advantages and extra clout in attracting potential clients.

Steward Partners Global Advisory, based in Washington, an and employee-owned RIA, maintains a hybrid RIA-broker-dealer platform and is affiliated with Raymond James Financial Services. The firm serves elite families and multigenerational as well as institutional clients.

Teaming up with a larger partner has allowed Gregory Banasz of Steward Partners Global Advisory to offer a wider array of products.

Gregory Banasz, managing director and the head of business development, says that the firm's association with Raymond James Financial Services has "led us to more clients as we have been able to offer a broader platform and wider array of products and services."

"In addition, we have the ability to leverage our own RIA, external partnerships and consortium of specialists to offer customizable financial plans and solutions," he says.

Since its launch in 2013, Steward Partners Global Advisory has attracted enough clients to open seven branches in the mid-Atlantic and Northeast.

Other RIAs have developed different innovative strategies to attract new clients.

Some are creating unique client services experiences, such as setting up points and rewards programs.

Another tool that RIA teams and wealth managers are using is what is known as "account aggregation" in which the adviser and client together have a complete picture of the client's asset accounts, including 401(k)s and other retirement funds that are being held outside the primary adviser's company.

And some RIAs are creating more of a family office approach than a traditional brokerage style of investing.

Throughout a long career, Hans Scheil, president of Cardinal Retirement Planning, an RIA in Cary, North Carolina, and the author of *The Complete Cardinal Guide to Planning for and Living in Retirement*, has never lacked for new clients.

That is because he wears two hats. In addition to being an investment adviser representative, Scheil holds life and health insurance licenses in 49 states and the District of Columbia. He has sold supplemental Medicare plans since his college days.

Scheil has leveraged this experience by forming a separate, small insurance agency alongside his investment practice staffed with insurance specialists.

One hand feeds the other, he says.

Many of Scheil's mass-affluent and affluent clients who are in their 60s "sometimes care as much or more about their Medicare benefits and prescriptions in their supplemental plans than they do their investments," he says.

Scheil says that his insurance practice, which includes long-term care insurance and annuities, shields his firm from any possible conflicts of interest involving the sale of insurance.

At the same time, it attracts clients to his investment practice, which he has built up over 40 years with a long roster of regular clients.

"We major in the minors," Scheil says. **FP**

Bruce Fraser is a financial writer in New York. He is writing a book about the ultrawealthy.

TOP RIAs LOSE GROUND:

IS THIS DECUMULATION?

Having lost AUM over the past year, advisers are investing time and resources in new engines of growth.

BY ANN MARSH

More than a third of the nation's largest RIAs lost assets under management in the past year, including many of the largest firms, according to *Financial Planning's* 6th annual RIA Leaders ranking.

For some advisers, there's been stark evidence of the factors driving the trend. "I've attended more funerals in the past year than I ever have" is a new refrain that Gabriel Garcia, a managing director at Pershing Advisor Solutions, says he hears from advisers about their clients.

The AUM shift surprised many in the field who have long forecast near-unlimited growth for independent advisers, especially for the big players. The RIA business model continues to be in the vanguard of the fiduciary evolution, which prioritizes advice over sales, and continues to draw advisers and assets from the sales-driven brokerage world. How-


150
RIA
LEADERS

ever, that business model is heavily dependent on the boomer population, which grew along with the sector.

Some 76 million baby boomers were born from 1946 to 1964, with the peak number of births coming in 1949. The Social Security Administration estimates that, on average, 10,000 boomers die each day, or about 4 million each year.

The independent RIA space emerged several decades ago as an alternative to the financial giants, and the segment rode the boomer wave to increasing prominence.

That generation now holds about $30 trillion in assets that are expected to be in play until roughly 2030.

'STUNNING'

The longtime No. 1 firm, Oxford Financial Group in Carmel, Indiana, saw its AUM fall to $13.6 billion from $13.8 billion after adding between $800 million and $1.6 billion each year for the past three years.

The No. 13 firm, Savant Capital Management, in Rockford, Illinois, dropped to $4.2 billion from $4.4 billion. And the No. 19 firm, Evanson Asset Management, in Carmel, California, declined to $3.4 billion from $3.5 billion.

When Brad Bueermann, CEO of FP Transitions, heard about the trend of widespread asset declines at a recent industry conference, he said to himself, "That cannot be right."

His firm, based in Lake Oswego, Oregon, helps RIAs sell or transition their businesses to new owners.

"Stunning" is the word that Michael Zeuner, managing partner of No. 8 WE Family Offices in Miami, used to describe his competitors' AUM dips. His own firm's assets jumped by about $1 billion, the kind of increase that's been more typical of the largest RIAs in recent years.

While Bueermann and Zeuner did not pin industry AUM declines on decumulation entirely, they didn't rule it out.

At a minimum, it does appear that "the old guard is being buffeted by some competitive headwinds," Bueermann says.

"I'VE ATTENDED MORE FUNERALS IN THE PAST YEAR THAN I EVER HAVE" IS A REFRAIN GABRIEL GARCIA, HEAD OF RELATIONSHIP MANAGEMENT AT PERSHING ADVISOR SOLUTIONS, SAYS HE HEARS FROM ADVISERS ABOUT THEIR CLIENTS.

STATISTICS SHOW DECLINE

In all, 11 of the top 25 firms on this year's ranking shed assets. By comparison, just one firm in the top 25 did last year.

This year, 44 of the returning 116 firms reported drops, while only six firms on last year's list had dips. The great majority of those firms reported increases in assets, typically in the $50 million to $300 million range.

Financial Planning's RIA Leaders ranking, based on assets under management at the end of 2016, is unique in seeking to capture firms that abide by the strictest definition of fiduciary client service, absent commission sales and conflicts of interests from outside ownership (see Methodology).

The results of this year's ranking were produced in partnership with Discovery Data. Separately, research from two custodians — Pershing Advisor Solutions and Fidelity — suggests that decumulation is indeed factoring into AUM declines at the country's top RIAs.

From 2011 through 2015, existing RIA clients were contributing an annual average of about 5% net positive assets to their RIAs, says Garcia, the head of relationship management at Pershing Advisor Solutions, citing numbers from the custodian's annual study of the field.

"But in 2016, we saw that drop to 2.8% — pretty significant," Garcia says.

"These firms might be suffering from the demographic shift [of clients] going from wealth accumulators to now moving into a different phase of life where they are being more philanthropic, providing for others and living off their wealth," he says.

The impact is showing up in revenues, too. Revenues for the RIAs in the study grew 18% in 2013, 15% in 2014 but only 8% in 2015, Garcia says.

Fidelity found similar declines in growth. Organic growth among RIAs — excluding market action and mergers and acquisitions — remained relatively stable between 2011 and 2014, averaging 8.8% each year.

However, in 2015 organic growth dropped to 6.7%, says Bob Oros, head of the RIA Segment at Fidelity Clearing & Custody Solutions.

DIPS IN ORGANIC GROWTH

"This is the biggest fluctuation in organic growth rates that we have seen in the last five years," Oros says.

Still, he says, there are many factors that are at play beyond decumulation. It "was driven by dips in all four components of organic growth: New assets from existing clients, assets withdrawn by existing clients, new assets from new clients and assets withdrawn by departing clients," he says.

TD Ameritrade believes it's too early to pin declines on decumulation alone.

"It's safe to say that the era of decumulation has not yet begun," says TD Ameritrade spokesman Joseph Giannone, putting the word "not" in bold in an email. "The RIA industry is growing, not shrinking, and we see no evidence that the largest firms are struggling."

The typical firm's client base grew by 6%, while the median client account size neared $1 million in 2015, according to TD Ameritrade's August benchmarking study of RIAs.

That said, the industry's explosive growth and record profitability in 2013 and 2014 have reverted to more typical historical levels, Giannone said, with annual growth in AUM for the typical firm just 4.7% in 2015, less than half that in 2014.

To be sure, many other factors impacted asset levels and revenues last year, experts say. They include:

• Lackluster market: The S&P 500 was nearly flat in 2015 after being up more than 10% in 2014 and close to 30% in 2013. That left many firms struggling to make up for the resulting declines in asset-based revenue.

• Stepped-up SEC examinations: Some firm executives say they reclassified assets after SEC examinations or in expectation of them.

• The fiduciary rule: Some firms have been dropping their "C-grade clients," Bueermann says, in the belief that complying with the Department of Labor's rule, which is set to be phased in starting in April (if President-elect Trump's administration does not delay or halt it), will prove too expensive across smaller accounts.

• Anemic GDP growth: "New wealth creation is commensurate with GDP growth," Garcia says. "We have seen 2% to 2.5% GDP growth in the past two and a half years."

At the firm atop the RIA Leaders ranking, Oxford Financial, decumulation did not factor into the reduction in assets, says founder Jeffrey Thomasson. Instead, an SEC examination revealed that it had double-counted three large clients. It was an honest mistake, Thomasson says.

"The SEC was very sympathetic" during the dozens of hours the examination required, he adds. "They said, 'We get it.'"

Its downward adjustment in assets aside, Oxford's 2015 revenue jumped by 10% — the best measure of any firm's health, he says.

'IT JUST GOES AWAY'

About half of the $200 million drop in

Methodology

Discovery Data compiled the rankings based on discretionary and nondiscretionary assets under management listed on SEC Form ADV.

To capture independent fee-only planning firms, every effort is made to exclude firms with broker-dealer and insurance company affiliations, and those with substantial outside ownership stakes held by private equity firms and some outside investors.

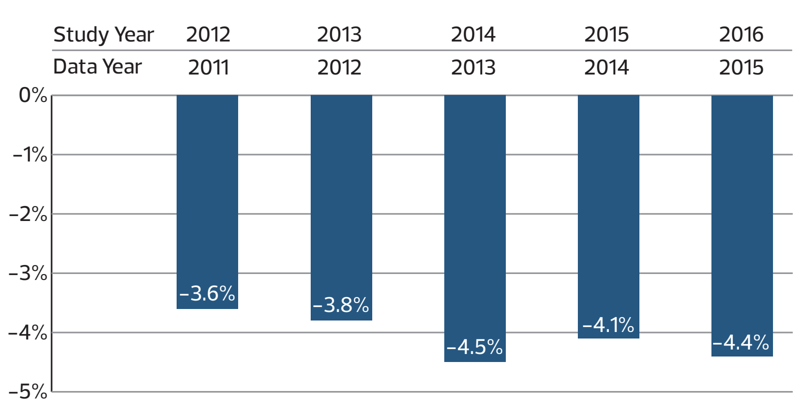
The list does not include roll-ups, aggregators or turnkey asset management programs.

To capture firms that provide true, holistic financial advice to individuals, only firms with more than 50% individual clients, as can be determined through Form ADVs, are included.

Review of unusual cases may result in inclusion or exclusion, based on unique factors. As the RIA sector evolves, so do the criteria.

Assets Withdrawn by Existing Clients

Withdrawals in 2013–2015 were slightly higher than in 2011–2012.



Source: Fidelity RIA Benchmarking Study, conducted April 27 through June 16, 2016.

assets at No. 51, Budros Ruhlin & Roe of Columbus, Ohio, came from decumulation, and the rest from reclassification, CEO Peggy Ruhlin says.

"We needed to audit the assets on our own ... before [the SEC] comes in and tells us to do it," she says.

However, the threat from decumulation is real, she says. "Part of the challenge of the generational transfer of wealth is if you've got a client with $4 million and they die, and you split the $4 million between five kids, the kids aren't in your target market and it just kind of goes away," Ruhlin says.

That said, Ruhlin thinks her firm is well-positioned to weather the boomers' fade. The firm has already found a way to attract younger clients, most of whom come to the firm through online research, not referrals. To that end, the firm has invested heavily in its website.

"For every one of the older clients who pass away and their assets leave the firm, there are newly wealthy people coming into play," she says. "We want to make sure we are out there in front of them and they recognize our name."

Decumulation also impacted the drop of No. 31, the Threshold Group, to $2.8 billion from $2.9 billion, says the Seattle firm's CIO, Ron Albahary. Another factor, he adds, was a "big pivot," requiring investment in time and resources into impact-investing strategies that he hopes will become a new engine of growth.

As part of that effort, the firm hired two managing directors with extensive impact-investing experience to head up that initiative, as well as an impact-investing analyst.

The niche already is helping Threshold attract millennial team members and younger clients, and retain the descendants of its current clients, Albahary says.

MITIGATING RISK

"We have mitigated the risk" of decumulation, he adds. "Where we are dealing with generation one, generation two and generation three, we have full engagement across all three."

"THIS IS THE BIGGEST FLUCTUATION IN ORGANIC GROWTH RATES THAT WE HAVE SEEN IN THE LAST FIVE YEARS," SAYS BOB OROS OF FIDELITY CLEARING & CUSTODY SOLUTIONS.

For all the drops in AUM, however, many firms showed healthy growth.

Another Seattle firm, No. 23, Brighton Jones, saw AUM climb to $3.3 billion from $2.9 billion and is on track to grow revenues 20% or more a year, CEO Jon Jones says.

Recently, the firm adopted a strategic plan to reach $125 million in revenue in 10 years, up from its current $30 million, he says.

The firm plans to do so by adding full-time professional coaches, marketing executives and planners who specialize in helping clients think about the legacies they want to leave.

The firm takes a particularly deep dive into holistic life planning by guiding clients toward lives that are not just more monied, but are also more satisfying.

Jones, like Pershing's Garcia, is neither a boomer nor a millennial, but a member of Generation X, which is generally defined as those born between 1965 and 1984.

