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COVER PHOTO BY JOSH RITCHIE, PHOTO RIGHT RYAN NICHOLSON

Adam Birenbaum of Buckingham Strategic Wealth says advisers who want to advance "have to be able to lead a team and be committed to self-development."

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Career paths are now a critical component of compensation strategies. With demand for top advisers outstripping supply, "everybody wants to know the next step" to advancement.

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Sometimes clients lack a substantial portfolio. If that's the case, planners can tread other paths to reach fair compensation.

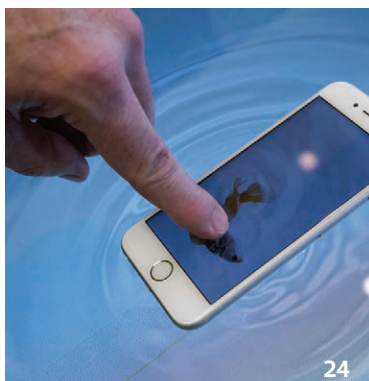
By Donald Jay Korn

Financial Planning Vol. 47/No. 4 (ISSN 0746-7915) is published monthly (12 times a year) by SourceMedia, One State Street Plaza, 27th Floor, New York, NY 10004-1505. Subscription price: \$109 for one year in the U.S.; \$129 for one year in all other countries. Periodical postage paid at New York, NY and U.S. additional mailing offices. POSTMASTER: Send address changes to *Financial Planning*, SourceMedia, One State Street Plaza, New York, NY 10004. For subscriptions, renewals, address changes and delivery service issues contact our Customer Service department at (212) 803-8500 or email: help@sourcemedia.com. Send subscription orders to: *Financial Planning*, SourceMedia, One State Street Plaza, New York, NY 10004. Please direct editorial inquiries, manuscripts or correspondence to: *Financial Planning*, One State Street Plaza, 27th Floor, New York, NY 10004-1505. Back issues, when available, are \$10 each, prepaid. *Financial Planning* is a trademark used herein under license. Copying for other than personal use or internal use is prohibited without express written permission of the publisher. ©2017 *Financial Planning* and SourceMedia, Inc. All rights reserved.

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Sound Off: Seriously?!

In response to an article about the niches advisers should consider to grow their practices, adviser **Ryan Oldroyd** of Menlo Park, California-based firm WealthValues asked:

"Are retirees and pre-retirees really niches when those two groups alone include practically everyone?"

What do you think? Weigh in with your own comments at: <http://bit.ly/2lxt048>



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EDITOR'S VIEW

Unlimited Vacation Time?

RIAs are exploring new ways of compensating their advisers, just in time.

ON HER VISIT TO **FINANCIAL PLANNING'S** OFFICES IN FEBRUARY, JANE King's eyes lit up when I asked how her firm, Fairfield Financial Advisors in Wellesley, Massachusetts, compensates its five advisers beyond their salary and annual bonus.

"We don't have a vacation policy," she told me. "It's unlimited." When I looked surprised, she explained that her team has worked together for many years. During that time, camaraderie and trust has grown between the advisers, which allows them to feel comfortable taking the time they need for holidays or emergencies. Months, or even years later, they repay the trust by filling in for colleagues who had helped them when they needed the favor.

"No one takes advantage," King said. "We are respectful of work-life balance."

Aside from firms such as King's, RIAs have mostly been behind the curve when it comes to creative, non-salary ways of remunerating their advisers, says Senior Editor Charles Paikert, who wrote our feature on compensation, "New Balance."

They'd better get with the program, he tells me.

"There is a war for talent," Paikert says. "RIAs have to be on the cutting edge of compensation trends to compete for top advisers — and to attract talented young people to the profession."

More firms, Paikert predicts, will emphasize "community involvement, with days given for voluntary time off and more flexible work schedules." That's not all. Firms that focus on career development have the best shot of keeping their most capable employees, he says, adding that he was surprised at how much time and effort RIAs are now putting into establishing career paths and incentive goals for their employees.

The shift could barely come at a better time, contributing writer Donald Jay Korn tells me.

"Markets are notoriously unpredictable, but equity markets are certainly buoyant now — and we've seen two crashes in this century," says Korn, who wrote "Going Beyond AUM for Pay."

"Even a modest correction could reduce AUM-based revenue significantly, so another form of compensation might turn out to be a useful cushion," Korn says. Meanwhile, who wouldn't mind an extra vacation day, or three? —*Chelsea Emery*





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RETIREMENT ADVISER CONFIDENCE INDEX

Clients Bullish but Advisers Wary

While retirement product sales rise, questions about the fiduciary rule and the durability of the Trump rally leave advisers feeling slightly less confident than clients.

AS TAX SEASON STARTED TO UNFOLD AND STOCKS hit record highs, advisers said their clients' retirement business was solid.

Even so, planners indicated they themselves are slightly less confident about the outlook for stocks, according to this month's Retirement Adviser Confidence Index – *Financial Planning's* monthly barometer of business conditions for wealth managers. "Clients are feeling a bit more bullish, and it is tax season, so more IRA products are being offered and accepted," one adviser wrote.

Advisers reported a 3.8-point uptick in retirement products sold to clients. Many advisers noted seasonal increases in retirement product sales are typical ahead of the April tax deadline.

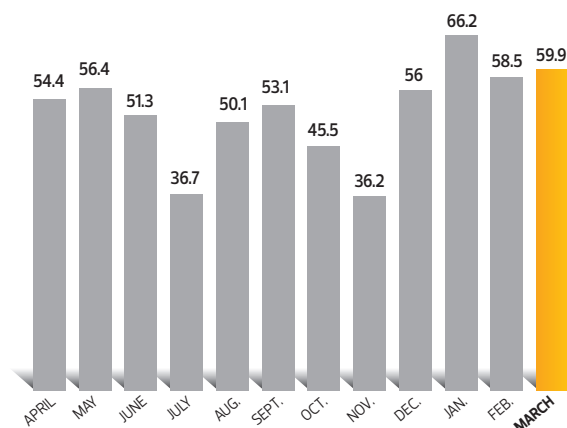
"Tax season is heating up," another adviser wrote. "More contributions to Roth/Traditional/SEP/Simple accounts are happening as clients' taxes are being filed."

However, advisers reported that fewer clients were enrolling in employer-sponsored retirement plans or opening new accounts.

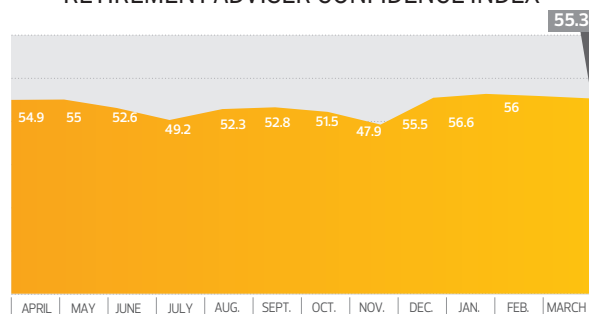
While clients' perceived risk tolerance rose modestly – up 1.4 points to 59.9 – the overall RACI index fell 0.7 points to 55.3. The slight dip in the composite index may reflect advisers' concerns about the longevity of the bull market, as well as uncertainty about the Department of Labor's fiduciary rule. "Clients and advisers alike are concerned with the DoL," one adviser said. Another wrote, "Potential fiduciary rule changes are making me evaluate the type of business I engage in."

Some advisers expressed concern that the stock mar-

PERCEIVED RISK-TOLERANCE LEVEL



RETIREMENT ADVISER CONFIDENCE INDEX



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ket rally after the election of President Trump would soon lose momentum. Others said they were eager to see how the decisions of the new administration will affect their businesses moving forward.

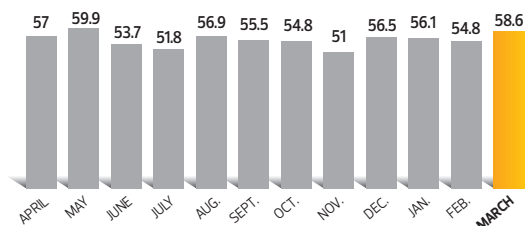
"While we continue to expect generally higher equity prices in the near term, we believe the back half of the year will be very challenging – especially if some of the campaign promises are not realized regarding infrastructure and tax policy in particular," one adviser wrote.

Other advisers noted a stark polarization in the attitudes of their clients. "We are in a period where optimists are remaining so, and pessimists are remaining doubtful," said one adviser.

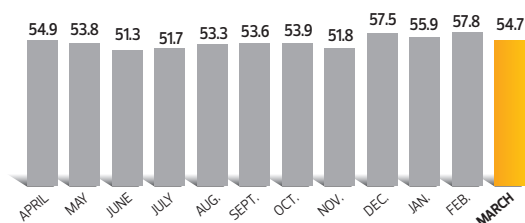
The Retirement Adviser Confidence Index is composed of 10 factors – including asset allocations, investment product recommendations, economic and risk factors, taxes and planning fees – to track trends in wealth management. RACI readings below 50 indicate deteriorating business conditions, while readings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

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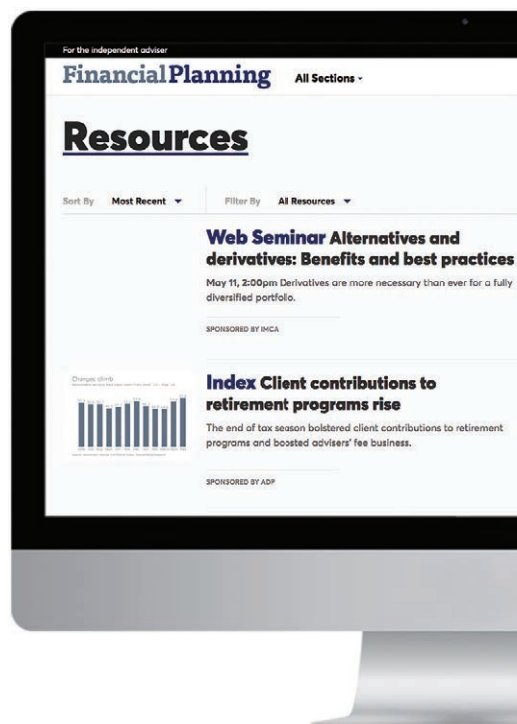


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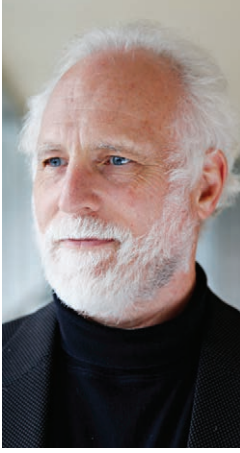
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INDUSTRY INSIGHT **VERES**

Escape From Bizarro World

The latest regulatory developments seem to have thrust the wealth management industry into an alternate universe, Bob Veres says.