'FOR BOOMERS, BY BOOMERS'

The independent RIA space "was built for boomers and by boomers," Garcia says. He thinks big RIAs have to find ways to break out of their boomer comfort zone and focus not on millennials — as consultants are wont to do right now — but on Generation X, which holds far more assets than millennials and will continue to do so for a while before the latter's inevitable rise.

The larger and more creative firms will figure it out, Garcia says. Jones thinks his firm will grow into a brand with which to be reckoned because of its focus on holistic planning.

Once it hits $100 million in revenue, Brighton Jones may start funding a national advertising campaign to better compete against the financial giants such as the wirehouses and banks, Jones says.

"It won't be until we get to several hundred million in revenue before we can compete from a marketing and PR standpoint" with Wells Fargo and Goldman Sachs, he says. "That is where you become a household name."

That is, so long as decumulation doesn't knock his firm off track.

Still, for some, decumulation is simply evidence that the big RIAs are doing a good job for their clients, Garcia says. "If they live a long, healthy life, generally they are going to deplete their assets," he says.

As clients figure out how to cope with the life transition challenges posed by retirement, those firms that survive will need to do the same. **FP**

Kenneth Corbin contributed to this story.

Ann Marsh is a senior editor and the West Coast bureau chief of *Financial Planning*. Follow her on Twitter at @Ann_Marsh.

TOP 150 RIA FIRMS

RANK	FIRM	LOCATION	AUM (000)	CLIENT ACCOUNTS	ADVISERS	EMPLOYEES
1	Oxford Financial Group	Carmel, Ind.	$13,576.98	8,468	35	145
2	Brownson Rehmus & Foxworth	Chicago	$10,127.87	532	50	57
3	Shepherd Kaplan	Boston	$8,350.89	2,260	18	51
4	Pathstone Federal Street	Fort Lee, N.J.	$8,275.50	5,347	36	65
5	Ronald Blue	Roswell, Ga.	$6,636.50	16,436	155	275
6	Athena Capital Advisors	Lincoln, Mass.	$5,998.71	446	21	47
7	Ballentine Partners	Waltham, Mass.	$5,989.73	3,376	43	55
8	WE Family Offices	Miami	$5,015.06	69	25	43
9	Mill Creek Capital Advisors	Conshohocken, Pa.	$4,706.11	307	22	25
10	RGT Wealth Advisors	Dallas	$4,361.60	4,930	24	72
11	Ferguson Wellman Capital Management	Portland, Ore.	$4,311.94	2,414	19	44
12	CV Advisors	Aventura, Fla.	$4,231.84	103	4	27
13	Savant Capital Management	Rockford, Ill.	$4,224.36	3,946	66	136
14	Seven Post Investment Office	San Francisco	$4,178.89	372	12	14
15	Homrich Berg	Atlanta	$4,081.97	5,801	26	80
16	Wetherby Asset Management	San Francisco	$3,839.69	3,193	27	60
17	Halbert Hargrove	Long Beach, Calif.	$3,817.84	3,259	38	43
18	Iron Capital Advisors	Atlanta	$3,520.48	907	1	5
19	Evanson Asset Management	Carmel, Calif.	$3,408.05	4,913	4	8
20	Bartlett	Cincinnati	$3,358.33	1,159	20	47
21	Dowling & Yahnke	San Diego	$3,332.81	3,953	15	34
22	Signature Family Wealth Advisors	Norfolk, Va.	$3,316.47	1,024	25	38
23	Brighton Jones	Seattle	$3,292.43	1,132	36	89
24	R. M. Davis	Portland, Maine	$3,161.37	4,514	19	41
25	Balasa Dinverno Foltz	Itasca, Ill.	$3,071.92	4,665	37	37

Source: Discovery Data; statistics gathered from Form ADV filings as of November 2016.

TOP 150 RIA FIRMS

RANK	FIRM	LOCATION	AUM (000)	CLIENT ACCOUNTS	ADVISERS	EMPLOYEES
26	RegentAtlantic	Morristown, N.J.	$3,032.26	1,536	27	28
27	Orgel Wealth Management	Altoona, Wis.	$3,031.97	7,026	14	34
28	Plancorp	St. Louis	$3,026.11	5,624	25	48
29	WMS Partners	Towson, Md.	$2,887.49	421	18	48
30	Personal Capital	San Francisco	$2,853.46	19,522	98	123
31	Threshold Group	Seattle	$2,829.80	1,476	10	40
32	Ropes Wealth Advisors	Boston	$2,822.32	2,102	9	18
33	South Texas Money Management	San Antonio	$2,759.06	2,848	30	60
34	Index Fund Advisors	Irvine, Calif.	$2,727.01	5,598	20	40
35	Northeast Financial Consultants	Westport, Conn.	$2,689.24	1,881	3	6
36	Sullivan Bruyette Speros & Blayney	McLean, Va.	$2,673.00	933	26	47
37	Hartland	Cleveland	$2,526.51	2,350	18	67
38	Miller Investment Management	Conshohocken, Pa.	$2,514.11	236	14	17
39	CM Wealth Advisors	Cleveland	$2,471.23	380	8	19
40	Alesco Advisors	Pittsford, N.Y.	$2,445.72	941	6	14
41	Clifford Swan Investment Counselors	Pasadena, Calif.	$2,391.89	2,310	14	31
42	MRA Associates	Phoenix	$2,364.93	1,577	23	41
43	Paul Comstock Partners	Houston	$2,280.42	159	5	5
44	Matter Family Office	Clayton, Mo.	$2,209.54	219	18	30
45	Meristem	Minnetonka, Minn.	$2,200.98	323	19	36
46	EP Wealth Advisors	Torrance, Calif.	$2,180.00	5,598	35	48
47	Zhang Financial	Portage, Mich.	$2,154.00	3,814	8	14
48	Adviser Investments	Newton, Mass.	$2,094.90	5,505	29	60
49	Northwest Capital Management	Portland, Ore.	$2,061.02	963	11	16
50	McCutchen Group	Seattle	$2,048.81	546	3	16

Source: Discovery Data; statistics gathered from Form ADV filings as of November 2016.

TOP 150 RIA FIRMS

RANK	FIRM	LOCATION	AUM (000)	CLIENT ACCOUNTS	ADVISERS	EMPLOYEES
51	Budros, Ruhlin & Roe	Columbus, Ohio	$2,046.65	6,511	22	40
52	Columbia Pacific Wealth Management	Seattle	$2,020.20	595	17	20
53	Wescott Financial Advisory Group	Philadelphia	$2,013.90	2,254	13	33
54	Badgley Phelps Wealth Managers	Seattle	$2,011.38	1,499	20	23
55	Valeo Financial Advisors	Indianapolis	$2,005.47	7,839	37	46
56	TCI Wealth Advisors	Tucson, Ariz.	$1,980.85	6,466	19	51
57	Heritage Investors Management	Bethesda, Md.	$1,972.36	1,150	6	12
58	David Vaughan Investments	Peoria, Ill.	$1,967.89	1,872	18	22
59	Mainstay Capital Management	Grand Blanc, Mich.	$1,930.31	3,800	15	22
60	Boston Financial Management	Boston	$1,899.98	1,998	26	44
61	Zemenick & Walker	St. Louis	$1,884.80	179	7	11
62	Retirement Advisors of America	Addison, Texas	$1,865.76	3,931	17	35
63	JMG Financial Group	Oak Brook, Ill.	$1,862.81	2,531	21	34
64	Green Square Capital	Memphis, Tenn.	$1,841.71	1,855	15	23
65	Lake Street Advisors	Portsmouth, N.H.	$1,817.46	1,079	18	31
66	Rinet	Boston	$1,757.74	1,220	16	27
67	Twin Focus Capital Partners	Boston	$1,741.90	82	15	20
68	SYM Financial Advisors	Winona Lake, Ind.	$1,737.97	3,684	21	42
69	Parsec Financial Management	Asheville, N.C.	$1,722.27	4,452	35	23
70	LBI Wealth Management	Saddle River, N.J.	$1,709.81	200	1	3
71	Exencial Wealth Advisors	Oklahoma City	$1,678.21	2,922	22	48
72	Mozaic	Beverly Hills, Calif.	$1,677.02	63	1	11
73	Welch Hornsby	Montgomery, Ala.	$1,673.56	452	13	25
74	Capital Directions	Atlanta	$1,657.00	1,196	5	12
75	Modera Wealth Management	Westwood, N.J.	$1,640.19	4,156	25	45

Source: Discovery Data; statistics gathered from Form ADV filings as of November 2016.

TOP 150 RIA FIRMS

RANK	FIRM	LOCATION	AUM (000)	CLIENT ACCOUNTS	ADVISERS	EMPLOYEES
76	Pinnacle Advisory Group	Columbia, Md.	$1,600.00	3,801	22	51
77	Sand Hill Global Advisors	Palo Alto, Calif.	$1,591.51	893	13	21
78	Foster Group	West Des Moines, Iowa	$1,562.01	3,255	24	41
79	Sage Financial Group	Conshohocken, Pa.	$1,545.38	2,629	12	17
80	Hamilton Capital Management	Columbus, Ohio	$1,545.18	4,605	37	46
81	Destination Wealth Management	Walnut Creek, Calif.	$1,537.58	3,710	23	39
82	Morton Capital Management	Calabasas, Calif.	$1,535.83	2,327	23	24
83	Foster Dykema Cabot	Boston	$1,156.61	506	9	16
84	Balentine	Atlanta	$1,489.16	1,329	6	29
85	IWP Wealth Management	Denver	$1,480.66	30	7	9
86	North American Management	Boston	$1,471.15	1,177	18	32
87	Laird Norton Wealth Management	Seattle	$1,466.33	1,323	34	80
88	Pure Financial Advisors	San Diego	$1,465.98	7,312	27	52
89	Evensky & Katz/Foldes Financial	Coral Gables, Fla.	$1,461.19	5,174	19	28
90	Patriot Wealth Management	Houston	$1,450.78	1,777	12	15
91	Accredited Investors Wealth Mgmt.	Edina, Minn.	$1,444.41	3,174	5	34
92	Chesley Taft	Chicago	$1,439.03	1,407	7	12
93	Paratus Financial	Dallas	$1,434.39	2,174	2	6
94	RCL Advisors	New York	$1,433.17	135	3	6
95	Argent Wealth Management	Waltham, Mass.	$1,430.58	1,763	15	26
96	Retirement Income Solutions	Ann Arbor, Mich.	$1,416.12	1,144	12	16
97	Filament	Seattle	$1,410.11	387	12	14
98	Vista Wealth Management	East Palo Alto, Calif.	$1,363.99	1,638	14	27
99	BerganKDV Wealth Management	Bloomington, Minn.	$1,351.53	1,722	20	24
100	Northeast Investment Management	Boston	$1,322.74	1,203	8	22

Source: Discovery Data; statistics gathered from Form ADV filings as of November 2016.

TOP 150 RIA FIRMS

RANK	FIRM	LOCATION	AUM (000)	CLIENT ACCOUNTS	ADVISERS	EMPLOYEES
101	Crestwood Advisors	Boston	$1,321.96	1,596	8	23
102	Envoi	Minnetonka, Minn.	$1,311.07	746	6	10
103	Resource Consulting Group	Orlando, Fla.	$1,302.41	1,823	11	19
104	Brouwer & Janachowski	Mill Valley, Calif.	$1,279.29	1,495	13	19
105	Salem Investment Counselors	Winston Salem, N.C.	$1,276.00	950	8	12
106	Radnor Financial Advisors	Wayne, Pa.	$1,266.35	1,775	7	12
107	Cypress Wealth Advisors	San Francisco	$1,227.91	348	6	16
108	Brightworth	Atlanta	$1,227.34	1,524	19	25
109	Waldron Private Wealth	Bridgeville, Pa.	$1,216.05	162	18	19
110	North Star Asset Management	Menasha, Wis.	$1,213.04	1,858	13	16
111	Carnegie Investment Counsel	Pepper Pike, Ohio	$1,207.09	2,550	19	21
112	Financial Clarity	Mountain View, Calif.	$1,203.00	28	1	10
113	Palisades Hudson Asset Management	Fort Lauderdale, Fla.	$1,193.79	118	7	15
114	New England Private Wealth Advisors	Wellesley, Mass.	$1,184.71	2,137	8	16
115	True North Advisors	Dallas	$1,178.74	2,821	13	23
116	Cardiff Park Advisors	Carlsbad, Calif.	$1,158.07	1,825	1	3
117	Dyson Capital Advisors	Alexandria, Va.	$1,152.86	22	5	14
118	McQueen Ball	Bethlehem, Pa.	$1,142.78	1,037	6	15
119	Bridgewater Advisors	New York	$1,140.72	2,265	9	16
120	Altfest Personal Wealth Management	New York	$1,110.20	2,837	7	20
121	Colony Family Offices	Charlotte, N.C.	$1,104.95	322	8	9
122	Sheaff Brock Investment Advisors	Indianapolis	$1,100.57	2,553	24	35
123	Smith, Salley	Greensboro, N.C.	$1,086.35	581	10	10
124	Corient Capital Partners	Newport Beach, Calif.	$1,085.73	1,211	8	12
125	Daintree Advisors	Boston	$1,081.85	1,031	14	23

Source: Discovery Data; statistics gathered from Form ADV filings as of November 2016.

TOP 150 RIA FIRMS

RANK	FIRM	LOCATION	AUM (000)	CLIENT ACCOUNTS	ADVISERS	EMPLOYEES
126	Sweetwater Investments	Redmond, Wash.	$1,074.69	233	4	4
127	Wellspring Financial Advisors	Cleveland	$1,070.92	703	5	9
128	Sargent Bickham Lagudis	Boulder, Colo.	$1,065.34	690	13	28
129	Capstone Financial Advisors	Downers Grove, Ill.	$1,058.17	1,993	9	28
130	Pegasus Partners	Mequon, Wis.	$1,055.75	1,294	7	11
131	Emery Howard	Burlingame, Calif.	$1,054.62	1,639	3	5
132	Sadoff Investment Management	Milwaukee	$1,052.68	1,187	4	6
133	Fairway Wealth Management	Independence, Ohio	$1,052.65	160	4	12
134	Conservest Capital Advisors	Wynnewood, Pa.	$1,046.00	221	6	7
135	Foster & Motley	Cincinnati	$1,045.03	659	21	32
136	MG Financial	Braintree, Mass.	$1,039.32	72	2	7
137	Circle Wealth Management	Summit, N.J.	$1,037.51	663	5	11
138	Parallel Advisors	San Francisco	$1,037.17	4,214	28	31
139	Citrin Cooperman Wealth Management	New York	$1,035.35	507	4	2
140	Guyasuta Investment Advisors	Pittsburgh	$1,021.24	950	12	14
141	TrueWealth Management	Atlanta	$1,020.81	1,992	16	27
142	Soltis Investment Advisors	St. George, Utah	$1,020.08	963	13	24
143	Mountain Capital Investment Advisors	Broomfield, Colo.	$1,020.00	500	2	2
144	Legacy Wealth Management	Memphis, Tenn.	$1,019.34	2,443	18	21
145	Acropolis Investment Management	St. Louis	$1,012.79	2,341	25	28
146	Heritage Financial Services	Westwood, Mass	$1,001.59	3,413	14	24
147	Trumbower Financial Advisors	Bethesda, Md.	$1,000.71	691	5	11
148	Boys Arnold	Asheville, N.C.	$995.98	1,009	8	24
149	RTD Financial Advisors	Philadelphia	$979.94	470	19	33
150	Phillips & Company Advisors	Portland, Ore	$979.41	2,011	17	22

Source: Discovery Data; statistics gathered from Form ADV filings as of November 2016.

Cut Estate Taxes With the IDGT

A 'defective' trust can transmute a high-return, high-growth family business into a low-yield bond for inheritance tax purposes.

BY MICHAEL KITCES

FOR CLIENTS WHO ARE HIGH-NET-WORTH entrepreneurs, continued growth and success in their business is generally a good thing — except when it comes to estate taxes.

An increasingly popular strategy for advisers to help their HNW business-owner clients manage this issue is something known as the intentionally defective grantor trust. This unique type of structure treats the income of a trust as the client's for income tax purposes, while the assets of the trust are excluded from the estate.

In other words, the trust is effective (excluded) for estate taxes, but defective (included) for income taxes.

The fact that the trust is defective for income tax purposes is a positive, however, as it means the client can pay all the IDGT's income tax bills, without being deemed a gift. In addition, the family business can be sold to the IDGT in exchange for an interest-only installment note without triggering capital gains taxes, because the client is effectively selling the business to himself or herself.

Thus, the client has transmuted assets potentially subject to estate taxes from a high-return and high-growth family business into a low-yield bond.

The opportunity for estate-tax savings in using an IDGT is significant in the long run, simply for the ability of a successful family business to outearn and outgrow today's ultralow interest rate environment. In fact, an IDGT is often designed to be a multigenerational dynasty trust or, in states where it is permissible, a perpetuity trust, to ensure its assets continue to grow outside of any estate-tax exposure.

HOW IT WORKS

Let's take a look at an example. Say a client is the founding owner of a business that's worth $20 million and generates about $1.5 million to $2 million per year in profit distributions. As a result, the client has a significant estate tax problem, which will only get worse as the business distributes ongoing profits.

BLOOMBERG NEWS

The client could gift about 25% of the business to family members or an irrevocable trust, eliminating that portion of the business value and its subsequent growth from his estate, but he would still be stuck with the other 75%.

Instead, the client could sell the business to the IDGT, in exchange for a promissory note from the trust that agrees to make interest-only payments of 2% per year for the next 15 years, followed by a balloon payment of the principal. At this interest rate, the trust will need to make interest payments of only $400,000 per year, which is easily covered by the available cash from the profit distributions.

Immediately after the transaction, the client's net worth and estate tax exposure have not changed. He has simply swapped from a family business worth $20 million to a promissory note worth $20 million. Because he sold the business to himself for income tax purposes, there are no capital gains taxes due on the transaction, and the cost basis of the business simply carries over into the trust.

However, going forward, the promissory note will grow by its simple 2% yield, while the business is already producing almost four times that amount of cash flow, plus the potential for the business to appreciate even further.

For instance, if at the end of the first year the business appreciated to $21 million, plus generated profits of $1.5 million, and then paid out $400,000 in interest, its value would be up to $22.1 million.

By contrast, the client's estate would still be worth $20 million, plus the $400,000 of interest, but it would be reduced by the income tax liabilities it must pay.

The end result is that the trust's value finishes at over $22 million, while the client's estate will be slightly lower than $20 million, producing a $2 million shift in value to the trust — and outside the client's estate.

At a 40% top estate tax rate, that's an $800,000 savings, by pushing 100% of the growth above the fixed 2% yield — dividends plus appreciation — out of the estate.

IRS SCRUTINY

It is perhaps not surprising that given the substantial potential estate tax savings available with an installment-sale-to-IDGT strategy, the IRS will scrutinize the transaction to affirm it is a legitimate sale and not merely an indirect gift of the business to the trust.

The first requirement for an IDGT to be respected is that the promissory note itself must use a legitimate and not below-market interest rate. This is the case even though the client may have the power to borrow from the trust later at a below-market interest rate.

Under IRC Section 7872, a below-market-rate loan is one that fails to use the published applicable federal rates of IRC Section 1274. Fortunately, however, given the overall low-interest-rate environment today, the required AFR to include with the promissory is still extremely low.

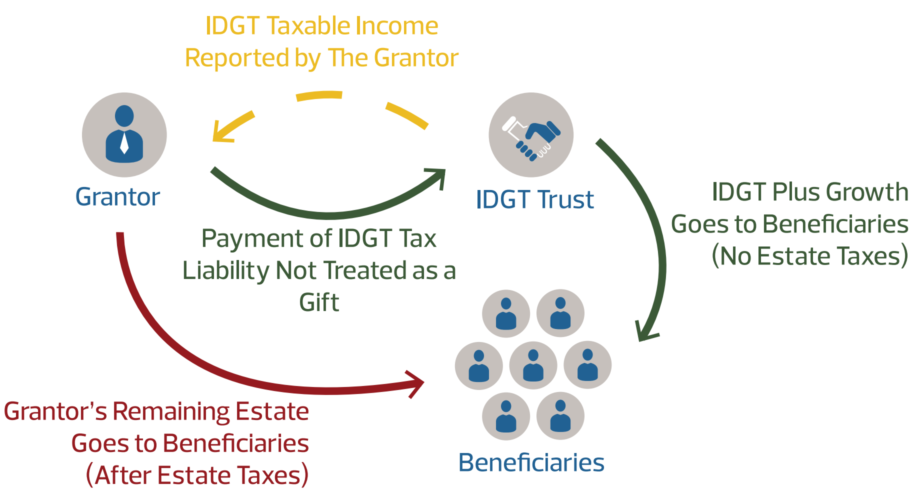
Even for long-term loans that will extend more than nine years, the AFR is a mere 2.26%, as of December 2016. This provides a rather easy total-return hurdle rate that the assets sold to the IDGT need to clear.

The second requirement is that in order for the IRS to respect the sales transaction, the IDGT itself should already have some liquid assets. After all, who would realistically sell their business to a third party that has no income and no assets, and makes no down payment?

Accordingly, it's common practice to seed at least 10% of the expected purchase price into the IDGT as a separate gift before the sale transaction occurs. The assets aren't necessarily used for a down payment, but they at least help secure the ability of the IDGT to make the initial installment note

Given the substantial potential estate tax savings available with an installment-sale-to-IDGT strategy, the IRS will scrutinize the transaction.

Income and Estate Tax Mechanics of an IDGT Trust



Source: Author

payments, until the business transferred into the IDGT can generate enough cash flow to pay its own way from there.

Notably, this requirement to seed the trust with some assets in order to be able to substantiate the subsequent installment note sale means the client will still end up using at least some portion of the lifetime gift-tax exemption.

Still, given a need to seed just 10% of the targeted purchase price, this means that the owner of a $20 million business would simply need to gift $2 million to the trust in order to do the subsequent installment sale to the IDGT that removes the growth from all $20 million.

In practice, the $2 million gift will typically be done with cash or otherwise reasonably liquid assets, to further substantiate that the trust really has the means to make payments on the installment note.

Third, the valuation of the business itself (or whatever it is that is being sold to the IDGT) should otherwise be reasonable and substantiated.

If the sale-to-IDGT transaction is not for the full value of the business, the IRS may recharacterize the transaction as being part sale and part gift, which can accidentally absorb most or all of the client's remaining gift-tax exemption, or even trigger a taxable gift for the excess.

However, bona-fide valuation discounts – including for lack of control and lack of marketability – may still be considered.

It's worth noting that recently proposed Treasury regulations to crack down on a wide range of discounts on family partnerships and other intra-family transactions could soon end such valuation discounts, including in most sale-to-IDGT transactions.

HIGHER REQUIRED PAYMENTS

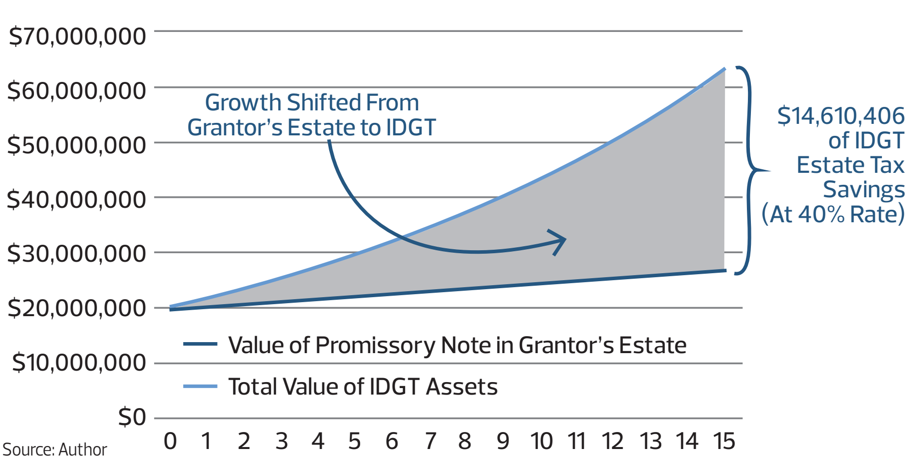
For clients who actually want to remove not just the growth on the business asset, but also the value of the asset itself, it's also possible to use a self-canceling installment note. The significance of a SCIN is that when the client dies, the remaining value of the note goes to zero.

The bad news is that with a SCIN the required payments from the IDGT back to the grantor will be higher (or the purchase price should be higher in the first place), as an objectively valued SCIN should offer larger payments to compensate for the risk that the value goes to zero when the grantor dies.

The good news, however, is that, because the SCIN's value is reduced to zero at the client's death, the entire value is eliminated from the estate. To ensure that the SCIN is respected, though, the client must actually be in reasonable health, such that the SCIN and its payments are legitimately valued

The opportunity for estate tax savings in using an IDGT is significant in the long run, simply for the ability of a successful family business to outearn and outgrow today's ultralow interest rate environment.

How an IDGT Shifts Growth out of a Taxable Estate



Source: Author

given their uncertainty.

Doing an IDGT sale for a SCIN with a client who was already in poor health and expected to die within a year or two would rapidly evaporate significant value from the estate, but it would not likely be honored by the IRS.

POTENTIAL ELIMINATION?

While the IDGT strategy and its legitimacy are now well-established, it is nonetheless something the IRS and Treasury are concerned about.

This is because, again, it does effectively allow high-net-worth individuals to "magically" transmute their holdings (businesses or actual portfolio stock investments) into low-rate fixed-yield bonds, shifting all the equity growth outside the estate, at a tax cost of zero.

There have been attempts to crack down on this practice in the past. In 2012, for example, President Obama's budget proposals included a recommendation that would have automatically treated any trust that was a grantor trust for income tax purposes as part of the grantor's estate.

Ultimately, the proposal was not implemented, in part because such a wide-reaching provision would adversely impact a number of other non-abusive grantor trusts. A modified version of the proposal has continued to come up in the president's budget proposals, emphasizing that this is a strategy on Washington's radar screen.

Until a crackdown — which in all likelihood would only be forward-looking and not retroactive — is implemented, however the IDGT strategy remains legitimate, as long as its rules are respected.