UNLESS YOU HAPPENED TO BE AN AVID reader of Superman comic books during the 1960s, you probably don't know what Bizarro World is. This is a place where everything is sort of backward. Superman was a disheveled hobo who engaged in criminal behavior, like stealing valuable lumps of coal and using his super strength to squeeze them into worthless diamonds.

Imagine falling into a wormhole and finding yourself in a place where the Kardashians live intensely private lives, Steve Carell and Tina Fey are not funny, high school nerds are courted by the cheerleaders and brokerage firms don't mind losing money so long as their customers come out ahead.

There are times, lately, when I feel like I must have fallen through that wormhole. How else to explain that attorneys for the Financial Services Institute, SIFMA and various insurance sales organizations argue that people who call themselves financial professionals shouldn't be required to provide advice only on behalf of the customer because, well, that would be bad for the customer?

How can the SEC enforcement division see the bold brokerage firm advertisements about how their reps provide solid financial advice, and then somehow buy the argument that brokers shouldn't have to register as RIAs and act as fiduciaries because advice is solely incidental to some kind of sale?

For that matter, how can Congress, just nine years removed from Wall Street very

nearly bringing down the global economy, eagerly start dismantling the protections built into the Dodd-Frank Act? Or, with the stain of the Wells Fargo fake account scandal still fresh in everyone's minds, how can they threaten to dismantle the new consumer protection agency that uncovered the problem and prevented it from metastasizing?

If I am, indeed, trapped in Bizarro World, then maybe I need to just swing with it. Let me offer some suggestions.

LET'S REMOVE THE RESTRICTIONS

One of the biggest conflicts of interest in the brokerage world is flash trading and other kinds of trading for their own accounts, where any dog stocks the company doesn't feel comfortable owning is recommended by reps to their customers as excellent investment opportunities.

So let's remove the restrictions and encourage wirehouses to do more of it.

When FINRA changed its name from the accurately descriptive "National Association of Securities Dealers" to the "Financial Industry Regulatory Authority," many of us suspected that they had a pretty obvious agenda.

The brokerage industry self-regulatory organization wanted to position itself as a regulator of everybody, including all fee-only fiduciaries, so it could impose a thousand paperwork-related obstacles to their business health and eventually put this silly idea of working for the customer to rest for good. So

If I am, indeed, trapped in Bizarro World, then maybe I need to just swing with it.

let's appoint a credulous new SEC chair who will enthusiastically get behind the push.

Brokerage firms have been caught lying about their interest rates to manipulate the LIBOR rate for their own profit, have engaged in unfair practices by charging for credit card-related services they never provided, facilitated drug and terrorist money laundering and created derivative investments they knew were going to fail, sold them to their customers and then bet against them for their own accounts.

So let's remove all Wall Street regulations and appoint Wall Street executives to key decision-making posts in Washington.

Planners have embraced a fiduciary relationship with clients by acquiring the expertise to give professional advice.

So let's replace the CFP curriculum with two weeks of cold-calling training.

Advisers add considerable value by helping clients avoid emotional investment decisions during market trauma or euphoria.

So let's all start following the advice of market timing gurus who make outlandish claims of being able to see into the future.

'HARMONIZATION'

The Department of Labor fiduciary rule was six years in the making, after collecting many thousands of comments from all interested parties, and finally started the process of normalizing the standards for giving advice to qualified plans and private accounts.

So let's tear it up and throw it away.

Many surveys, including one commissioned by the SEC, have found that consumers are confused about whether brokers, fiduciary planners, dually registered reps or insurance agents are working in their best interests or just listening politely and then pulling their sales agenda out of a briefcase.

So instead of helping to make those distinctions clearer, let's just throw in the regulatory towel and treat sales agents and fiduciary professionals equally, and call it "harmonization."

The sales agenda and Wall Street revenue model seems to be enormously more profitable than the professional one, based on the

bonus pools and fancy headquarters. This would seem to be an obvious clue as to which model is more beneficial to consumers.

So let's create a political system where those who have the most lobbying dollars to spend can buy the chance to write regulations around financial services.

LOCKING OUT ACCESS

Meanwhile, millions of young consumers are entering their earning years with no training in budgeting, investing and consumer finance, and would greatly benefit from professional advice.

So let's lock them out of access to fiduciary planners by setting a policy of only working with people who meet minimum liquid portfolio sizes more often associated with an unusually successful pre-retiree.

The reader can decide whether my Bizarro recommendations are actually being followed. Maybe we should be encouraged that some of these things aren't happening yet. (The CFP Board, I have it on good authority, is not planning to institute cold-calling training as a core part of the CFP curriculum.) But as I look at the decisions we're making as a society, I find it hard not to see that the trend is clearly in the Bizarro direction.

A small fiduciary core of advisers is trying to create a real profession out of financial advice. Unlike all the self-interested lobbying we see in Washington, this idealistic cohort is trying to bring about regulation and standards that benefit clients.

In a rational world, people would banish all campaign contribution influences, require sales agents to disclose their agendas, protect the public with brief principles-based regulations rather than thousands of pages of rules, make planning advice available to all and be permanently suspicious of any organization that manufactures investments it knows are destined to fail. In that happy place, lobbyists who argue on behalf of the general public would be heard more loudly and clearly than those who leave bags of money behind when they finish making their pitch.

I wish I lived in that world.

FP

Let's create a political system where those who have the most lobbying dollars to spend can buy the chance to write regulations around financial services.

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.



IN PRACTICE **FOSS**

Don't Be Afraid to Disappoint

Advisers need to help clients learn to say “no” to those who are using family ties as leverage for financial abuse, Kimberly Foss says.

WE'VE SEEN IT SO OFTEN ON TV AND in movies that it has almost become a cliché: the millennial who has graduated from college but is still living in his parents' basement. We roll our eyes and tell ourselves that there's no way we would ever let one of our kids sponge off us when they are perfectly capable of supporting themselves.

And yet, all too often, the above scenario comes home to roost. A colleague of mine told me of a client who requested a Monte Carlo simulation on his parents' portfolio, under management at the same firm, “just to make sure that, no matter what happens, Mom and Dad will be OK.” The planner obliged and reassured the concerned son that his parents had plenty of assets to assure a comfortable lifestyle for their probable lifespans.

But what my colleague didn't know was that his client had a gambling problem. Armed with the knowledge that his parents had more than ample assets, he convinced them to combine their annual gift exclusion and start giving him \$28,000 each year. He told them the money was going for items like a new roof for the house, a big remodel that his wife wanted, replacing a broken-down central heating and air conditioning system. You get the idea.

He was actually blowing the money on gambling and coming back to his parents each year for another handout.

One of my own clients wanted to give his

granddaughter money for college, and he could well afford to do so. During her freshman year, Grandpa regularly took his darling to lunch, where she would give him the scoop on how great college life was.

The second year started off the same way, but over time, Grandpa noticed that the conversations were less frequent and informative. The summer between her sophomore and junior years, she asked for an extra \$5,000 to cover the costs of a study-abroad program. The junior year started, and though Grandpa came through with the usual \$20,000, the communication from his granddaughter dwindled to practically nil.

By the time my client came to see me — \$65,000 later — he had some deep misgivings about what was going on: well-founded, as it turned out. We learned she had flunked out by the end of her sophomore year and was using her grandfather's money to support herself and the boyfriend she was now living with.

THE PROBLEM

These are not isolated cases. According to an analysis by the Pew Research Center, in 2015, a record 33% of adults age 18 to 34 were living with their parents, despite improvement in employment statistics for the same age group.

A previous study by the National Endowment for Financial Education indicated that 43% of U.S. parents providing financial sup-

By the time my client came to see me — \$65,000 later — he had some deep misgivings about what was going on.

port for adult children say they are doing so because they are “legitimately concerned with their child’s financial well-being.”

That last statistic is important, because according to the National Center on Elder Abuse, “Perpetrators are most likely to be adult children or spouses ... to have history of past or current substance abuse, to have mental or physical health problems ... to be unemployed or have financial problems, and to be experiencing major stress.”

On the regulatory side, more states are enacting legislation to require advisers to take action – including halting the disbursement of funds from client accounts and giving advisers immunity from civil prosecution – in order to protect older clients.

In 2016, Alabama, Indiana, and Vermont enacted such laws, joining Missouri, Washington, and Delaware. A similar statute went into effect in Louisiana on Jan. 1.

THE SOLUTION

The most important thing, of course, is the mantra basic to all financial advising: Know your client. Be familiar with your client’s situation, holdings, concerns, capabilities and goals for the future. The more we understand our clients and what they want to achieve, the better we can help them avoid pitfalls – including financial manipulation by family members.

As an adviser, I try to help my clients set boundaries, create accountability, and simply learn to say “no” to those who are using the powerful bond of family as leverage for financial abuse. I encourage them to consider five key questions:

1. Do you ever feel manipulated by this person but ignore your feelings?
2. Do you think you may be supporting someone simply because they are lazy?
3. Are you providing regular assistance to an able adult?
4. Are you convinced that he/she cannot handle life without “falling apart”?
5. Are you excusing someone’s behavior due to economic problems, stress or inability to find the “right” job?

If my clients answer “yes” to any of these questions, I advise them to do three things:

1. Stop enabling and start empowering. We’ve all heard the adage: “Give a person a fish and you feed her for a day; teach her to fish and you feed her for a lifetime.” I try to help my clients see that giving repeated handouts to those who are old enough to take care of themselves (giving them a fish) only enables destructive behavior.

On the other hand, encouraging – or demanding – that they start taking care of their responsibilities (teaching them to fish) is empowering.

In the previous case of the grandfather, I helped him set expectations with his younger grandchildren that certain goals and requirements had to be met before any college money changed hands. We also began making payments directly to the institution – college registrar, apartment manager, etc. – rather than giving the kids cash upfront, with no accountability. The key here is that real need creates real motivation, and accountability should not be too much to ask.