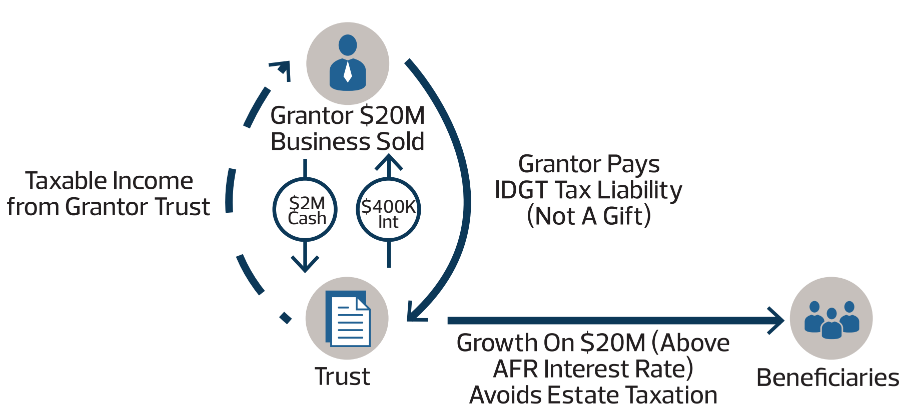
For the time being, the strategy can be further leveraged by obtaining a valuation discount (whether for a family business, or forming a family limited partnership in order to obtain such a discount), though, again, the days for discounts on family entities are likely numbered and may be gone by sometime in 2017.

Notably, though, because the long-term value is really for the future growth to shift out of the client's estate and into the IDGT, the sale-to-IDGT approach will remain effective even without valuation discounts.

This will be the case as long as there is a lengthy time horizon for compounding to occur, and especially when low interest rates are able to be locked into the promissory note. FP

Doing an IDGT sale for a SCIN with a client who was in poor health and expected to die within a year or two would evaporate significant value from the estate, but it would not likely be honored by the IRS.

Mechanics of an Installment Sale



Source: Author

Michael Kitces, CFP, a *Financial Planning* contributing writer, is a partner and director of wealth management at Pinnacle Advisory Group in Columbia, Maryland; co-founder of the XY Planning Network; and publisher of the planning blog Nerd's Eye View. Follow him on Twitter at @MichaelKitces.

Addepar's Strategy in the AI Age

CEO Eric Poirier says that a human adviser's touch should beat artificial intelligence options for decades to come.

BY SULEMAN DIN

WHILE OTHER FINTECH STARTUPS CLAIMED THEY would disrupt the wealth management industry, Addepar has taken the tack that it can make the industry better.

Demonstrating the fruits of that approach, the Mountain View, California, wealth management platform reports it has experienced year-over-year growth near 100%, counting over $500 billion in assets on its platform and more than 200 clients, ranging from banks to family offices.

Addepar CEO Eric Poirier, a veteran of the CIA-backed data-mining firm Palantir Technologies, says focusing on the high-net-worth segment has proved its worth as a strategy for his firm, adding it has no intention of making a retail advice offering.

Addressing concerns about artificial intelligence, Poirier says he is skeptical that AI will be able to encroach upon the work of advisers, even in "the next couple of decades."

An edited transcript of the conversation with Poirier follows.

Robo advisers are not relevant to the HNW segment of wealth management, says Addepar CEO Eric Poirier.

Addepar's effort to promote uniformity in the industry by offering an open API is ambitious, given how territorial the wealth management industry is.
The way we've approached it is, we're taking millions of islands of data, pulling it all together, integrating it, normalizing it, reconciling it and modeling it all in an internally consistent way.

We've been working on that for the past five years. Now our clients can access that data, and it's all together and makes logical sense.

You're doing apples to apples comparisons. That's enabled us to introduce one common language to the financial system, and that also is the key ingredient for us to integrate with best-in-breed providers.

How has Addepar managed its growth?
When we look at the wealth management landscape, the portion catering to high-net-worth and ultrahigh-net-worth is absolutely gigantic.

There's more than $70 trillion in assets held by HNW individuals globally. That's a huge portion of the market from an assets standpoint. But most of those assets are within single-family offices, RIAs that are catering to that part of the community, or the private wealth management side of banks.

Addepar has been laser-focused on that specific part of the market.

We think it's been the most underserved by technology. Historically, Excel has been the solution that the vast majority of services in this segment have been using, because there wasn't commercially available software that was relevant for them.

We just blew through $500 billion worth of assets on our platform, and we've been seeing that growth across each of the client segments that we've been serving — family offices, independent RIAs and banks.

What's the HNW adviser's perspective on technology in wealth management right now?
It's very infrequent the number of times robo advisers come up in the conversations we're having with our clients.

Robos aren't relevant for that part of the market. They are not thinking, "How do we shape our tech strategy?"

For them, it's about, 'How do we level up to better serve our clients?' And that starts with understanding how they are communicating with their clients about what they own, what they should own and what's happening in the market.

In order to provide a comprehensive client service, you need to be able to know where each and every one of your clients is from an asset allocation standpoint. It's not just limited to knowing what assets are in their portfolio; it expands far beyond that.

How are they doing from a tax, trust and estate planning standpoint? Which legal entities are they holding these assets in? Are they efficient?

So it's a much broader set of problems these types of advisers are working with their clients on.

Many advisers are looking for ways in which to differentiate their service in an industry where advice is becoming increasingly commoditized.

It's important for advisers to ask themselves, what are the ingredients you need to better serve your clients, and how do you make sure that gets all the way to your clients? In each conversation you have with your client, there's meaningful information that's being transferred.

You're learning about them, and they're learning about their financial picture. And you're taking advantage of that situation to demonstrate your value to them over time.

The doctor analogy is still very relevant. Say I'm a high-performing athlete and I break my leg. It's really important my doctor understands that I need to heal in a way so I can go back to being a high-performing athlete. If I'm not, maybe the doctor prescribes a different approach.

Similarly, advisers are effectively the doctor, and their clients are the patient. And each comes in with their own unique circumstances, and our job is to ensure the adviser is armed with the right set of data that gives them the full picture of the client.

A number of big custodians and asset managers have entered the market in the past year with their own digital solutions for advisers, such as BlackRock.

Of course, we're paying attention to what other players are doing in the market. But the feedback we're getting is that the technology that looks and feels like robo advisers doesn't speak to the needs of our clients.

Moving beyond robos, many of the systems out there were built more than a decade ago, and they were built to solve a set of problems that were quite simple compared to the complexities that have shown up more recently.

The types of complexities that legacy solutions don't accommodate include alternatives — being able to understand my exposure to private equity and hedge funds — in addition to the portfolio I have in stocks and bonds.

[Another issue is] understanding the client from a household standpoint, through the variety of assets and accounts that they have. The custodial platform is only going to be good for the assets I have with that custody bank; they don't tell me anything about assets held away. That's one of the big limitations of those platforms. The same applies to wirehouses.

Some startups say the HNW segment will be disrupted by automated advice.

The wealth management landscape is built on trust between humans and other humans. We need to give those humans who are advisers the best set of tools, the best tech and the best data, so that they can continue to earn that trust. I'm skeptical of that paradigm shifting so dramatically that, all of a sudden, these clients are entrusting the automated approach.

If we get to the point where AI can handle these sophisticated clients and their needs, it means we are at the point where most of the jobs in the world have been replaced by AI, too. FP

It's important for advisers to ask themselves: What are the ingredients you need to better serve your clients?

Suleman Din is managing editor of SourceMedia's Investment Advisor Group. Follow him on Twitter at @sulemandn.

Advising on Fast-Food Franchises

Owners of McDonald's outlets often need funds quickly to meet corporate demands for upgrades.

BY KATHY KRISTOF

BRAD GRISWOLD'S PLANNING FIRM didn't intend to specialize in serving franchise business owners, but when Griswold agreed to a strategic partnership with a nearby accounting firm some 15 years ago, the practice started moving in that direction.

The accounting firm had relationships with a number of McDonald's franchisees. One client led to the next. Now Bethlehem, Pennsylvania-based Concannon Wealth Management works with McDonald's franchisees in 11 states. This niche accounts for about 25% of the firm's $425 million in assets under management.

THE MOTHER SHIP

Although franchisees face many of the same issues as other small business owners, some of their challenges are unique. Independent business owners, for instance, might decide to invest additional capital in their enterprises opportunistically — as they see the need and as profits and reserves allow.

But when clients buy into a franchise, they must be willing and able to potentially spend hundreds of thousands of dollars on upgrades and equipment whenever dictated by the mother ship. Décor, training and corporate direction are also at least partly dictated by corporate headquarters.

Franchise-operating clients also can't simply change locations to cut rent, change the menu or decide that they'll buy from different vendors. McDonald's franchisees generally rent their stores from the corporation and suppliers must be preapproved. Changes to the menu are verboten.

Do clients want to leave their business to their children? Better chat with the corporate overlords before those documents are drawn up. Any transfer of majority ownership must be blessed by the corporation, too.

BENEFITS AND CHALLENGES

That isn't a criticism of McDonald's or any other franchise's corporate operation, Griswold notes.

The benefit and challenge of a franchise are that customers know they will receive a consistent experience, no matter whether they're popping into an outlet off a rural road in Indiana or visiting a location in the heart of a big city.

To deliver that consistent experience, each franchise owner must assure the national office that the food will taste the same and be delivered equally promptly, and that the ambiance will meet guidelines. This demands standard equipment and restaurant configurations, as well as plenty of training.

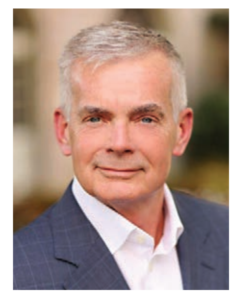
HAMBURGER UNIVERSITY

Indeed, before clients are even able to buy a franchise, McDonald's headquarters will look closely at their economic wherewithal — the corporation is not interested in selling a franchise to someone who can't afford to maintain it — and management will send them to Hamburger University to be schooled on the proper McDonald's protocol. Once in, the operation is subject to inspection and sanction.

"Small business owners and franchise owners are similar in that a lot of their wealth in the early stages is concentrated in their business," Griswold says.

"But they're dissimilar in that the franchise

PRACTICE PROFILE



Brad Griswold

Managing partner

Concannon Wealth Management, Bethlehem, Pennsylvania

Credentials: Series 63 and 65

Experience: Founder, Concannon Wealth Management

AUM: $425 million

How I see it: "Owning a franchise is similar to owning any other small business, but you've always got an extra person at the table."

has another corporate entity involved. There is always another person sitting at the table," he adds.

On some fronts, that's an advantage. McDonald's scale gives franchisees far more purchasing power, and the consistent experience makes it a safe choice for customers. Thus, where starting an ordinary business is a gamble, the training, seasoned business formula and marketing heft improve the chance that clients will succeed with a McDonald's franchise, he says.

"I would argue that McDonald's franchisees have less [income] volatility because of the brand and the consistency of the brand," Griswold says. "But when costs go up, you can't just adjust by making your hamburger patties smaller."

Indeed, if McDonald's decides to offer salads and all-day breakfasts or to refresh the restaurant's look, franchisees are expected to pour hundreds of thousands of dollars into new equipment, furniture and various upgrades.

Since many of Griswold's clients own multiple stores, one business owner may need to come up with $500,000 to $1 million on relatively short notice.

PRIMED TO ACT

Additionally, Griswold says, most of his clients are looking to add locations to benefit from economies of scale – one can share managers among 20 stores just as easily as one can with five, he explains.

Since buying each franchise can cost $1 million to $2 million, expansion and reinvestment demands lead some franchise-owners to maintain far more personal liquidity than the average client. "When our clients see an opportunity to expand their footprint, we want them to be in a financial position to act on it," he says.

However, the right solution isn't always a pile of cash. In today's low-rate environment, safe short-term investments pay practically nothing. Griswold says he currently addresses most of his client's short-term cash needs with bond ladders, favoring municipal bonds for higher-income franchise owners and corporate bonds for the newcomers, who have yet to hit the top state and federal tax brackets. However, he admits that returns are nothing to brag about, ranging from 1.5% to 2%, after tax.

As long as the cash flow from the business is sufficient to support it, Griswold advises experienced business owners to eschew big cash hoards in favor of borrowing for expansion and reinvestment. After all, low rate environments cut both ways, making lenders eager to finance franchise businesses at preferential rates.

ESTATE PLANNING

Griswold also counsels his franchise-owning clients to think early and often about their estate planning needs.

That's because it may not be possible to simply bequeath the businesses to an offspring. Although McDonald's allows franchisees to transfer a portion of their ownership to whomever they choose, they cannot transfer a majority interest without a corporate blessing.

Moreover, many business owners need capital from the business to survive in retirement. Since a franchise owner also must pay royalties to McDonald's each year, adding another cash demand can jeopardize the ongoing business.

In some cases, it's smarter to sell one or two locations to give the family sufficient cash to survive retirement – or sell the whole operation outright and leave the kids cash rather than an ongoing restaurant. Either way, planning early allows both the family and the parent corporation to look at a larger number of options.

"Many of the owners want to pass their business on to members of their family, but it takes some time and some thought to do it properly," Griswold says. "You've got to be sure that the parents have the liquid assets to afford retirement before they pass their spatulas on to the next generation." FP

"I would argue that McDonald's franchisees have less [income] volatility because of the brand and the consistency of the brand," Brad Griswold says.

Kathy Kristof, a *Financial Planning* contributing writer in Los Angeles, also contributes to *Kiplinger's* and CBS MoneyWatch. Follow her on Twitter at @kathykristof.

Should I ... Write a Book?

Being an author is time-consuming and can cost thousands of dollars, but some advisers swear by the long-term benefits.

BY INGRID CASE

ED GJERTSEN II, VICE PRESIDENT OF MACK Investment Securities in Northfield, Illinois, has the beginnings of a book. "It's just musings, really," he says of an outline and perhaps 20 pages of very rough copy created about a year ago.

Gjertsen isn't alone in hoping to write a book. Some planners have begun the process and a smaller number will take their book to completion. Should you join that band of actual and would-be authors? That depends on what you hope a book will accomplish.

Cary Carbonaro, managing director of United Capital, wrote *The Money Queen's Guide for Women Who Want to Build Wealth and Banish Fear*, published by Morgan James in 2015. "I had a massive success with the book," she says. "It was a No.1 new release on Amazon and stayed No.1 in wealth management for three or four months."

Carbonaro says she had interviews for television, print, online, radio and podcast outlets, plus speaking engagements. Yet her book sold only about 5,000 copies — more than average, but not enough to get on a best-seller list. Carbonaro judges the book a success by the positive effect it had on her professional profile. "I won awards and was asked to speak at a lot of conferences," she says.

The book attracted interest from possible clients, though none so far can meet Carbonaro's $1 million threshold.

The book was challenging to write, Carbonaro says, even with a freelance editor. "Writing the book was the easy part," she says. About 20% of the time she put into the project went into writing, while marketing took up the other 80%.

Her publisher did maybe 10% of the marketing. "They did a press release and put my book on the news scroll in Times Square," she says. But contacting media outlets was her responsibility.

4 Questions Before You Start

1. What's your ultimate goal?
2. Can you set aside regular writing time?
3. If not, are you willing to hire a ghostwriter or editor?
4. Do you have the time and energy to market a book?

FOLLOW THE MONEY

Lili Vasileff, president of Divorce and Money Matters in Greenwich, Connecticut, had a less laborious introduction to authorship. She was asked to write the financial section of *The Ultimate Guide to Divorce: Legal, Financial, and Emotional*. Vasileff's name is on the book, but she was not paid.

"I hunkered down and wrote it like a term paper," she says. "It was fun, and I got my name on the book without the work of getting it accepted, published and marketed."

Her second experience has been very different. "I'm under contract with the American Bar Association to write their first and only book about divorce and money," Vasileff says. "I expect to make no money from selling books."

Technically speaking, publishing an e-book is free, if writers do the layout, design and editorial work themselves.

Unfortunately, few planners have the skills to do everything. Hiring a freelancer to design a cover can cost about $700, according to the Reedsy marketplace of professional editors, designers and marketers. Copy editing and proofreading a 60,000-word manuscript may cost about $1,100, Reedsy says. While the author may lose money overall, the attention the book brings to a practice can be a long-term benefit, authors say.

Vasileff is writing her second book on her own. "Every single night, unless I'm completely burned out by something else, I work for three or four hours," she says. "It's become a routine and I feel guilty if I don't put the time in." FP

Ingrid Case, a *Financial Planning* contributing writer in Minneapolis, is a former senior editor for *Bloomberg Markets* magazine.

Extreme Office Makeover

Going overboard on redecorating may leave clients wondering if that's where their fees are going.

BY DAVE LINDORFF

SUSAN TAYLOR, AN INTERIOR DESIGNER WHO HAS worked on offices for advisers, has an interesting take on desks: She doesn't like them for this profession.

Desks convey the person behind it as an authority figure, which isn't conducive to a relaxed discussion about personal finances, Taylor says.

Instead, go for comfortable chairs, and for those who want a table, keep it at coffee table height, "to lower barriers to communication," she says.


ADOBE STOCK

Is this welcoming, or off–putting to clients?

MAKING THAT FIRST IMPRESSION

Taylor, who operates a home and office decor shop called Black-Eyed Susan in Holicong, Pennsylvania, also suggests hanging up a clock with large numbers "so you don't have to peer at it or your watch to check on the time during a client discussion."

As for general office appearance, she argues for "getting away from burgundies and hunter greens," opting instead for "soft grays and stone colors."

Teresa Riccobuono, a professional organizer and founding principal of Simply Organized, a business consulting firm in San Francisco and a former adviser, agrees that making the office comfortable is critical to success.

"You've only got seconds to make a first impression," she says. "Think about how you feel when you walk into some professional's office."

'AN ATTRACTIVE OFFICE'

Riccobuono's suggestion is for comfortable chairs, in both the waiting room and office, preferably upholstered, and with armrests, which are easier for elderly clients to use.

Taylor says that for the sake of older people, who don't like to require assistance when getting in or out of chairs, seats should be a minimum of 21 inches above the floor.

Stephen Boswell, president of the Oechsli Institute, in Greensboro, North Carolina, which trains advisers, says, "We think that having an attractive office is important for an advisory business, but the style can vary according to the style of the adviser. It can be homey and comfortable, or it can be spare and modern. What it can't be, is cluttered."

All three experts stress the importance of upgrading the decor of the office bathroom, which should also be handicapped accessible.

DON'T OVERDO IT

Although Taylor says hiring a decorator for an office makeover can run more than $20,000, including the cost of design advice, furnishings and labor such as carpet installation and painting, Boswell says it need not be that costly.

In fact, he cautions about overdoing things, especially for young advisers just starting out. "You want it nice, but not too nice," he says. You don't want people wondering if that's where their fees are going." **FP**

Dave Lindorff is a contributing writer for *Financial Planning* and *On Wall Street.*

Is RightCapital the Right Fit?

This software has carved out a niche. Here's why it could be a good match for advisers with clients who have less than $2 million in liquid assets.

BY JOEL BRUCKENSTEIN

IF YOU REGULARLY ENGAGE IN COMPREHENSIVE financial planning, odds are you gravitate to one of the three leading providers of related software: Advicent, eMoney or MoneyGuidePro.

If your advisory services are limited to retirement projections and education savings, however, or if you are dealing primarily with millennial clients who need help with budgeting, perhaps you are attracted to a planning-lite application such as Advizr, which specifically targets millennials.

But what happens if Advizr is too limited and comprehensive applications are too much? That middle ground is the niche RightCapital is targeting, according to co-founder Shuang Chen.

Chen says his software is more powerful than the more narrow applications found on the market, and does not sacrifice ease of use or a great client experience.

He says it is appropriate for professionals who have not done much comprehensive planning in the past, but who are gearing up to do more as a result of the Department of Labor's fiduciary rule. The software is most ideal for clients with less than $2 million in liquid assets, as opposed to high-net-worth clients or those with complex planning needs.

I hadn't looked at RightCapital since I tried the beta version more than a year ago, so I recently took a closer look.

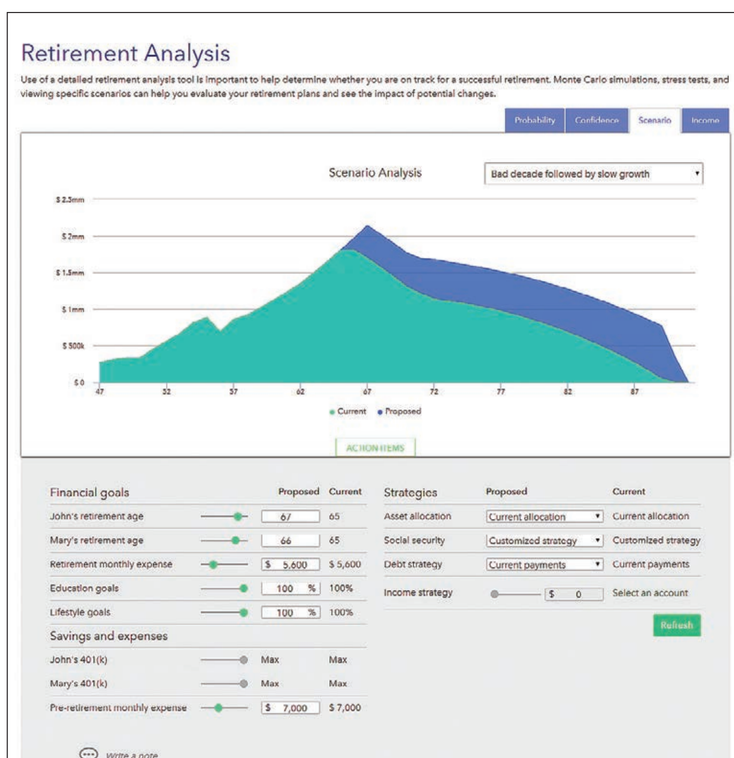
THE CLIENT SECTION

When you log in, you land on the client section, which consists of three tabbed pages. The first holds a list of clients, as well as a button to add new clients. Click on a client, and his or her personal info screen appears to the right.

The next tab is the Client Access tab. This provides control over what your clients can see when they log in. There are seven sections: Dashboard, Investments, Retirement, Insurance, Education, Tax and Estate. Many sections have subsections. Checking the box for a section grants access to all the subsections, but you can check or uncheck individual subsections to achieve the exact level of client access you wish to grant.

The Plan Settings tab allows you to select a planning method and an asset allocation method. There are three planning methods: a cash-flow-based plan, a goal-based plan or a modified cash-flow-based plan.

The cash-flow plan assumes that excess cash is invested in a taxable account. The modified-cash-flow method



assumes any excess cash flow is spent.

Asset allocation can be done on a traditional fixed-allocation method or by using a glide path, where allocations change at predetermined intervals over time. This method usually moves from a more aggressive approach to a more conservative one as the client ages.

When you add a new client, the default end date for the plan is age 90 for each spouse, but you can modify it. You can also add children, grandchildren and others.

Next, you are prompted to enter salary for each spouse. By default, this is inflated 3% per year. Then, you choose one of three methods to estimate Social Security benefits for each spouse. Finally, you add employer retirement plan details, as well as other tax-deferred or tax-free savings.

At this point, you will want to get clients to link all of their asset and liability accounts through Yodlee to create a net worth statement. You can designate which assets are managed by the adviser and whether an asset is to be included in the plan. You can manually enter insurance, real property and other accounts. You are then prompted to enter monthly living expenses and estimated taxes. Other expenses can be entered, if necessary.

A later prompt is to add goals. Some – like retirement, a separate retirement health, LTC and children's education – are created for you. Others can be added with a few clicks.

CRUNCHING THE NUMBERS

After the data has been entered, RightCapital crunches the numbers and displays results. For example, the dashboard shows a total net worth graph. A liquidity graph displays target liquidity (the default is three months' living expenses), current liquidity and surplus or deficit. If the client has aggregated accounts, you can view budget information. If you've entered debts, there is a screen to view and manage them. There is also a page where the adviser can assign tasks to clients and track completed tasks.

The investment screen displays current and target asset allocations. You can click to view actions to bring the portfolio into balance. Other graphs include sector and style, portfolio concentration or diversification, and diversification by tax bracket.

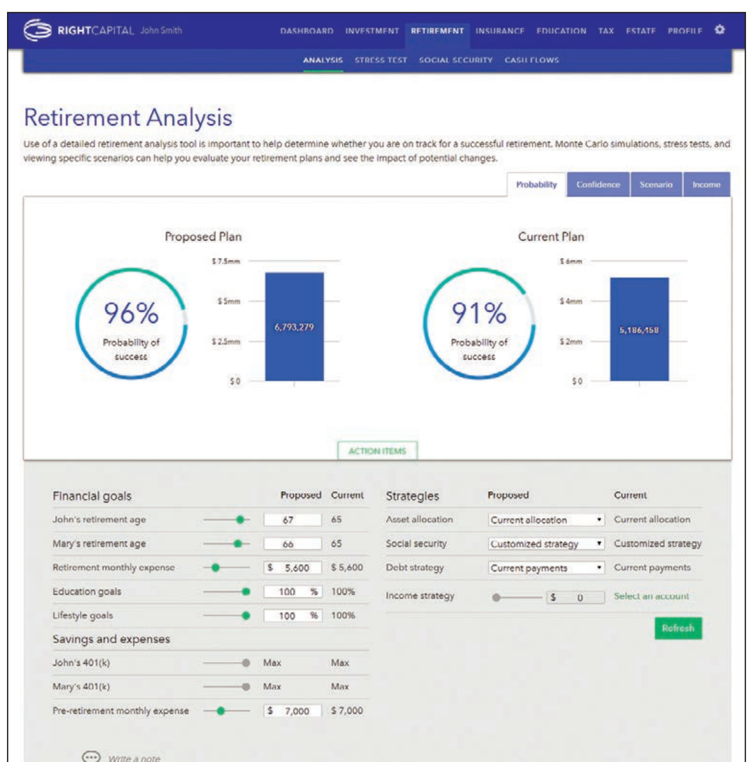
The retirement analysis shows probability of success, using a Monte Carlo analysis for the current versus the proposed plan that the software has generated. When you push the "action items" button, a screen appears that lets you alter goals, savings and asset allocation in the proposed plan to see the impact on it. There is also a confidence graph, which displays the simulation results in more detail.

You can also create scenarios, or use ones supplied with the application, to simulate various financial environments and their impact on the plan. For example, what would a depression do to the financial plan?

In addition, there is an income chart, still in beta, that shows expected sources of income during retirement.

These graphs allow you to alter the proposed scenario using such levers as retirement age and portfolio. An insurance tab shows the impact on the plan if each spouse would die next year under the current sce-

The tax tab is a distinctive feature. A graph shows the estimated effective tax rates, broken down by type of tax, over time.



nario and the recommended one.

The disability tab shows income replacement coverage under the current and proposed scenario. The education section shows coverage for education expenses under the current plan, and allows the adviser to modify the plan using the action tab.