2. Stop helping those who won’t help themselves. Let’s face it: actions speak louder than words. If all your client hears from someone are excuses about why they can’t succeed without a handout, you should advise your client to start suspecting a lack of motivation.

If they don’t have enough personal responsibility to figure things out for themselves, you need to help your client see that they aren’t doing them any long-term favors by opening their wallet.

3. Get some outside help and support. Help your clients understand that they don’t have to go it alone and that often a more impartial adviser can see things they can’t. If they feel guilty telling someone “no,” offer to say it for them. Sometimes, the only way habitual dependents will ever learn to stand on their own two feet is if someone cares enough to say, “No more.”

You can help your clients offer the tough love their family member may need. **FP**

The more we understand our clients and what they want to achieve, the better we can help them avoid pitfalls.

Kimberly Foss, CFP, CPWA, is a *Financial Planning* columnist and the founder and president of Empyryon Wealth Management in Roseville, California, and New York. Follow her on Twitter at @KimberlyFossCFP.



PRACTICE CONSULTANT **KAUTT**

Sales Shouldn't Be Demonized

CFPs who can sell business services to others are in demand. Candidates should consider an education in professional sales, Glenn G. Kautt says.

WHY ARE SOME NEW PLANNERS HAVING trouble finding a suitable job, even when there is a need for advisers at many firms?

I've had entry-level CFPs tell me they can't find a position that allows them to use all of their newfound talents and skills.

Yet their experience flies in the face of industry surveys that report a shortage of qualified planners — that is, those with real-world client experience who are right for existing or upcoming openings.

If there are truly few real professional jobs open to entry-level planners, why do these conditions exist? The reason is straightforward: There's growing demand for those with strong business development skills. Put another way, the primary demand is for CFPs who can sell business services to others, rather than those trained to analyze data and write financial plans.

This apparent dilemma results from a failure of professional educational programs to prepare new planners for the realities of working in a small business.

THE SELLING STIGMA

Firms that use merit systems of reward for business development know CFP courses or college educations don't provide training or experience in business building.

Courses such as finance, marketing, advertising or even organizational management are tangential to skills needed to develop individual personal connections,

give effective counsel, convince clients to buy services and grow new relationships.

Facing this issue, growth-minded firms must close the training and skill gap between newly minted and experienced business-developer CFPs.

Unfortunately, there is a stigma attached to selling in professional firms. We all know selling products in professions such as medicine, law, accounting or financial services can put a strain on a fiduciary relationship.

SCHOOL DAZE

However, business development uses sophisticated selling skills and techniques and training to identify opportunities, communicate valuable services, negotiate complex situations, and help clients make important and deeply emotional decisions.

This is not synonymous with the old-school model of product selling.

Today, aggressive business development at firms that put fiduciary responsibilities first does not negatively impact the fiduciary relationship. Rather, advisers with professional selling skills are absolutely essential to growth-oriented firms.

Until recently, most colleges and graduate business schools didn't teach sales, because they couldn't add much to the skills necessary for success. This has changed as businesses have become more competitive.

"While price, quality ... and availability of products and services certainly influ-

Advisers with professional selling skills are absolutely essential to growth-oriented firms.

ence customers' buying decisions, none of these is the most influential factor. Rather, business-to-business customers rank salesperson effectiveness as the most important factor in their buying decisions," wrote sales consulting firm Chally Group in their 2015 report, "Best Companies for Leaders."

Higher education has responded. The Sales Education Foundation's 2016 report on "Top U.S. Universities for Professional Sales Education" noted more than 100 schools with thousands of students. There are more than a dozen high-level programs, such as the Center for Sales Leadership established by DePaul University, with more than 900 students.

Is formal training working?

Professor Richard Rocco of DePaul University, in his report "2015-2016 Sales Effectiveness – Sales Acceleration Survey," which covered small-to-medium businesses, found the use of sales enhancement/acceleration technology and services created statistically significant changes in sales metrics, including sales growth of 35% over the prior year in the 127 firms that completed the survey.

However, the same report states turnover rates of nearly 27%, and Rocco notes "... Sales organizations continue to need to develop more effective methods designed to secure and retain sales talent. The high annual turnover ... is costly for firms."

The report mentions only 25% of the sales force exceeded quotas. Of the staff turnover, 50% voluntarily resigned, 33% were dismissed and 22% retired.

MERITS AND DEMERITS

Being successful in business development in the financial services industry is hard work. In a planning firm I helped start in 1988, only four out of 13 – or about 31% – of founding professionals hit or exceeded their targets each year.

It is telling that only those four remain active in the industry today. Fortunately, new hires with undergraduate degrees in sales, including internships, are only half as likely to voluntarily resign from their jobs as those with no prior training.

This is good news for small firms that expend considerable energy to hire new advisers. Ninety percent of advisory firms have less than 10 employees with limited spare time or resources, so most new CFP hires only receive training to operate existing programs or follow current procedures.

They are expected to already know how to gather information, analyze data and develop a financial plan. They are not trained on goal setting, communication, or non-verbal and people skills.

Even so, many new hires who want immediate experience with clients find themselves over their heads because, in a small merit-based organization, they also must develop new client relationships. If new CFP hires can't develop business and, as a result, become frustrated, many will leave rather than learn professional sales skills.

MONITOR AND MENTOR

At my firm, Savant Capital Management, which offers advisers salaries as well as potentially significant compensation from team bonuses and individual business development, every adviser is regularly involved in sales and technical training.

For example, Gallup's StrengthsFinder program helps advisers utilize their natural strengths. Every adviser has a designated supervisor for monthly goal monitoring and mentoring. Business efforts such as prospective client identification, center of influence activity and prospect pipeline activity are reported electronically and used for mentoring, monitoring and future goal setting.

One of Savant's senior advisers, Cal Brown, says this about monitoring goals: "If you don't know what you're doing, your high-impact activities will get crowded out and you won't like where you end up!"

A CFP candidate considering a career as a client-facing adviser should consider a well-rounded college or graduate school education in professional sales.

If you've already graduated, consider enrolling in one of the many fine comprehensive sales training programs run by private companies.

If new CFP hires can't develop business and, as a result, become frustrated, many will leave rather than learn professional sales skills.

FP

Glenn G. Kautt CFP, EA, is a *Financial Planning* columnist, and an adviser and principal of Rockford, Illinois-based Savant Capital Management.

When Couples Need Financial Therapists

It's well known that money is one of the topics that couples fight about most. Increasingly, a new kind of financial advisor is helping couples deal with issues that bridge the interpersonal and financial spheres, according to Dr. Kristy Archuleta, a Hartford Funds Human-Centric Insights Panelist, Program Director of Personal Financial Planning at Kansas State University and a past President of the Financial Therapy Association.

How common is it that couples who see a financial advisor have relationship issues that interfere with their financial planning?

My experience indicates that about one-third of couples who see a financial professional report having marital issues, and research has shown that about one-third of couples who see a marriage therapist report financial problems. So what that tells us is that couples may be confused when they are seeing a professional—whether it's a financial advisor or a therapist—about what their underlying problem is.

There is this third type of professional—neither a financial advisor nor a relationship therapist, but a financial therapist. What do they do that is different from the other two roles? Traditionally, mental health professionals have zero training about money issues. It's not taught at all when studying to become a therapist. Likewise, financial advisors receive little to no training in interpersonal communications. A financial therapist brings these two disciplines together because they have training in both. A financial therapist is someone who integrates the whole person. By calling on the expertise of a therapist, a financial advisor can help couples solve their underlying communications issues, so that the advisor can help them solve their money issues.

Are there limits on what a financial therapist can do for clients?

Yes. They can't make financial decisions for clients who are compromised. For instance, you can't ethically treat someone's depression and also make investments for them. But you can help them move down the road toward better financial planning.

How can financial advisors identify couples who could benefit from speaking to a financial therapist?

THERE ARE FOUR THINGS THEY SHOULD LOOK FOR:

- 1 The couple argues, but never resolves the issue. All couples argue, but it's worrisome when issues are never resolved, or when the way the couple argues is destructive to one another.
- 2 Only one partner contributes to the planning process. This could be a sign of a power and control dynamic in which one partner controls the other by not allowing them to participate.
- 3 The couple plays the blame game. When partners blame each other, they often fail to look at their own contributions to the problem, and what they can do differently in order to help resolve the issue.
- 4 One or both partners display uncontrollable worry, fear, anxiety or depressive symptoms around money

How can financial advisors and a financial therapist for clients?

The Financial Therapy Association [FinancialTherapyAssociation.org], of which I'm a past President, has a nationwide network of providers who refer to themselves as financial therapists. FAs should also reach out to relationship therapists in their community, so they can be prepared to make a recommendation to someone they trust.

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To learn more about investor psychology and how financial advisors can better communicate with their clients, go to the Hartford Funds' [HumanCentricInvesting.com](https://www.hartfordinvesting.com)



Human-centric investing means understanding the behaviors, motivations and eccentricities of your clients, not just the market.

Welcome to the Hartford Funds network of financial relationship experts

At Hartford Funds, we believe in something we call human-centric investing, an approach that seeks a deeper understanding of investors and how emotions, experiences, life-stage and psychology affect their views of investing and financial advisors.

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Dr. Barbara Nusbaum

Clinical Psychologist, Ph.D., expert and speaker, specializing in the intersection of money, psychology and life.

She has appeared as an expert for *CBS News*, *Forbes*, *The Wall Street Journal*, *Bloomberg*, *Money Magazine*, *Daily Worth* and *The New York Times*.



Dr. Kristy Archuleta

Program Director of Personal Financial Planning at Kansas State University

Dr. Archuleta's research relates to the area of financial therapy and include dyadic processes influencing financial and marital satisfaction.



Dr. Vicki Bogan

Professor and Director of the Institute for Behavioral and Household Finance (IBHF) at Cornell University

The mission of the IBHF is research and education in the areas of behavioral finance and household finance with the goal of better understanding and modeling financial behavior.



Tim Sanders

Author and expert on motivation, emotional talent and sales innovation

Tim is the author of five books including the *New York Times* bestseller *Love Is the Killer App: How to win Business & Influence Friends*. Tim was the Chief Solutions Officer for Yahoo, as well as their Leadership Coach.



Gail Blanke

Celebrated motivational speaker, renowned personal life and executive coach and best selling author, whose vision is to empower women worldwide to lead exceptional lives.

She has appeared on *The Today Show*, *Oprah*, *CBS* and *CNN*.