THE TAX TAB

The tax tab is a distinctive feature. A graph shows the estimated effective tax rates, broken down by type of tax, over time. If you click details, you can select a tax form and a year, and the application will generate a simulated set of data based on the inputs provided. The detailed tax projections cover Form 1040 and schedules A, B, D and AMT. There is a taxable Social Security worksheet, as well.

You can also compare withdrawal strategies here. For example, you can choose sequential (withdraw from taxable accounts first) or pro-rata withdrawal strategies. You can simulate filling up the lower tax brackets with Roth conversions.

There is a lot to like about RightCapital. Much of the initial plan creation and setup is done automatically, so learning the basics is relatively simple. That said, advisers should know all the assumptions that power the model. This information is readily available, but I question whether novice users can understand the rationales for the assumptions and evaluate them.

Although there is a good amount of automation, there is plenty of opportunity to make the application your own. You can create your own model portfolios with their own scenarios, designating returns for equities, bonds and cash each year over a 30-year period. You can also enter your own capital market assumptions for each asset class.

One thing you cannot do right now is alter the glide path for those who choose that option. RightCapital says it may add that feature in a future release.

The ability to select a cash-flow-based plan or a goals-based plan is a plus, as is the ability to switch back and forth without losing data. The budgeting, cash flow and debt management modules all are useful for dealing with younger, less wealthy clients.

Integrated task management and task reminders are a plus. When an adviser assigns a task to a client, the client receives an email reminder shortly before the due date. When a client completes a task, the adviser receives a notification.

DRAWDOWN OPTIMIZATION

The tax-efficient drawdown optimization is impressive. Simply using dropdown boxes and slider bars enables an adviser to illustrate different withdrawal strategies as well as Roth conversions. The optimization is integrated with Social Security, annuities and retirement income planning.

The application recently added capabilities to model fixed-index annuities and variable annuities, including detailed features such as a lifetime withdrawal benefit.

Cybersecurity is on the minds of advisers these days, so it's good to see that RightCapital has added factor authentication and encryption of data behind the firewall. It uses quantum randomness to seed encryption, a more secure practice than using pseudorandom number generators.

The product also offers an attractive client portal that allows advisers to customize the end-user experience.

RightCapital currently integrates with TD Ameritrade, Schwab, Black Diamond, Riskalyze, Wealthbox and Blueleaf. It definitely needs to integrate with more mainstream CRM providers and portfolio management applications.

The price is $74.95 per adviser per month without Yodlee integration, or $99.95 per month with. I would recommend the latter. Volume and affiliate discounts are available, as is a free 14-day trial.

With this product, RightCapital is carving out a niche for itself. While it does not generate as much publicity as some competitors, perhaps it should. **FP**

Although there is a good amount of automation, there is plenty of opportunity to make the application your own.

Joel Bruckenstein, a *Financial Planning* columnist in Miramar, Florida, is co-creator of the Technology Tools for Today conference series and technology guides for advisers. For more information, visit JoelBruckenstein.com. Follow him on Twitter at @FinTechie.

ALSO IN CLIENT: P. 51: Facing Disability | P. 53: Don't Sidestep End-of-Life Issues

Make No Mistake on RMDs

Advisers must ensure no errors are made when it comes to these distributions — if not, clients will pay the price.

BY ED SLOTT

WHEN IT COMES TO TAKING REQUIRED MINIMUM distributions, the source matters.

Many clients have more than one retirement plan or account. When they reach age 70½ and have to start taking RMDs from their non-inherited accounts, the question arises as to which of these distributions can be combined and taken from just one plan.

Advisers and clients may think it doesn't matter which account makes the distribution, as long as the total calculated amount is taken from one of the accounts. They are wrong; there are specific rules for aggregating RMDs.

IRS rules state that an RMD should be calculated for each account separately. Then, where aggregation is allowed, those RMD amounts can be added together and the distribution can be taken in any proportion from one or more of the aggregated accounts. It's also important to remember that an RMD cannot be rolled over from any one account to another account, and the RMD is considered to be the first funds distributed from any retirement account during the year.

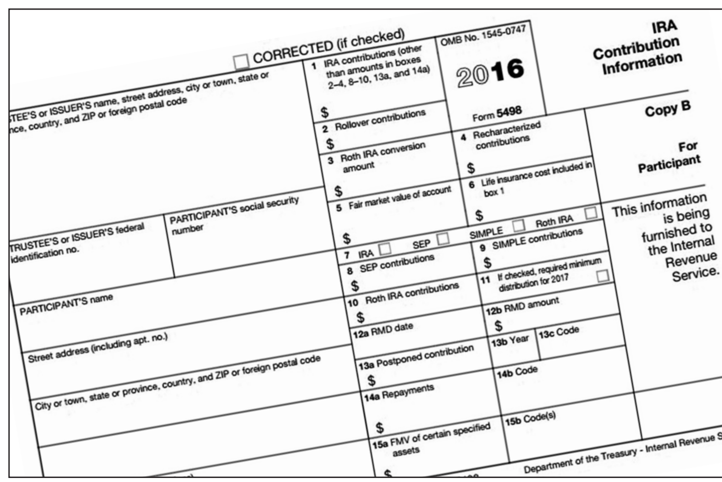
Thus, an IRA CD that comes due in March cannot be moved in its entirety as a 60-day rollover to another retirement account. The RMD amount must be subtracted from the amount that is subsequently rolled over.

The same is true when a distribution is made from an employer plan. All plan distributions are considered rollovers, even when they go directly from the plan to another retirement account.

IRA RMDs can, however, be transferred from one account to another. A transfer is when the IRA funds go directly from one financial institution to another. The RMD can then be taken later in the year.

Advisers must make sure the RMD is taken by clients. The new IRA custodian will not have any records of the RMD calculation, and will not have any automatic reminders for notifying anyone about the RMD in the year of the transfer.

RMDs for one type of account can never be taken from a different type of account. For example, a 401(k) RMD cannot be taken from an IRA, and an IRA RMD cannot be taken from a 403(b). This is a common mistake that must be avoided.



IRA RULES

One of the benefits of IRAs is that RMDs for multiple IRA accounts can be aggregated. This includes SEP and Simple IRA accounts. The RMD should be calculated for each account separately, but after that, the RMD amounts can be added together and taken from any one or a combination of accounts.

403(b) ACCOUNTS

A similar aggregation rule exists for 403(b) accounts. A client with more than one 403(b) account can calculate the RMD for each account and then add the RMDs together. The total can then be taken from one or a combination of 403(b) accounts.

EMPLOYER PLANS

RMDs from employer plans, not including 403(b) plans and SEP and Simple IRAs, cannot be aggregated. A client with multiple 401(k), governmental 457(b) or other employer plans must calculate the RMD for each individual plan and take that RMD from that plan only.

ROTH IRAS

There is no need to worry about whether Roth IRA RMDs can be consolidated because Roth IRAs have no RMDs during the account owner's lifetime. It can't get much simpler than that.

Any plan making a series of substantially equal payments over a period of 10 years or more, or over life expectancy, cannot aggregate that payment with the RMDs from any other retirement account. The distribution from the account making these substantially equal payments is considered the RMD from that account only.

The following is a practical example:

There is no need to worry about whether Roth IRA RMDs can be consolidated because Roth IRAs have no RMDs during the account owner's lifetime.

What Happens When a Client Gets RMD Aggregation Wrong?

There are two potential penalties when clients make RMD aggregation mistakes: the penalty for excess contributions and the penalty for missed RMDs.

THE 6% PENALTY

RMDs that are rolled over to another retirement plan create an excess contribution in the receiving account, which must be corrected as soon as possible.

When an excess contribution is corrected by Oct. 15 of the year after the year for which the contribution was made, the amount of the excess, plus or minus the gains or losses attributable to the amount of the excess contribution must be removed from the account as well.

Simply taking a distribution from the receiving account in the amount of the RMD later in the year does not correct this problem. The IRA custodian must be informed that the distribution is a return of an excess contribution. The coding on the 1099-R for the distribution will reflect that it is a return of an excess contribution. There will be no 6% penalty when the excess is corrected in a timely manner.

Excess contributions that are not corrected are subject to a penalty of 6% per year for every year they remain in the account. Form 5329 should be filed with the IRA owner's tax return to report the excess contribution and to calculate the 6% penalty. This form is considered a separate tax return, so it can be filed as a standalone return.

When the form is not filed, the statute of limitations does not start to run for the excess contribution. If the IRS discovers the problem at any later date, they can assess the penalty, plus interest, assess failure to file penalties, plus interest, and, if the amount is large enough, assess accuracy-related penalties, plus interest.

THE 50% PENALTY

When a distribution is taken from the wrong type of account, you have a missed RMD. For example, suppose a client accidentally takes the 403(b) RMD from his IRA. This is against the rules. The client has a missed RMD in the 403(b). The penalty for a missed RMD is a steep one — it is 50% of the amount not taken.

Here's the good news: The client can generally rectify this issue. First, the client should immediately take the missed 403(b) RMD. Then, he should file Form 5329 to report the missed RMD and follow the instructions to request relief. Assuming the client can show reasonable cause for the mistake, there's a good chance the IRS will waive the 50% penalty.

Your client is approaching age 70½. He comes into your office to discuss his upcoming RMDs. Just as you asked him to, he brings in a list of all his retirement accounts.

He has two old 401(k) accounts, an old Keogh account, three 403(b) accounts, four IRA accounts, a SEP IRA and two Roth IRA accounts. The client's plan is to add together all his RMD amounts and systematically take those distributions from his smallest accounts first.

Sounds like a great plan, right? Well, let's take a look.

KEEPING TRACK

First things first — when you're trying to figure out how many accounts a client needs to take an RMD from, you must first know how many different accounts you're dealing with. In this case, we have 13 accounts.

Next, determine what type of accounts they are and how many there are of each type, keeping owned and inherited accounts separate. Make sure you have this information correct, because getting it wrong and missing a required distribution could subject your client to a 50% penalty for any missed RMDs.

Once you've got your information in order, you can start anywhere.

THE CALCULATIONS

First of all, the client has two old 401(k) accounts. The RMD for each employer's account must be calculated. Then he has to take at least the total RMD amount for each 401(k) plan from that employer's plan. He has two RMD distributions he must take, one from each 401(k) plan.

These 401(k) RMDs cannot be combined with each other or with any other RMD distribution that he must take for the year.

The RMD for the Keogh account must be calculated and taken from there. It cannot be combined with any other RMD distribution for the year.

Next, the client has three 403(b) accounts. He must still calculate the RMD for each of the 403(b) accounts.

But the client can then combine these together and take his total 403(b) RMD from any one or a combination of the 403(b) accounts. The 403(b) RMDs must be taken from a 403(b) account.

DOUBLE CHECK

The client also has four IRA accounts at four different IRA custodians. He has a letter from each of them detailing what the RMD should be for each account. You should double-check their computations. Your client can add these four RMDs together and take the total IRA RMD from any one or a combination of IRA accounts.

In addition to the four IRAs, the client has a SEP IRA. While a SEP IRA is considered an employer plan, it is also considered an IRA for RMD purposes.

The client can calculate the SEP RMD and add it to the RMD amounts for his IRA accounts. The SEP IRA RMD can be taken from either the SEP account or any of the client's other IRA accounts, but the RMD cannot be taken from any other type of retirement account.

Finally, the client has two Roth IRA accounts. He can forget about these accounts — at least as far as RMDs go. Roth IRAs have no RMDs during the account owner's lifetime.

TOO MANY MISTAKES

Remember how the client wanted to take only one RMD distribution? If we look back over what we have explained to him, we find that he must take at least five different RMD distributions.

It's critical for advisers to understand which RMDs can be combined and which accounts must distribute their own RMDs, and to communicate this to their clients. There are too many mistakes made in this area, and incorrect advice often comes from the plan or custodian.

When RMD mistakes are made, however, it's the client who pays the penalty. **FP**

It's critical for advisers to understand which RMDs can be combined and which accounts must distribute their own RMDs.

Ed Slott, a CPA in Rockville Centre, New York, is a *Financial Planning* contributing writer and an IRA distribution expert, professional speaker and author of several books on IRAs. Follow him on Twitter at @theslottreport.

Facing Disability

Managing the finances of clients who are struggling with chronic health issues can be a 'complicated octopus.'

BY MIRIAM ROZEN

PAIN IN HIS NECK DROVE BARRY KAPLAN TO abandon dentistry. Because of ruptured disks in his spine, "I was a misery," Kaplan says. "You could probably see it in my face."

At his doctor's insistence, Kaplan closed his dental practice, filed for long-term disability insurance benefits and eventually became a CFP.

Now the chief investment adviser at Cambridge Wealth Counsel in Atlanta, Kaplan knows more than most how to navigate through a permanent disability that disrupts the flow of income and scrambles long-term financial projections. And that knowledge puts him ahead when it comes to finding clients.


BLOMBERG NEWS

The disabled worker population continues to grow steadily, according to a 2013 report by the Council for Disability Awareness. In the year before that report came out, the number of disabled workers receiving SSDI claim payments increased 1.3%, far outpacing the 0.2% rate of growth in the covered worker population.

LOTS OF TENTACLES

Not only are claims trending higher, they are hard to get a grip on. Disability planning is "a very complicated octopus; it has lots of tentacles," says adviser Carolyn McClanahan, who is also a *Financial Planning* contributing writer. A physician who is also an adviser at Life Planning Partners in Jacksonville, Florida, McClanahan has a realistic view of the risks of medical disability that could throw a wrench into clients' careers.

John Ryan, another planner with expertise in serving the disabled, says, "There is gap between what most advisers know and what their disabled clients need to know." Ryan, a CFP, is principal at Ryan Insurance Strategy Consultants in Greenwood Village, Colorado.

All three say it helps to think about disability planning as a set of tasks.

First, clients should select effective long-term disability insurance and pay the premiums with post-tax dollars. If one is in a specialized profession, an "own occupation" rider should be de rigueur.

Paying long-term disability insurance premiums with post-tax dollars means the benefits will not be taxed as income, Kaplan and McClanahan say. But tax deductions clients might have taken for medical and mortgage expenses, for instance, may no longer be useful.

Disabled clients should try to balance tax-deductible medical and other expenses with any taxable income they may still receive, McClanahan advises.

"In a nutshell, if you know you are going to have a bunch of expenses, plan the income so that you make the most of deductions," she says.

APPLYING FOR BENEFITS

When it comes time to apply for benefits, an adviser's comprehensive knowledge of all available benefits can provide tremendous help for clients.

"You have to become their advocate," McClanahan says. "You have to get them explanations for all the ins and outs of the policy.

Kaplan recommends having a client hire an expert disability consultant, not necessarily a lawyer, to help fill out the applications and cut the red tape.

"You are stepping into the unknown when you fill these out," Kaplan says. He adds that it is best for an adviser to review a client's application before he or she submits it, "because once they submit, it's too late to clean it."

Kaplan was just 45 when he gave up dentistry. Several years earlier, he had taken a CFP course, and just before he started to receive disability benefits, he passed the CFP examination. But his two long-term disability insurance contracts, despite his having bought "own occupation" riders, allowed the underwriter to reduce or offset his benefits if his earned income each month surpassed set amounts.

New York local governments and school districts may grant a reduction of up to

50%

of the assessed value of a legal residence for qualifying individuals.

When trying to cope with the conditions of his insurance, Kaplan turned to Vivian Gallo of Health Resources Consultants in Hartsdale, New York.

According to Gallo's blog posts, her function is to help the disabled and their physicians "successfully prepare the required documentation that will clearly substantiate long-term disability claims and discourage further questions and inquiries from the insurance company."

Advisers and clients should not expect a client's insurance agents to be as helpful, Ryan warns.

As a result of Gallo's help, Kaplan made sure to plan to receive his compensation from his financial services employer, which included bonus payments on an annualized basis, rather than quarterly. That way, no single month of income triggered the insurer's required offset of benefits.

For the disabled, there are also property tax exemptions in some jurisdictions. In New York, for example, local governments and school districts may grant a reduction of up to 50% of the assessed value of a legal residence for a qualifying individual.

RESET RETIREMENT GOALS

Disability forces many people to reset their retirement goals. Advisers need to remind disabled clients to plan for their future when either their disability insurance runs out, or they reach retirement age, McClanahan says.

↑ **1.3%**

Disabled workers receiving SSDI claim payments from 2012 to 2013

Source: Council for Disability Awareness

It is essential that those goals not get lost; they may even require a nonworking spouse to retrain and return to the workforce, McClanahan says.

"You've got to save for your future still," she says. "So we have to ask clients: 'Is there something else you can do?' The most important thing is to make certain the clients are living within their means." FP

"There is a gap between what most advisers know and what their disabled clients need to know," says John Ryan, a CFP and principal at Ryan Insurance Strategic Consultants.

Miriam Rozen, a *Financial Planning* contributing writer, is a staff reporter at *Texas Lawyer* in Dallas. Follow her on Twitter at @MiriamRozen.

Don't Sidestep End-of-Life Issues

Planners can save clients from needless trouble and heartache if they talk about matters related to their death long before it seems to be coming.

BY ANDREW WELSCH

DEATH IS UNCOMFORTABLE TO THINK ABOUT. Even reading about the topic can bring up morbid thoughts. For such reasons, too many advisers and their clients don't discuss end-of-life issues. It is a serious omission.

"Think about the things people do when they are expecting a baby; they start preparing a baby room, asking in-laws to come and stay with the baby. Considerations for the end of life are similar and, unlike childbirth, [dying] is something that everyone does," says Randi Belisomo, a television reporter who is president of Life Matters Media, speaking at *Financial Planning's* Women Advisers Forum in Chicago in November.

Planners, Belisomo says, can fill in this conversation gap and save clients from needless trouble and heartache.

"I've personally experienced the meaningful impact an adviser can have on someone's life," says Celeste Gallati, a board member of Life Matters, a firm providing services for people involved in end-of-life decision making.

Gallati says her husband was diagnosed with brain cancer two years after their marriage. Her adviser asked them critically important questions about his wishes and their plans, which she says reduced the stresses she faced when he died. "Because of those conversations, I was blessed to know that we made the decisions that he would have wanted me to make," she says.

It's important to have the conversations while people are healthy, not when they are already sick because they'll be better able to identify what it means to be living well.

And there are ways to get even reticent clients thinking about the topic.

"Frame it as a gift to their loved ones," Belisomo suggests.

Ask questions like these, she suggests: "What gives you comfort? What gives your life meaning? Is it church? If so, should I get the minister to come to your house or should I read the Psalms to you?"

Having the death discussion with a client may clarify matters they haven't thought of or think they understand, but don't.

Take, for example the use of a power of attorney. Mary Mulcahy, a physician and co-founder of Life Matters Media, says it's important that the designated person be capable of acting on the client's wishes, not on theirs, and also be accessible. "It has to be someone who knows that they have to answer their phone," she says.

Of course, advisers may be as reluctant to discuss such emotionally heavy topics as their clients. But doing so may prove to be immeasurably helpful. And, the three experts say, showing you care really makes a difference.

Belisomo says that after her husband, Carlos Hernandez Gomez, died, his wake was attended by a number of people, including their dentist.

"I had never seen her without her mask on," Belisomo says. The dentist still has her business. Her former adviser does not. **FP**

Andrew Welsch is senior editor of *On Wall Street*. Follow him on Twitter at @AndrewWelsch.

ALSO IN PORTFOLIO: P. 57: Dividend Growth ETFs

Bond Worries? Think Globally

Diversifying fixed-income exposure is often well worth the effort because of the surprisingly low correlation between U.S. and non-U.S. bond funds.

BY CRAIG L. ISRAELSEN

WHEN IT COMES TO BONDS, THINK ABOUT TAKING A trip out of the United States.

U.S. bonds face a challenging headwind in the coming years as interest rates move upward, so it could be a smart move to add some non-U.S. bonds to your clients' portfolios.

Very simply, as U.S. interest rates increase, there will be downward pressure on the performance of U.S. bonds and U.S. bond mutual funds and ETFs.

At least, that's how the relationship has worked in the past. For example, the 34-year period from 1948 to 1981 experienced rising interest rates as the federal discount rate went from 1.34% in 1948 to 13.42% in 1981.

During that headwind period, U.S. bonds (as measured by the SBBI U.S. Intermediate Government Bond Index from 1948 to 1975 and the Barclays Capital Aggregate Bond Index starting in 1976) produced a 34-year average annualized return of 3.83%.

By contrast, the 34-year period from 1982 to 2015 was a period of declining interest rates as the discount rate went from 11.02% in 1982 to 1% in 2015. During this tailwind period, the 34-year average annualized return of U.S. bonds was 8.15%.

We observe that over lengthy periods the general relationship between interest rate movement and bond performance is negative — that is, as interest rates go up, bond returns are lower, and vice versa.

While this relationship is true over 30-plus-year periods, it's a less-than-perfect relationship over shorter time frames.

U.S. AND NON-U.S. BONDS

The returns of U.S. bonds and non-U.S. bonds over the past 29 years are shown in the chart "Bond-o-Rama." This time frame is used because it is as far back as we have performance data available for the Barclays Global Treasury Index (which is a measure of the performance of non-U.S. bonds).

Consider the four-year period from January 2003 to December 2006. At the end of 2002, the federal discount rate was 1.17%. By the end of 2006, it was 5.96% — a healthy increase of 479 basis points.

Federal Reserve Chairwoman Janet Yellen and other Fed officials are expected to consider raising short-term interest rates again.

During that period, U.S. bonds posted returns of 4.10%, 4.34%, 2.43% and 4.33% — hardly a meltdown caused by rising rates. The average annualized return for U.S. bonds during that four-year period of rising rates was 3.8%.

Granted, that rate of return was lower than the 6.47% average annualized return over the entire 29-year period from 1987 to 2015. But an annualized return of 3.8% during four headwind years for U.S. bonds is hardly a train wreck.

Interestingly, during that same time frame, non-U.S. bonds (as measured by the Barclays Global Treasury TR Index) had three excellent years and produced a four-year average annualized return of 5.91% in 2003 to 2006.

This illustrates the benefits of diversifying your fixed-income exposure — particularly during a period of rising U.S. interest rates. A 50/50 mix of U.S. and non-U.S. bonds during that same four-year period produced an annualized return of 4.92% — more than 110 basis points higher than the return on a portfolio invested in only U.S. bonds (as measured by the Barclays Aggregate Bond Index).

Interestingly, when considering the entire 29-year period, we observe that U.S. bonds were the better performer 55% of the time (based on calendar-year returns) and non-U.S. bonds did better 45% of the time. As previously noted, U.S. bonds produced a 29-year average annualized return of 6.47%, non-U.S. bonds had a 29-year annualized return of 6.08% and a 50/50 mix generated a 29-year return of 6.32%.

In the past 10 years, non-U.S. bonds were the better performer three times: 2006, 2007 and 2008. But since 2009 U.S. bonds have been the better performer of the two. Indeed, the 10-year average annualized return for U.S. bonds has been 4.51% versus 3.44% for non-U.S. bonds.

But it will be no big surprise if performance leadership moves back over to non-U.S. bonds as U.S. interest rates begin to move upward. When and by how much is not knowable in advance, but isn't that exactly why we diversify in the first place?

HOW DIVERSITY PAYS OFF

Consider two examples of the results achieved by blending U.S. bonds and non-U.S. bonds rather than simply using U.S. bonds in a portfolio.

The first example uses T. Rowe Price U.S. Treasury Intermediate (PRTIX) and T. Rowe Price International Bond (RPIBX) in a 50/50 split with rebalancing at the end of each year (see the chart "Bonded Together: A Case Study").

By itself, PRTIX had a 15-year average annualized return of 4.59% from 2001 to 2015. By comparison, RPIBX had a return of 4.24% by itself. As a 50/50 pair, the 15-year return was 4.51%.

So why diversify?

We observe that T. Rowe Price International Bond had better annual returns than T. Rowe Price U.S. Treasury Intermediate slightly more than half the time. In some years, the performance differential was sizable (2002, 2003, 2004 and 2009).

Of course, that means PRTIX beat RPIBX nearly half the time. And in some of those years, U.S. bonds outperformed by quite a margin (2001, 2005, 2008, 2011, 2014 and 2015).

It's clear that these two funds march to different drummers. And that is what diversification of a portfolio is all about: combining ingredients that are different from each other so we diversify the "timing of returns" risk.

Said differently, the more diverse ingredients we include in a portfolio, the more likely it is that one or more of them will have a positive return in any given year.

It is important to have positive returns in some of a portfolio's ingredients in case a client has an unexpected need to pull some money out (as well as the obvious issue of keeping a client pleased with some portions of his or her portfolio).

ONE OAR BREAKS

Portfolios that have fewer ingredients or a large number of highly correlated ingredients subject an investor to greater timing-of-returns risk — meaning that, if you have only two oars in the water and one breaks ... well, you get the point.

In the past 15 years, these two T. Rowe Price funds only had one year (2013) in which they both had a negative return, which is another manifestation of how different

Bonded Together: A Case Study

50/50 U.S. bond and non-U.S. bond portfolios at T. Rowe Price and American Century

	T. Rowe Price U.S. Treasury Intermediate	T. Rowe Price International Bond	T. Rowe Price 50/50 Mix	American Century Govt. Bond	American Century International Bond	American Century 50/50 Mix
Symbol	PRTIX	RPIBX		CPTNX	BEGBX	
Expense Ratio	0.51	0.83	**0.67**	0.47	0.81	**0.64**
Annual Returns Best performer each year highlighted in dark blue						
2001	7.52	-3.41	2.06	6.75	-1.66	2.55
2002	12.02	21.8	16.91	10.95	23.53	17.24
2003	1.83	18.77	10.30	1.93	19.91	10.92
2004	1.17	11.40	6.29	2.47	13.10	7.79
2005	1.50	-8.18	-3.34	2.41	-8.23	-2.91
2006	2.51	7.55	5.03	3.94	8.25	6.10
2007	9.91	10.05	9.98	7.82	9.89	8.86
2008	14.10	1.77	7.94	9.55	2.41	5.98
2009	-1.37	8.38	3.51	3.01	6.72	4.87
2010	7.04	5.17	6.11	5.35	0.15	2.75
2011	10.43	2.63	6.53	7.51	5.72	6.62
2012	2.68	6.10	4.39	2.18	4.10	3.14
2013	-4.11	-3.81	-3.96	-2.88	-5.19	-4.04
2014	4.39	-3.77	0.31	4.61	-2.94	0.84
2015	1.08	-5.70	-2.31	0.51	-6.92	-3.21
15-Year Average Annualized Return (2001-2015)	4.59	4.24	4.51	4.35	4.21	4.36
Best Performer	47% of time	53% of time	--	53% of time	47% of time	--
50/50 Mix Better than U.S. Bond Fund (2001-2015)	--	--	53% of time	--	--	47% of time
YTD Performance as of Nov. 30, 2016	0.67	2.5	1.59	0.99	1.17	1.08

Source: Steele Mutual Fund Expert software, calculations by author they are from each other.