HARTFORDFUNDS

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Shaping the Future of Advice

Embracing fiduciary standards, managing client risk and integrating technology are essential steps for every RIA to undertake.

BY MITCHELL H. CAPLAN

THE NEW ADMINISTRATION IN WASHINGTON HAS brought a focus on deregulation across all industries, including financial services.

Lawmakers are likely to continue the debate on the Department of Labor's fiduciary rule, as advocates endorse the benefits to consumers, while opponents look to revise certain provisions or repeal the ruling entirely.

Regardless of the fiduciary rule's status, there is already a strong secular trend moving in this direction across all areas of financial services — and it continues to accelerate as the advisory industry has been moving from commission-based sales to fee-based and fee-only advice.

According to Cerulli, AUM managed by RIAs and fee-based advisers will increase more than 60% from \$4.1 trillion in 2015 to \$6.6 trillion in 2019, and RIA and fee-based adviser head count will expand from 59,000 to 67,000.

GOOD FOR BUSINESS

A growing number of advisers recognize that putting clients' best interests first is not only the right thing to do — it is also good for their business.

Numerous industry studies have shown that the most profitable and highest growth firms are those that adopt a fee-based model.

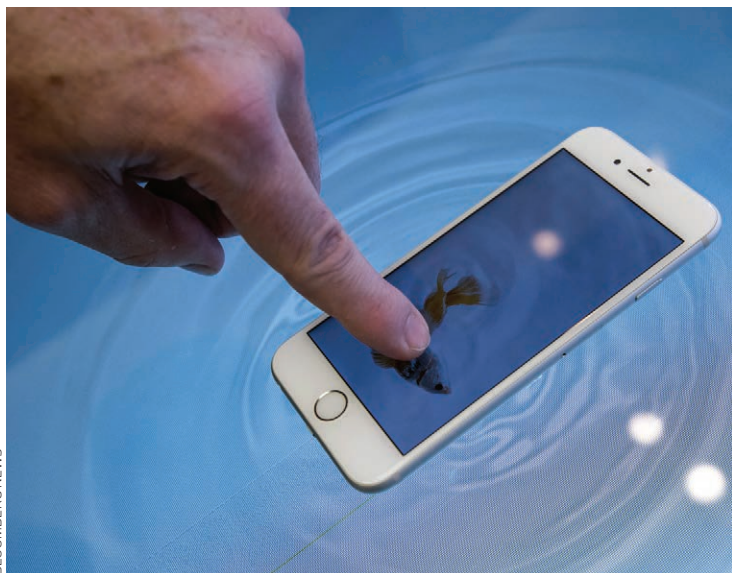
Likewise, Jefferson National's most recent Advisor Authority study of more than 1,300 RIAs, fee-based advisers and individual investors nationwide show that the most successful advisers are more likely to serve clients using a fee-based fiduciary standard.

CONCERNS: VOLATILITY, INSTABILITY

The study also shows that a fee-based fiduciary standard is among the top three reasons investors choose to work with an adviser. Educated consumers expect it — and demand it.

Ultimately, what adviser does not want to be seen as putting their clients' best interests first?

The new administration has also inherited an economy



that is the strongest in years and shows positive momentum. Unemployment is down, while GDP, wages and household income are moving up. Many economists project that these trends will continue.

But there are also concerns. RIAs and fee-based advisers cited ongoing volatility, global instability and rising interest rates among the macro issues adversely impacting client's portfolios, according to our study.

CONSIDERING THE ALTERNATIVES

As Washington moves to renegotiate trade deals, impose higher tariffs, and enforce other political and regulatory changes, it will likely take time to achieve equilibrium with partners abroad.

Likewise, now that the Fed has signaled a return to higher interest rates, advisers and their clients can expect challenges for the foreseeable future when investing in fixed income, and they can also expect to

see increases in the cost of borrowing, refinancing and servicing debt. Beyond these macro risks, advisers must also manage the investment risks within clients' portfolios.

In a market where all asset classes have become increasingly correlated, alternatives can also provide a unique source of returns and risk to clients' portfolios, and can significantly enhance diversification. Liquid alternatives offer many of the same characteristics of hedge funds, and use the same nontraditional investing strategies, while also providing daily liquidity, lower fees, and greater transparency.

INTEGRATING RISK MANAGEMENT

An integrated and systematic approach is imperative for you to identify and manage these macro risks and investment risks. It begins when you determine a client's tolerance for risk. Then regularly identify any hidden investment risks within their fund holdings.

Finally you must continuously assess and address macro developments in a rapidly changing and increasingly interconnected global economy.

The most successful advisers will be both proactive and reactive in their approach to integrate risk management with financial planning services.

THE TECH-ENABLED ADVISER

The most successful advisers invest more in technology – and use twice as much technology – when compared to the typical adviser, according to Jefferson National's Advisor Authority study.

These advisers are using technology to refine their practice, enhance investing and advising capabilities, and ultimately serve clients more efficiently and more profitably at every point in the relationship.

They can create a more seamless end-to-end customer experience, and provide more holistic advice, rather than focusing on one-off objectives.

At the same time, these advisers can also

use technology to serve their client's best interest and maintain a fiduciary standard, by providing greater transparency, lower costs and more choice.

It begins on the front end by offering a simple and transparent interface to give clients instant access from any device. It facilitates effective real-time communications and transactions across any channel.

On the back end, it leverages functionality to create a fully-integrated wealth management platform, to aggregate and manage all of a client's holdings, across taxable and tax-deferred investments, other held-away accounts, and a broader range of their assets and liabilities.

And rather than being replaced by a robo adviser, technology-enabled advisers use robos as a low-cost automated tool for portfolio allocations, as part of this fully-integrated platform.

TAKE CONTROL

While some factors may be out of our hands, you and your clients will benefit if you take control of what you can.

Start by re-tooling your practice to recognize these three long-term secular trends that are shaping the future of advising, planning and financial technology.

First, take a more holistic approach to planning and put your clients first because fiduciary is here to stay.

Second, make sure you have proactive and reactive strategies in place to fully integrate risk management into your financial planning process. Third, leverage innovative technology to minimize costs and maximize profitability, while serving clients' best interests through increased transparency and more choice.

The greatest opportunities – and the greatest success – often come from the greatest challenges. In times of challenge and change, have your strategy, stay the course and focus on the long term so you can build more wealth for your clients and build a more durable practice.

FP

Take a more holistic approach to planning and putting your clients first because fiduciary is here to stay.

Mitchell H. Caplan is CEO of Jefferson National, now operating as Nationwide advisory solutions business. Follow him on Twitter at @MitchellHCaplan.

A New Driving Force in RIA M&A

Large firms backed by corporate parents are swooping in on smaller advisers, dominating the most active buyer category.

BY CHARLES PAIKERT

A HERETOFORE SLEEPY NICHE HAS EMERGED AS A driving force in the RIA M&A market. Subacquisitions, the purchase of a smaller RIA by a larger firm that itself had been previously acquired, have nearly quadrupled since 2014 and now comprise 22% of all M&A transactions by established RIAs, according to DeVoe & Co.'s latest industry report.

"RIAs who are affiliated with consolidators and private equity are taking advantage of the capital and M&A expertise now at their disposal that they didn't have before," says David DeVoe, managing partner and founder of the San Francisco-based consulting, research and transition planning firm. "They're now able to do deals with firms that have between \$100 million and \$300 million in AUM and the results are just starting to show up in the numbers."

DeVoe recorded 19 subacquisition deals last year, which accounted for 12% of all M&A transactions (including break-aways), but only four subacquisition deals in 2013, which covered just 7% of all transactions.

GETTING IN THE GAME

"Subacquisitions have become an important extension of many consolidators' M&A strategies," the report states, "enabling the parent to accelerate growth while engaging a segment of the market that otherwise would not have been an efficient use of time."

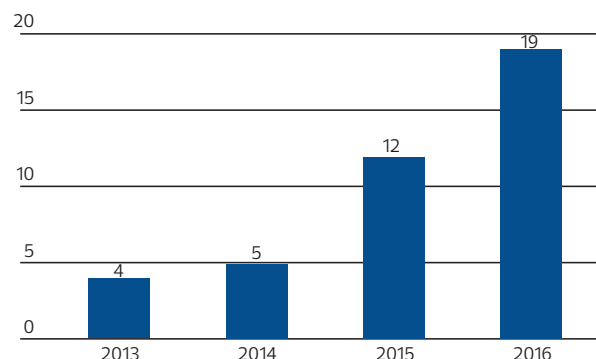
Two of the most prominent firms using subacquisitions have been Colony Group and Buckingham Asset Management, both affiliated with Focus Financial Partners. Buckingham has made 14 deals in the past three years and Colony has completed five transactions since 2012.

"Strategic transactions have been an important part of our growth," says Michael Nathanson, Colony's president and CEO. "Each has been a means to add substantial talent to complement our team."

RIAs backed by private equity capital have also been

Spike in Acquisitions

M&A deals by newly purchased firms have quadrupled since 2013.



Source: DeVoe & Co. RIA Deal Book

active in the subacquisition market, DeVoe noted. RIAs have dominated as the most active buyer category last year, acquiring 50% of established RIAs that were sold. Consolidators accounted for 24% of established RIAs sales, a steep decline from the 45% of deals they transacted in 2014.

Total M&A transactions reached a record-setting 142 last year, according to the DeVoe report, up from 132 in 2015.

Sales of large RIAs with AUM over \$1 billion were particularly strong, according to the report, driving the average AUM of established RIA sellers past the billion dollar mark for the first time. Barring a 2008-like crash, DeVoe sees the record-setting pace of the RIA M&A market continuing, although he cautions that if the number of potential sellers increases dramatically, there are "not enough buyers to absorb the supply."

Nonetheless, the report predicts that RIA M&A activity will continue to increase and "could potentially accelerate dramatically during the next five to seven years." **FP**

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

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Estate Planning — Now, or Wait?

There's no point in postponing strategies that are protective and vital, no matter what the ultimate tax policies may be.

BY MARTIN M. SHENKMAN

ADVISERS MAY BE WONDERING HOW THEY CAN guide clients on estate planning when the country is still awaiting potentially significant changes to U.S. tax policy from President Trump.

Should they wait to discuss such planning with clients until there is a more-definitive policy?

The answer to that is a resounding no. A large component of estate planning involves transferring assets to irrevocable trusts.

This offers a number of non-tax-related benefits, including asset protection, divorce protection and management structure for potential future disability.

There's no point in waiting on new tax laws to implement planning that is protective and vital no matter what the ultimate platform may be. Clients need advisers to help them focus on the importance of planning for their futures, instead of being transfixed by the ever-evolving tax debate in Washington.

BETTER TO GO FORWARD

And it may actually be better to go forward with tax planning before changes in policy are made, anyhow.

For one, many tax commentators do not believe that estate tax repeal will come without a sunset provision (for example, in 10 years the taxes will come back into force). Or, even if it does, a future administration may choose to reinstate them.

If Congress and Trump decide to repeal the generation-skipping transfer tax, it may be impossible to thereafter shift assets outside of the transfer tax system, as there may be no tax system to shift out of.

That might leave clients unable to move assets permanently outside the tax system ("GST exempt" in current jargon) until the estate tax rules are reinstated at some future date.

PLAN TODAY, NOT TOMORROW

If you can succeed in convincing clients to plan today instead of in a potentially more uncertain or challenging tomorrow, what should they do differently in using trusts now?

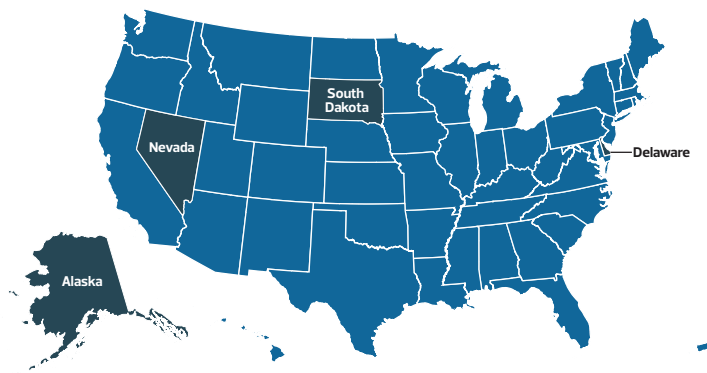
Here's a checklist of ideas to put on the planning table with your clients:

Flexibility is the key. Clients should use trusts that are flexible given the uncertainties and variability in what may occur with the tax laws.

Consider trust-friendly jurisdictions instead of the client's home state. Four states in particular — Alaska, Delaware, Nevada and South Dakota — appear to have led the charge for creating tax and legal environments that are conducive to trusts.

4 States With Tax Environments Conducive to Trusts

Alaska, Delaware, Nevada and South Dakota may move quickly if significant changes in policies occur.





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This move is important now, because if significant changes in policy are made, these states may react quickly with new laws. Many other states might not follow for a decade or longer.

Use trust protectors. A protector is generally an independent person (not a beneficiary or trustee) who acts in a fiduciary capacity and is given powers to remove and replace the trustee, change the situs (where the trust is administered) and governing law of the trust, and wield other powers.

This position is relatively new in terms of U.S. trust planning. However, it is a great means of adding additional flexibility to an estate plan.

Be certain the client may benefit from the trust assets. Unless there is a personal, legal or tax reason otherwise, make a spouse the beneficiary, so the client can indirectly benefit through the spouse receiving distributions from the trust.

Even if the client is not currently married, the trust can add the right of a future spouse to be a beneficiary. In some circumstances, a floating spouse can be added – whomever the client is married to at any time will be a beneficiary.

For single clients, or clients who are worried about only being able to access trust assets through a spouse, create a domestic asset protection trust. This is a trust, formed in one of the 17 states that permit them, in which the assets are outside the client's estate but the client can nonetheless remain a beneficiary. If the adviser team is too concerned about the risks of a DAPT, use a hybrid DAPT.

This is a trust formed in one of those same states that does not immediately list the client as a beneficiary of her own trust but which instead gives a person, acting in a non-fiduciary capacity, the power to add any descendant of the client's grandparents as a beneficiary.

Consider a loan provision that gives a person, not acting as a fiduciary, the right to loan trust assets to the client who created the trust. While adequate interest

should be charged, adequate security for the loan should not be required.

This is a power that has been used historically to make a trust a grantor trust (taxable to the client/grantor).

In recent years, this power has fallen into disuse as swap power (the right to swap assets outside of the trust for assets in the trust of equivalent value) became the default technique to establish grantor trust status.

The loan provision, however, can be added not because it is needed to create grantor trust status, but to provide another way for a client to access trust assets without making them reachable by creditors or causing estate tax inclusion.

Most or all trusts should be set up to be grantor trusts. This means that trust income is taxable to the grantor.

The most common provision used to achieve this status is the previously mentioned swap power.

Under current law, this power can permit the client/settlor to swap assets from her personal name into the trust, in exchange for assets of equivalent value.

This can be used to pull highly appreciated assets out of an irrevocable trust so they are included in the client's estate on death, and can achieve a step-up or increase in income tax basis. This means the basis on which capital gains is calculated is reset to fair value, thus eliminating capital gains on a later sale.

If the Trump administration enacts capital gains on death tax, this same swap power may be used in reverse to swap appreciated assets from a client's estate, where they would be subject to a capital gains tax on death, into an irrevocable trust, where they might avoid that gain.

This flexibility is another reason to plan now and not wait.

The tax law is uncertain, but estate planning should proceed as always. And if that planning is done with creativity and flexibility, clients should benefit no matter what the final tax policy may be.

It may actually be better to go forward with tax planning before changes in policy are made .

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Martin M. Shenkman, CPA, PFS, JD, is a *Financial Planning* contributing writer and an estate planner in Fort Lee, New Jersey. He runs laweasy.com, a free legal website.



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"Everybody wants to know the next step. They want to know where they're going, what's expected of them and what the consequences are. We want to take as much uncertainty as we can out of the process," says Wescott Financial Advisory Group CEO Grant Rawdin.

NEW BALANCE

Career paths are now a critical component of compensation strategies. BY CHARLES PAIKERT

When it comes to compensation, it's not just about the money. Really.

To be sure, client assets and revenue are the lifeblood of the financial advisory business, and advisers who can boost those metrics for their firms continue to be rewarded considerably beyond their base salary.

But in an industry where demand for high-quality advisers far outstrips supply, competition to attract and retain top talent

is fierce. As a result, RIAs are increasingly making a delineated career path with established performance goals critical elements of their overall compensation strategy.

"Having a well-defined career path is becoming a really big deal," says David Canter, the newly named head of Fidelity Clearing & Custody Solutions' RIA segment. "There is a war for talent out there among RIAs, and firms are looking at the whole compensation package, like a master apprentice model approach, with an emphasis on teamwork, and not just formulas based on numbers."

Grant Rawdin, CEO of Wescott Financial Advisory Group, a Philadelphia-based RIA with around \$2 billion in assets under management, agrees wholeheartedly.

Rawdin's fascination with building a business began with the lingerie company his grandfather ran in Brooklyn, New York.

Observing how his grandfather managed to keep employees happy, dedicated and loyal had captivated Rawdin as a child, and set the stage for his attention to business practices such as innovative compensation approaches.

"I knew early on that I wanted to be a lawyer or business owner," he says. "My grandfather would take my three siblings and me to Woolworth's and give us a spending allowance. They would get toys. I went to the stationery section and got desk supplies."

Another family enterprise further fed Rawdin's passion for law and business, and it also sparked an interest in planning. A part-time job at his uncle's Manhattan law firm from age 9 into high school led to a full-time job at Philadelphia law firm Duane Morris.

He attended Temple University and later Temple Law at night, and was introduced to financial and tax planning at his day job.

FULFILLING A DREAM

After graduating, Rawdin wanted to fulfill his dream of owning a business while at the same time being able to "solve problems and be impactful in people's lives."

Duane Morris staked him to launch Wescott Financial in 1987. He became a CFP and, over three decades, a rapid series of changes in the marketplace underscored his determination to be innovative and "creatively strategic." That philosophy begins, he adds, by "surrounding yourself with similarly passionate people."

But to find those kinds of employees — and keep them — Rawdin realized he needed to give advisers a career road map as part of their compensation package.

"Everybody wants to know the next step," says Rawdin, the firm's CEO. "They want to know where they're going, what's expected of them and what the consequences are."

"WE ARE FAR MORE SKEWED TOWARD COLLECTIVE ACTIVITY-BASED OBJECTIVES THAN WE ARE TOWARD REVENUE-BASED OBJECTIVES," SAYS BUCK OLSEN, CEO OF FOSTER GROUP.

We want to take as much uncertainty as we can out of the process."

ADVISER AS BUSINESS UNIT

As a result, Wescott advisers have two reviews a year; performance goals are posted online.

A key concept for the firm is an adviser profitability analysis that treats advisers as independent business units.

Wescott calculates an adviser net profit by subtracting overhead, salaries and direct client sales cost from the revenue that the adviser's clients generate. While an adviser's profitability margin is a factor that determines compensation, Rawdin insists that advisers are not penalized if their profit margins decline.

"We use the analysis as a tool to make client reassignments," he says. "The onus is on us to reconfigure the business optimally by assigning new clients to the right advisers and, if we need to, reassign clients to advisers who may be better suited to work with them."

Human resource studies are underscoring the need for incorporating internal teamwork and defined career paths into compensation and reten-

tion strategies: A recent CareerBuilder report found that 21% of U.S. employees were planning to change jobs in the next year, while a recent Gartner study showed employees with mentors are likely to be promoted five times faster than those without.

RIAs must also manage the impact of baby boomer decumulation on assets under management, so finding

new ways to boost revenue is particularly important.

That's why experience, client relationships and professional designations are other key markers on a Wescott advisers' career road map. [See "Details of a Successful Compensation Strategy" chart.]

A full-fledged adviser, for example, must have a CFP certification or be working toward an advanced degree, four years' experience at Wescott or an equivalent firm, as well as 20 primary client relationships, 20 secondary relationships and 10 peer-reviewed portfolios.

An adviser who is at this level earns a salary ranging from around \$70,000 to \$100,000; salaries for senior financial advisers can range from around \$100,000 to \$200,000, Rawdin says.

PERFORMANCE GOALS

Bonuses for all advisers are based on a review of a series of performance and personal goals, including civic engagement, subject matter expertise, public speaking and support of corporate initiatives.

But Wescott also stresses team goals as a component of compensation. All advisers are assigned to Wescott

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Improvement Teams, where mentorship, cooperation and improvements within the firm are noted as being of great importance.