Indeed, the 15-year correlation between the two was 0.24. This is a low correlation, which is great. These two T. Rowe Price bond funds, in a 50/50 rebalanced blend, had a 15-year return that was only 8 basis points lower than PRTIX by itself, but had better annual returns than PRTIX 53% of the time, and had a standard deviation of return that was 36% lower than RPIBX by itself.

If using comparable funds at American Century (CPTNX as the U.S. bond fund and BEGBX as the non-U.S. bond fund), we see similar results. In this case, the 50/50 blend produced the highest 15-year average annualized return (one basis point higher than American Century Government Bond by itself and 15 basis points higher than American Century International Bond by itself).

Moreover, the 50/50 blend produced better annual returns than CPTNX by itself 47% of the time and had a 39% lower standard deviation than BEGBX by itself.

RECENT RECORD

As of Nov. 30, 2016, the value of having exposure to non-U.S. bonds and U.S. bonds was evident. The year-to-date performance of non-U.S. bonds was superior to U.S. bonds. It just makes sense to diversify among all the various asset classes in a portfolio — and the fixed-income portion of a portfolio is no exception. And while this analysis only highlights aggregate U.S. bonds and non-U.S. bonds, there are other fixed-income categories that can be considered (for example, TIPS, municipal, Ginnie Mae).

The historical performance that was created by blending U.S. bonds and non-U.S. bonds is notable, but not highly compelling. But that is not the real issue. The real issue is creating a prudent approach to investing — and diversification is a foundational principle of being prudent.

It will be important — and prudent — to diversify the fixed-income portion of your clients' overall portfolios as we move forward into the headwinds. **FP**

Bond-o-Rama

U.S. and non-U.S. bond returns from 1987 to 2015. Better annual performer highlighted in dark blue.

Year	Federal Discount Rate	U.S. Bonds Barclays U.S. Aggregate Bond TR Index	Non-U.S. Bonds Barclays Global Treasury TR Index	50% U.S. Bonds/ 50% Non-U.S. Bonds
1987	5.66	2.76	15.93	9.34
1988	6.20	7.89	4.49	6.19
1989	6.93	14.53	6.70	10.61
1990	6.98	8.96	12.70	10.83
1991	5.45	16.00	15.34	15.67
1992	3.25	7.40	4.51	5.95
1993	3.00	9.75	12.31	11.03
1994	3.60	-2.92	1.56	-0.68
1995	5.21	18.47	20.18	19.33
1996	5.02	3.63	5.11	4.37
1997	5.00	9.65	1.04	5.35
1998	4.92	8.69	15.33	12.01
1999	4.62	-0.82	-5.24	-3.03
2000	5.73	11.63	1.43	6.53
2001	3.40	8.44	-1.37	3.54
2002	1.17	10.25	19.59	14.92
2003	2.12	4.10	14.78	9.44
2004	2.34	4.34	10.33	7.34
2005	4.19	2.43	-6.66	-2.11
2006	5.96	4.33	6.44	5.39
2007	5.86	6.97	10.57	8.77
2008	2.39	5.24	10.23	7.74
2009	0.50	5.93	2.63	4.28
2010	0.72	6.54	5.90	6.22
2011	0.75	7.84	6.33	7.09
2012	0.75	4.21	1.83	3.02
2013	0.75	-2.02	-4.30	-3.16
2014	0.75	5.97	-0.79	2.59
2015	1.00	0.55	-3.29	-1.37
10-Year Average Annualized Return (2006-2015)		4.51	3.44	3.99
29-Year Average Annualized Return (1987-2015)		6.47	6.08	6.32
Best Annual Performer		55% of the time	45% of the time	

Source: Steele Mutual Fund Expert software, calculations by author

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Dividend Growth ETFs to Consider

Five established domestic equity funds have similar goals, but there are significant differences.

BY JOSEPH LISANTI

BECAUSE THEY ALL AIM FOR SIMILAR GOALS, THE five oldest domestic equity dividend growth ETFs appear to travel as a pack. A closer look, however, shows they move at different speeds, depending on market conditions and the time frame a client is considering for investment.

Advisers seeking exposure to this category for their clients, both to provide downside protection for equity holdings and for growing income, have much to examine when choosing.

ETFs are worth considering over mutual funds not only because they are highly popular products, but also because they typically have a more manageable set of portfolios.

In this case, there are about 140 ETFs that feature a dividend screen, but only five hold U.S. stocks exclusively and have been around for 10 or more years. The decade-long record allows advisers and clients to see how the portfolio does in good and bad markets.

One fact that is instantly apparent from the performance data: Dividend growth ETFs can't buck the overall market trend. Each of the five ETFs had its best performance in 2013, a good year for stocks, and its worst in 2008, a year that most market participants would like to forget.

Even so, they take different approaches to dividends. Here are thumbnail sketches of the five:

iShares Select Dividend ETF (DVY) is the pioneer here, launching on Nov. 3, 2003. It is based on the Dow Jones U.S. Select Dividend Index, which does not require annual growth of payouts. Instead, it requires stocks to have a five-year non-negative dividend growth rate and to have paid shareholders in each of the latest five years.

The highest yielding 100 issues to qualify are in the index. This methodology allows for some new dividend payers, which usually have robust early dividend growth. That may account for DVY's second highest Sharpe ratio in our group in the past five years. Over 10 years, however, DVY's Sharpe

Comparing the Five Oldest Dividend Growth ETFs

All come with a track record of at least 10 years or more.

Fund	Ticker	Expense ratio	5-year return	10-year return	5-year Sharpe ratio	10-year Sharpe ratio	Best and worst performance of the past decade	
							2013	2008
iShares Select Dividend	DVY	0.39%	13.81%	5.83%	1.47	0.4	28.71%	-33%
PowerShares Dividend Achievers	PFM	0.55%	11.17%	5.18%	1.21	0.39	25.63%	-29.45%
PowerShares High Yield Equity Dividend Achievers	PEY	0.54%	16.01%	4.04%	1.6	0.25	30.40%	-38.4%
SPDR S&P Dividend	SDY	0.35%	13.59%	7.33%	1.35	0.49	30.09%	-23.07%
Vanguard Dividend Appreciation	VIG	0.09%	11.41%	6.78%	1.18	0.5	28.99%	-26.5%
S&P 500			13.57%	6.70%	1.28	0.44	32.39%	-37%

Source: Morningstar data as of Oct. 31

ratio was in the middle of the pack.

PowerShares Dividend Achievers Portfolio (PFM), which began in September 2005, is based on the Nasdaq U.S. Broad Dividend Achievers Index. This benchmark, which weights by modified market capitalization, requires at least 10 consecutive years of dividend increases. Common stocks, limited partnership units, shares of beneficial interest and shares of limited liability companies may be included. The broad sweep (273 holdings) of the portfolio may be a reason that PFM placed fourth, based on its Sharpe ratio, for both the five-year and 10-year periods.

PowerShares High Yield Equity Dividend Achievers ETF (PEY) began nine months before its broader sibling. Because it holds only the top 50 yielding stocks (with sector limitations) drawn from the Broad Dividend Achievers Index, it tends to swing for the fences. As a result, it has the best five-year return and Sharpe ratio and the worst 10-year numbers for both metrics.

SPDR S&P Dividend ETF (SDY) holds 105 stocks from the S&P Composite 1500 that have increased dividends annually for at least 20 years. The index is weighted by yield and no position may be more than 4%. SDY had the best 10-year total return and the smallest loss in 2008.

Vanguard Dividend Appreciation ETF (VIG) is based on a modified version of the index used in PFM. Called the Nasdaq U.S. Dividend Achievers Select Index, it starts with the Broad Dividend Achievers, but holds only 185 common stocks. Other "proprietary" criteria are applied, but not disclosed. VIG, first sold in April 2006, closely tracked its cousin PFM over five years, but did much better over 10. **FP**

ETFs are worth considering over mutual funds because they typically have a more manageable set of portfolios.

Joseph Lisanti, a *Financial Planning* contributing writer in New York, is a former editor-in-chief of Standard & Poor's weekly investment advisory newsletter, *The Outlook*.

CE QUIZ JANUARY 2017

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FROM: CUT ESTATE TAXES WITH THE IDGT

1. Which section of the Internal Revenue Code dictates what is considered a below-market-rate loan?

1. IRC Section 7872
2. IRC Section 1274
3. IRC Section 691(c)
4. IRC Section 104(c)

FROM: BOND WORRIES? THINK GLOBALLY

2. What was the 29-year average annualized return, from 1987 to 2015, of a portfolio with 50% U.S. bonds and 50% international bonds, as represented by the Barclays Capital Aggregate Bond Index and the Barclays Global Treasury Index?

1. 4.25%
2. 7.25%
3. 6.32%
4. 5.15%

3. What was the 29-year average annualized return of a portfolio that was 100% in international bonds?

1. 6.08%
2. 7.45%
3. 3.25%
4. 7.75%

4. What was the 29-year average annualized return of a portfolio that was 100% in U.S. bonds?

1. 5.68%
2. 6.47%
3. 4.23%
4. 6.85%

FROM: MAKE NO MISTAKE ON RMDs

5. What is the penalty for excess contributions related to required minimum distribution aggregation?

1. 5%
2. 50%
3. 4%
4. 6%

6. What is the penalty for a missed RMD?

1. 50% of the amount not withdrawn
2. 6% of the amount not withdrawn
3. 25% of the amount not withdrawn
4. 15% of the amount not withdrawn

7. Which kind of retirement account has no RMDs?

1. SEP IRAs
2. Roth IRAs
3. 403(b)s
4. Simple IRAs

FROM: AVOID THE RETIREMENT DANGER ZONE (online only)

8. If you are using a 4% withdrawal rate for a portfolio, how many years of spending would a 20% market decline wipe out?

1. Four
2. Six
3. Five
4. Seven

FROM: SOME DONATIONS ARE BETTER THAN OTHERS FOR PHILANTHROPIC CLIENTS (online only)

9. IRA owners who want to ensure their beneficiaries won't have to take the entire balance of their account by the end of the fifth year after the owner's death should ensure that all charitable beneficiaries have received their benefit before:

1. Aug. 30 of the year after death
2. Jan. 30 of the year after death
3. July 30 of the year after death
4. Sept. 30 of the year after death

10. Charitable bequests totaled how much in 2015, according to the Giving USA Foundation?

1. $20.85 billion
2. $31.76 billion
3. $40.36 billion
4. $35.56 billion

Financial Planning offers its Continuing Education Quiz exclusively online at FPCEQuiz.com.

To earn one hour of continuing education credit from the CFP Board of Standards, please visit our website and answer the questions above. Planners must answer eight out of 10 questions correctly to pass. Credit will count under CFP Board subject A: financial planning process/general principles. The deadline for participation is Jan. 31, 2018.

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Striking Up a Conversation

What a divorce lawyer-turned-adviser can teach other planners about navigating difficult discussions.

BY TRACI SAXON

I AM NEW TO FINANCIAL ADVISING AS A PROFESSION. It is a second career for me after almost 20 years in the legal field as a matrimonial litigator and mediator. My past work has provided me with invaluable insights on how to connect with clients. The following are key mediation techniques that transfer over for use in initial client meetings and regular investment reviews.

ACTIVE LISTENING

Active listening is not merely sitting with a client and paying attention. It's all about creating a conducive environment where listening can happen. Ideally, a meeting should be held in a quiet, private room where you are face-to-face with your client. Interruptions should not be permitted and mobile phones should be muted.

OPEN-ENDED QUESTIONS

We all fall into communication pitfalls that hinder our ability to truly listen to our clients, such as making assumptions or following a set agenda. In those situations, we are not extracting all of the pertinent information. The most effective way to derive information from your client is to ask open-ended questions.

Some basic queries might be, "How is your family?" or "What has happened with your work since we last met?" As an attorney, you are trained to never ask a question for which you do not already have the answer. However, as an adviser, the more questions that you ask that you do not yet know the answer, the more valuable that discussion will be.

Finally, the technique of reframing is a most valuable tool. Reframing is the process of summarizing and restating what you believe a client has expressed to you. Typical reframing statements might be: "It sounds like you need … " or "Am I correct to say that … " The act of frequently reframing shows that you're listening and understand the client.

FOCUS ON NEEDS, NOT POSITIONS

I found that in divorce and even in prenuptial negotiations, when confronted with the unknown or the uncomfortable, people tend to dig in their heels and cling to a position. For instance, a woman going through a divorce with young children at home might adopt the position that she is adamantly against selling the marital residence. Yet, inevitably, after exploring a client's concerns, it always comes to light that it is not the location that matters the most, but rather the underlying needs — the need to feel financially secure and the need to be reassured about the continuity of the children's schooling and lives.

The same holds true for an adviser's clients. Focusing on your client's positions has a way of limiting options. Instead, take the time to uncover the client's underlying needs. For example, a retired client who is stressed by trying to sell property in a soft real estate market is also indicating to you a need for cash flow. Depending on the situation, this need could be addressed by rebalancing a client's portfolio toward income-producing assets. Focusing on needs and interests opens the possibility of more creative options for handling a client's overall finances.

At a time when regulations are changing the industry, the tried and true mediation techniques of active listening and focusing on needs will help to better serve clients and deepen relationships. **FP**

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