"Performance reviews are subjective; measuring against defined standards is objective," Rawdin says.

"Nobody is in competition with each other," he says. "The teams give advisers responsibility and the opportunity to be leaders in specialized areas of expertise. We want to make sure team members provide value and are valued for it."

FIRM AS 'TEACHING HOSPITAL'

Compensation and career development strategy at St. Louis-based Buckingham Strategic Wealth also emphasize teamwork and learning new skills.

"We make it clear in our adviser development guidelines that we view the firm as a teaching hospital," says CEO Adam Birenbaum, an attorney by trade who exemplifies a growing trend among large RIAs (Buckingham has over \$10 billion in AUM) to be guided by professional managers who

opment," Birenbaum says.

"We make it clear we're not a sales organization," he adds. "We're a service and expertise culture."

Associate advisers at Buckingham are paid by salary alone, but incentive compensation is available to both wealth advisers and the firm's senior leadership.

Growth metrics are set by teams themselves, Birenbaum says. "Instead of saying you have to grow by X, Y or Z, teams are asked to build their own growth plan for the year and each team is different," he explains. "We shy away from the eat-what-you-kill model."

VISIONARY VISION STATEMENT

Two years ago, Foster Group, an RIA based in West Des Moines, Iowa, with around \$1.5 billion in AUM, decided that its vision statement had to "clearly define the advisory career path" and show how advisers could develop a plan to "accelerate professionally in a way that enhances the client experience and our ability to develop top talent."

"WE MAKE IT CLEAR WE VIEW THE FIRM AS A TEACHING HOSPITAL," SAYS BUCKINGHAM CEO ADAM BIRENBAUM.

are not necessarily advisers.

"We focus more on well-rounded development of advisers and keeping clients, not just business development and bringing in the next client," says the firm's chief talent officer, Shannon O'Toole Kuhlman.

In addition to mastering investment strategy and advanced planning and receiving a credential like a CFP designation, advisers who want to advance at Buckingham "have to be able to lead a team and be committed to self-development and client devel-

The process began, logically enough, with hiring, says the firm's director of service, Kate Juelfs. "We wanted to take the guesswork out as much as possible and make it a defined process," Juelfs says.

VALUE OF A 'VALUES INTERVIEW'

Every hire comes through a referral, special emphasis is put on integrating with the firm's culture and hiring is capped by a "values interview" with Foster's CEO, Buck Olsen.

New advisers are given two tests to

assess their work style and strengths "to help us indicate how people will integrate into teams and where they will gravitate," Juelfs says.

Once the assessments are completed, a "personalized career path is created for each adviser," Olsen says. "They own it and we invest in it."

Rookie advisers then start 12 weeks of training, begin studying for their Series 65 certification and enroll in a CFP program.

They are assigned to teams where lead advisers are told to give young associates "as many at bats in front of clients as they can," Juelfs says.

Individual goals that determine compensation and career advancement include metrics related to revenue, AUM, business development, and client and asset retention.

But teamwork and collaborative skills are also taken into account during performance reviews that determine compensation, Olsen says.

"We are far more skewed toward collective activity-based objectives than we are toward revenue-based objectives," he says.

REVENUE ISN'T A DIRTY WORD

At Cornerstone Wealth, an RIA in suburban Charlotte, North Carolina, with around \$600,000 in AUM, revenue is not a dirty word when it comes to compensation and a career path to ultimate partnership.

Factors such as leadership qualities and being able to provide clients with a "comprehensive wealth management experience" are certainly quite important, says CEO Craig Rubrecht. But so are criteria such as bringing in new clients, net new assets, net new revenue and increasing the value of the firm, Rubrecht says.

"Everything has to be accretive," he explains. For example, the firm will pay a bonus of 10% of net new assets on top of a base salary.

Details of a Successful Compensation Strategy

Key elements of Wescott Financial Advisory Group's road map for career advancement.

Title	Degree/Credentials	Experience	Additional Criteria	Compensation
Associate Financial Adviser	CFP or advanced degree (JD, CFP, master's) and working toward CFP, CFP provisional	2 years Wescott experience or 2 years FA industry	5 primary client relationships, 15–20 secondary relationships with 30 reviewer relationships	Base + Bonus
Financial Adviser	CFP required; working toward advanced degree	4 years Wescott experience, 3 years of FA exp. w/JD, MBA or CPA, or 5 years FA exp.	20 primary client relationships, 20 secondary relationships and 10 reviewer relationships	Base + Bonus
Senior Financial Adviser	CFP required; advanced degree preferred	8 years of Wescott experience, 5 years of FA exp w/JD, MBA or CPA, or 7 years FA exp.	40–50 primary client relationships and management responsibilities. Present SME to clients/prospective and professional community. New clients and new assets goals.	Base + Bonus
Principal/Senior FA	CFP required; advanced degree preferred	Senior FA plus 2 years Wescott exp.	40–50 primary client relationships and management responsibilities. Present SME to clients/prospective and professional community. New clients and new assets goals.	Base + Tier 1 Bonus or Tier 2 Bonus (Profit Sharing)
Partner	CFP required; advanced degree preferred	Principal and substantial firm contribution	Full client or executive leadership. New clients and new assets goals.	Base + % of Firm Profits Equity and Non-Equity Partnership

Source: Wescott Financial Advisory Group

And to receive a bump in compensation as an adviser who increases productivity from \$400,000 to \$675,000, he or she must also generate a 5% increase in net new assets.

FOSTERING COLLABORATION

To help foster collaboration and teamwork, Rubrecht says, Cornerstone offers advisers who have been with the firm more than three years the opportunity to purchase shares at discounted rates.

The firm will issue advisers additional shares, he says, “based on the spread before the firm’s growth and personal growth.”

Beyond hitting pure financial targets, deciding who is on course for advancement in a firm is surely an imperfect science.

At Wescott Financial, for example, one former adviser, a lawyer, “would analyze prospective recommendations from every conceivable angle, and then was still certain she had missed something and wouldn’t make a decision,” Rawdin recalls. “This overthoroughness and lack of urgency was not something we could change, and served no one well.”

The adviser ended up returning to her law practice.

Not enough advisory firms are

defining career paths and emphasizing teamwork the way Wescott, Buckingham and Foster Group are, according to Canter.

However, he believes that will eventually change.

‘NOT THERE YET’

“We’re not there yet,” he says. “But firms who are growing and want to maximize scale and efficiency see that they can really serve clients better in a team-based fashion.

“And they can more effectively compete for talent by laying out a path for career development in conversations about compensation.” **FP**

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

Going Beyond AUM for Pay

Sometimes clients lack a substantial portfolio. If that's the case, planners can tread other paths to reach fair compensation.

BY DONALD JAY KORN

Not every client has ample assets to manage. Business owners, for instance, may have wealth, income and pressing needs for financial advice – but they also might have most of that wealth tied up in their company.

Other prime prospects could own illiquid assets rather than traded securities. Nevertheless, advisers can serve such individuals and their families while getting reasonable compensation for doing so. If collecting fees for handling assets under management isn't feasible, how can advisers be compensated?

"IF OUR ESTIMATES ARE OFF IN ONE YEAR, WE'LL ADJUST THE RETAINER ... UP OR DOWN," SAYS CASTLE WEALTH ADVISORS' GARY PITTSFORD.

"We work mainly with family business owners," says Gary Pittsford, CEO at Castle Wealth Advisors in Indianapolis. "Also, some clients' assets are largely investment property or stock options. In many of those cases, we get paid by a quarterly retainer."

This retainer, according to Pittsford, is based on how much time he expects his firm to spend with the client.

"Besides direct contact, we might be working with the client's attorney on a succession plan, discussing taxes with the client's accountant, reviewing real estate leases, and so on," he says. "We get paid for our efforts. If our estimates are off in one year, we'll adjust the retainer the following year, up or down."

Such fluctuations in the annual retainer are not uncommon.

"In the first year of working with a business owner, more time can be involved, to get the plan in place," Pittsford says. "Then less time may be needed, for years. Our hours

might pick up again in a year when we help plan for a sale of the company."

To determine the actual amount that the client ultimately will pay through quarterly retainers, Pittsford uses the number of hours worked and the hourly rates of the personnel involved.

"One of our senior people may spend 10 hours putting a draft report together," he says, "and I might spend three hours going over that report and making changes. The client would pay for 13 hours altogether, at two different billing rates."

Pittsford says clients readily accept such a payment approach, once it's explained. "They typically hate to pay commissions, but they're glad to pay consulting fees," he adds. "What's more, our fees usually are less than they're paying lawyers."

A similar experience is related by Jane King, president of Fairfield Financial Advisors in Wellesley, Massachusetts, who charges an annual flat fee to clients whose engagement calls for compensation beyond AUM. "I hope the flat fee will cover the amount of time and effort involved," she says.

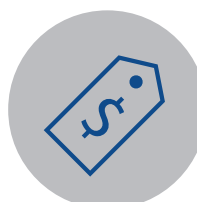
"If it turns out that I have underpriced this annual fee," King says, "I will try and renegotiate at the start of the next year. I communicate that I was wrong in the first fee quote

Key factors in setting adviser pricing

Consider these elements in relation to your client service model.



Value



Cost



Affordability

Source: Michael Kitces

and would like to come back with another proposal for continuing the project. Once I explain the situation to clients, they usually are amenable to changing the fee."

King also uses a flat fee when she is asked to act as a trustee of a portfolio for which she is not managing the money.

"Real estate is the main example," she says. "Sometimes we pay all the bills for the property; in other cases there is a renovation that we're overseeing from a financial standpoint.

"Flat fees are not a major part of our practice. Instead, they usually cover another responsibility that we take on in addition to managing the client's portfolio. We would not take on a flat fee project if that was all the client wanted us to do."

To calculate these flat fees, King doesn't have hourly rates in mind. "It's more a matter of estimating the

effort it will take for the people at the firm to perform the required tasks," she says. "We all talk it over before naming a number."

SETTING THE BAR HIGH

Planners who prefer not to be involved in such estimating and explaining are able to avoid these issues.

"We have a substantial minimum," says Janet Briaud, chief investment officer and partner at Briaud Financial Advisors in College Station, Texas. "Our clients generally have very liquid assets, so we have one fee structure for all. We have worked with younger clients, charging a \$5,000 flat fee to do all of their planning, but otherwise we have not charged a retainer for nonliquid assets."

Some advisers might focus on compensation via AUM, but others prefer a mix. Sheila Chesney, principal at Chesney & Co., private wealth managers in Sheldon, South Carolina, reports an approximate 35/65 balance (planning fees/portfolio management fees) in her firm's total compensation structure.

"I've always believed that what people don't pay for, they do not respect," she says, "so I have always charged for financial planning and for portfolio management separately."

Chesney's planning



Jane King of Fairfield Financial Advisors charges an annual flat fee to clients whose engagement calls for compensation beyond AUM.

fee is an annual retainer, based on the complexity of the client's situation and the need for personalized consultation.

"In 2011, we began to talk with our clients about fees," Chesney says. "Our clients were getting wealthier, and they wondered if they would continue to pay us more and more forever. I realized that, if I were my own client, I wouldn't like that.

"Therefore, we put a maximum total fee in place for planning and portfolio management. Our ADV states that we reserve the right to raise our maximum as a result of inflation, which we did for the first time for 2017. About 20% of our clients reach our max. So far, our clients appreciate it – some even ask if that is really fair to us."

Chesney's experience indicates that the line between AUM and non-AUM fees may not always be obvious.

"About 50% of our portfolio recommendations are in private partnerships," she says. "We love this space, and we spend a lot of time finding



Castle Wealth Advisors CEO Gary Pittsford doesn't hesitate to renegotiate with clients if an initial annual fee is potentially underpriced.

good opportunities for our clients. Our standard AUM fee doesn't differentiate if the client participates in private partnerships, which most of them do."

Clients who participate extensively in private partnerships are automatically considered to be a complex planning engagement and are charged accordingly, she says..

Private deals, though, may not be easy to value for purposes of setting AUM fees.

"We rely on the valuation from the managers, who must provide us with an annual letter, even if that letter says that the current value cannot be estimated to be different from the

client's original investment amount," Chesney says.

"Whatever the investment manager stipulates is what we put into

"WE PUT A MAXIMUM TOTAL FEE IN PLACE FOR PLANNING AND PORTFOLIO MANAGEMENT. ... SO FAR, OUR CLIENTS APPRECIATE IT – SOME EVEN ASK IF THAT IS REALLY FAIR TO US," SAYS SHEILA CHESNEY OF CHESNEY & CO.

our portfolio reporting," she adds. "Many of these investments are maintained on our books at the original investment amount, which does impact portfolio reporting.

"However, we educate our clients on this, and we are comfortable with the cost to us, because it will reverse over time."

Ultimately, private deals may be valued more realistically. The hope is that this will bring both more wealth to clients and higher fees for the firm.

FP

Compensation Revelation

Which regulations will affect planners who receive fees for financial advice, instead of or in addition to asset management? "Financial adviser compensation does not lend itself to black and white rules," says Christine Goodrich, senior associate with the New York City law firm Faruqi & Faruqi. "Industry rules and regulations generally require the compensation a financial adviser charges to be fair, in light of all relevant circumstances."

That said, the "bedrock" of securities regulations is disclosure, according to Goodrich, a securities lawyer who regularly represents advisers. "It is important for advisers to notify clients of the true cost of their services," she says, "in addition to the investment product(s) and/or trading strategies they recommend."

Insights for advisers are offered by Shannon Pike, vice president at Tanglewood Legacy Advisors in Houston. "Whether registered with the SEC or at the state level, financial advisory fees are required to be disclosed on the firm's Form ADV," he says. "If the firm charges for assets under management, that schedule must be disclosed. Similarly, other forms of compensation, such

as hourly rates or flat fees or retainers, should be spelled out, with a description of the services those fees cover."

Disclosure of the types of fees the adviser charges should be as specific as possible. "A range of hourly fees might be listed," says Pike, who's also president of the Financial Planning Association. "If there are flat fees and/or retainers, it should be noted whether those fees are to be paid in advance or in arrears. The specific fees for each client are usually described in detail in each client agreement."

Advisory firms must file and update their ADV annually.

"The current ADV must be given to each client at the beginning of the engagement with the firm," Pike says. "If there are material changes in the ADV from one year to the next, advisers must provide a summary of the material changes along with either (1) the updated ADV or (2) an offer to provide

the updated ADV. In addition to the ADV, fee arrangements should be disclosed on engagement agreements provided to clients; separate agreements typically are used for financial planning and asset management." —Donald Jay Korn



Lawyer Christine Goodrich says adviser compensation does not lend itself to black and white rules.



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Client Niches Set to Grow

Advisers might want to think about steering their practices away from doctors and toward small business owners and millennials.

BY DAN WEIL

IS THIS THE ERA OF SPECIALIZATION FOR FINANCIAL planners? Some 56.4% of advisers now specialize in certain client niches, such as retirees, pre-retirees or small business owners, according to a survey by CEG Worldwide. Planners say this percentage will only grow over time.

"It's absolutely inevitable that the industry heads in this direction," says Chad Hamilton, vice president of practice management at Mariner Wealth Advisors in Denver. His firm focuses on small business owners, corporate executives and pre-retirees.

"Advisers will work like other industries, such as medicine," Hamilton says. "If you're looking for a type of procedure, you go to that kind of doctor."

If someone is selling a business or needs counseling about an executive compensation issue, for example, he or she will want an adviser who specializes in this area. "Think of it as a Google search for that particular expertise," Hamilton says.

What customer niches are likely to receive the most focus? Retirees and pre-retirees, according to CEG Worldwide.

"The first thought for advisers is to go where the money is, and that's wealthy people," says Tom Fredrickson, a planner in Brooklyn, New York, who's part of the Garrett Planning Network and specializes in serving pre-retirees and young families. "That's the segment everyone wants, and a lot

of people are serving it."

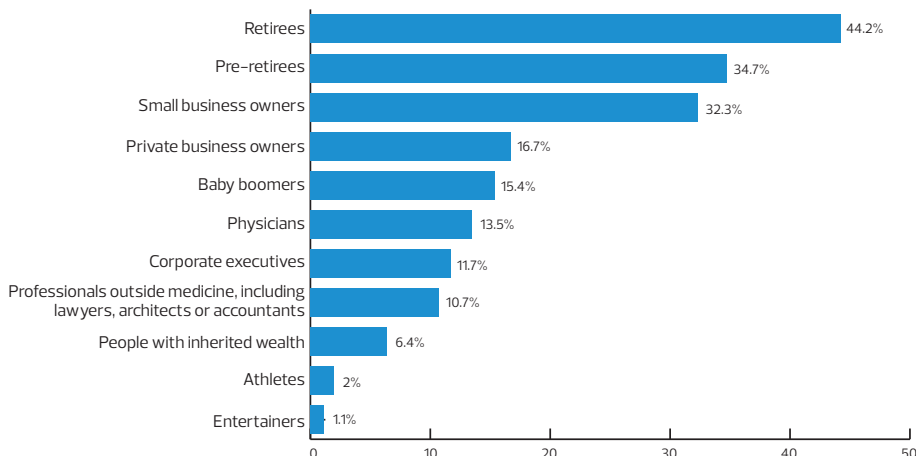
AN INTERESTING TWIST

He and others say the aging of the baby boomers is leading to an increase in the number of advisers who concentrate on retirees, pre-retirees and boomers. These clients need planning help with Social Security, 401(k)s and other retirement accounts.

There's an interesting twist to this work. One distinctive problem for boomers is that their parents sometimes need considerable financial help, as they didn't expect to live so long and are outlasting their money, says Karim Ahamed, senior investment adviser at HPM Partners in Chicago. So the boomers need counseling about how to assist their parents. That can involve providing cash or

Client Niches

More than half of all advisers say they specialize in serving one or more types of clients. Here are some major categories of specialization:



Source: CEG Worldwide, 2015 survey

arranging for a reverse mortgage.

Specializing in retirees is a natural for Pittsburgh's Legend Financial Advisors, says President Lou Stanasolovich.

"We probably have 85% of our clients over 50," he says.

AN OCCUPATIONAL FOCUS

The elderly need plenty of medical care, so that led Legend to specialize in physicians, as well. "We continue to pursue doctors, because we think they will continue to be a growth industry as baby boomers age," Stanasolovich says.

But doctors may not represent a strong focus for many advisers, given the growing financial constraints of the health care system weighing on their income, Ahamed says. "The last few years haven't been kind to physicians," he says. "There are now more restrictions on them. In some cases, they're now employees rather than solo practitioners. The younger cohort hasn't seen the wealth opportunities of previous generations."

The same is true for other professionals, such as lawyers, architects and accountants, Ahamed says. "Attorneys typically have high expenses, especially if they have student loans," he says. "A lot of them are spending much of what they earn."

Hamilton sees more categories attracting specialization. "A colleague of mine works with pilots," he says. "That's a small niche, but he knows all the issues related to their pay. These sorts of themes will play out more." Hamilton also thinks the business owner category can grow.

"These people not only need personal financial planning, but also help with the business itself, and that's their single biggest asset," he says. "Those advisers that can address this in detail – helping to grow a business, insure it and prepare it for sale – will get these customers."

One category not included on the 2015 CEG list – the most recent data available – was millennials (adults born between the early 1980s and the early 2000s). Advisers

say this should become an attractive niche going forward.

Members of this generation may not have a lot of assets yet, but plenty of millennials could use the services of an adviser.

"They can be well-served by different financial models, such as retainers or hourly planning fees," Fredrickson says. "They are used to paying fees for cellphone service, etc. You can use financial planning software, asset aggregation tools and robo advising to help these people."

He has seen new firms succeed with this approach. "You can help in providing fee-based service profitably," Fredrickson says. "Certain people realize their employers won't give them [financial planning] information, so they will look for help outside."

Frank Zecca, managing director of Octagon Financial Services, a wealth advisory firm in McLean, Virginia, thinks his firm's focus on athletes and entertainers will pay off in the coming years.

"There will be a lot of growth because salaries are rising, especially in sports, as pro leagues reach new labor agreements," Zecca says.

SPREAD TOO THINLY

To be sure, advisers should be careful not to take on too many customer niches, Stanasolovich says. "You can probably have three to five," he says. "Otherwise, you become a generalist shop that's all things to all people, and you might end up just managing money."

But Ahamed isn't so sure that specialization is the answer. "I'm hearing of cases where people turned clients away because they don't fit the model," he says. "That school of thought may have gone too far. People may come to realize that being a generalist isn't so bad."

Specializing leaves you with nothing to fall back on if your niche areas sag, he says. Ahamed's firm, HPM Partners, which has a generalist tilt, does plenty of work for private equity and real estate executives. "But if we limited ourselves to that, we would lose a lot of opportunities," he says.

FP

Doctors may not represent a strong focus for many advisers, given the growing financial constraints of the health care system that are weighing on their income.

Dan Weil is a freelance writer in West Palm Beach, Florida. His work has appeared in *The New York Times*, *The Wall Street Journal*, *Institutional Investor* and Bloomberg.

Overlooked Compliance Failures

Even well-intentioned filing and disclosure practices can draw the ire of regulators, a recent SEC risk alert shows.

BY TODD CIPPERMAN

ADVISERS AND COMPLIANCE OFFICERS ALIKE were surprised when the SEC's Office of Compliance and Examinations issued a risk alert listing the five most frequently identified deficiencies arising from over 1,000 examinations over the last two years. The alert came without much explanation or introduction.

Rather than focus on more substantive issues such as breach of fiduciary duty, OCIE fixed on more administrative compliance failures such as off-the-shelf compliance manuals, failed code of ethics reporting, and records weaknesses.

This risk alert signals a continued broken windows approach to compliance and enforcement, where the chief securities regulator seeks to prevent smaller infractions, which in turn creates a peaceful regulatory neighborhood which is seen as less hospitable to bigger violations.

According to the alert, OCIE intends the information "to assist advisers during their compliance reviews," many of which occur during the first quarter of the year.

The SEC has seen several issues involving compliance program administration. For example, the OCIE staff continues to see off-the-shelf compliance manuals that fail to address "individualized business practices" such as client type, investment approach, and trading practices. OCIE also finds many firms failing to conduct the required annual compliance review, conducting cursory reviews, or failing to remedy problems previously identified.

Additionally, the staff has seen many firms failing to comply with their compliance policies and procedures in areas such as marketing, expenses or employee behavior.

RULES THAT 'BEDEVIL' ADVISERS

The OCIE has called advisers to task for their filing and disclosure practices, especially related to Forms ADV, PF and D. Many advisers failed to file required amendments upon the occurrence of material events, and others failed to file their annual Form ADV amendment within the required 90-day time frame.



The SEC didn't like seeing widespread failures to comply with the complicated custody rule. Many advisers didn't even realize they were deemed to have custody by virtue of having online access to client accounts, obtaining a power of attorney or acting as a general partner to a private fund. If an adviser has this constructive custody, it must engage a PCAOB auditor to perform a surprise annual exam. However, many firms failed to conduct the exam, engaged an unqualified firm, and/or failed to file the necessary forms.

Compliance with the code of ethics rules also continues to bedevil advisers. Many firms still have trouble identifying who should be a designated access person subject to review of brokerage accounts and preclearance. At the same time, access persons fail to submit required statements and certifications in a timely manner.

The OCIE staff also cited failures to maintain proper books and records. Many firms did not maintain the required categories including trading records, advisory agreements, and general ledgers. Others had record keeping errors, including incorrect fee schedules or client lists.

It is unclear why the OCIE staff issued this risk alert at

this time. The SEC Enforcement Division has brought many cases alleging weak compliance programs including off-the-shelf manuals, code of ethics problems, and Form ADV failures. Problems with the custody rule are also not new. Four years ago, OCIE reported on widespread failures to comply. Notably, OCIE recently released its exam priorities, although these topics weren't mentioned.

What does this mean? My firm believes the SEC staff is reinforcing its commitment to Mary Jo White's broken windows examinations and enforcement philosophy. In a 2013 speech, then-Chairwoman White described her approach as pursuing "all types of wrongdoing" including smaller violations "such as control failures, negligence-based offenses and even violations of prophylactic rules with no intent requirement." She declared support for a policy where "no infraction was

too small to be uncovered and punished."

MY TAKE

Even though the five areas OCIE lists may not seem significant as compared to bigger violations that affect investors directly, the SEC staff appears to continue to focus on the technical requirements such as compliance manuals and the custody rule.

To comply with these rules requires more than good intent or an intuitive understanding of what's right and wrong. These esoteric rules require in-depth knowledge of the Advisers Act that only experienced compliance professionals can provide. My firm recommends hiring an experienced compliance professional immediately. Otherwise, as the risk alert ominously warns, the staff may refer examinations "to the Division of Enforcement for further action." **FP**

"We believe that the SEC staff is reinforcing its commitment to Mary Jo White's broken windows examinations and enforcement philosophy."

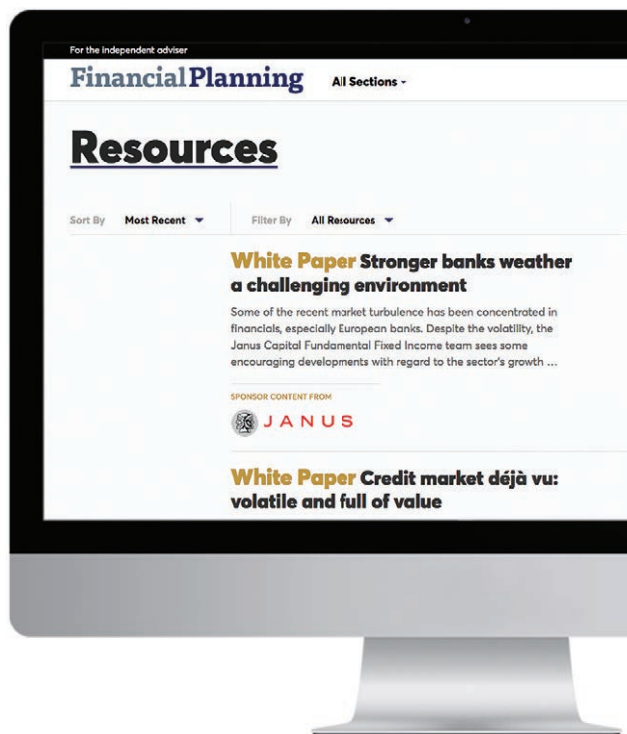
Todd Cipperman is managing principal of Cipperman Compliance Services, a firm that offers a third-party perspective on regulatory compliance. Follow him on Twitter at @cipperman.

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Should I ... Hire a Marketing Firm?

It will cost you, but the right team can help you define your business and get your message to qualified potential clients.

BY INGRID CASE

IN 2010, DANA ANSPACH, FOUNDER AND CEO OF Sensible Money in Scottsdale, Arizona, started working with a branding coach to identify foundational brand values for her business.

"I spent less than \$2,000, and it was a good purchase," Anspach says. "We identified brand values that affect what we put on our web site and how we talk to clients."

On the heels of that success, Anspach hired a marketing expert. "He said, 'When we're done, the phones will ring,'" Anspach says. "I said, 'My business doesn't work that way.' But he was right."

Anspach's firm has gone from handling \$33 million in assets under management at the end of 2011 to \$115 million at the end of 2016. Her website, which had garnered 10 client inquiries each year before the marketer went to work, now brings in 100 to 120 potential clients annually.

"The majority are qualified for my services," she says. "We do retirement income planning, and the majority of people who come in want exactly that. The website helps weed out people who are looking for something that we don't offer."

The difference, she says, was in changing a static website to one fitted with lots of things for viewers to do: watch a video, fill out a questionnaire, sign up for Anspach's newsletter or download a free article. "Doing those things leads people to getting in touch," Anspach says.

In the first year, Anspach spent \$50,000 to \$75,000 for a custom website and other associated marketing services. The marketing firm hosts the site and handles maintenance and updates, for which Anspach pays about \$5,000 a year.

AN INITIAL STUMBLE

The financial outlay was a little lower for Vincent Barbera, managing partner at Newbridge Wealth Management in Berwyn, Pennsylvania. He also saw good results from the marketing team he ultimately settled on.

Before starting Newbridge three years ago, Barbera worked at a fee-based RIA with a marketing staff.



"Having people always available worked well, but the disadvantage was that the person was on staff, so their insight was somewhat limited," he says. "They just knew the Raymond James world."

At Newbridge, he decided to outsource both the firm's website and business development marketing. He initially worked with an outside firm without much financial services experience, which Barbera saw as a chance for a fresh perspective. "Their services were expensive, at \$600 a month, and looking outside financial services turned out to be a big mistake," Barbera says. "They had us co-sponsoring club boxes at the NHL draft or the opening of a new frozen yogurt store" — tactics that just didn't work to bring in new clients.

Barbera reviewed several other marketing groups, but found them lacking. "Their social media work was too general, and they didn't devote the necessary time to create content. There was no strategic vision or plan," he says.

The marketing group that Barbera ultimately hired asked a lot of questions.

"Our first call was a strategy call," he says. "Who are we? How do we serve people? Who are we currently serving?"

What provides the most value? Who is the ideal client? Who do we want more of and how will we go get that person? If we'd started with that three years ago, we would probably be further along with the business."

The new firm helped Barbera realize that they needed a stronger sense of who they are as a company.

"We were trying to be everything to everybody," he says. They assigned Barbera homework.

"We took a couple of clients out to lunch and asked them about what they value. What are their problems? What differentiated us as a fee-only RIA versus a wirehouse?" Barbera says. "We found out that they wanted a partner, someone who is available and can explain things."

to clients who aren't right for us," he says. "I've stopped seeing saying 'no' as a loss and started seeing it as leaving room for a gain."

ON-STAFF SPECIALIST

An on-staff marketer is the option Peter Creedon, founder and CEO of Crystal Brook Advisors in Mount Sinai, New York, took when he made a hire about a year ago. "Her job is to get the name of the company out there with the image that I want portrayed," says Creedon, who already has strong opinions about his firm's values and focus.

He started his company two years ago, and has hired two staffers. He's found marketing the firm challenging. "It's very difficult to get my message, values and beliefs out there," Creedon says. "I don't pick up the

After hiring a marketing firm, advisory firm Sensible Money has gone from handling \$33 million in assets under management at the end of 2011 to \$115 million at the end of 2016.

Before You Hire

There are four questions advisers should ask themselves:

1. Who is your ideal client?
2. How do you serve that client?
3. How do you tell potential clients about your company and services?
4. Do you have the technical skills to navigate online and social media?

Ultimately, the marketing firm helped Newbridge define the clients it wants to serve. "Our ideal clients are mid-level executives who have been in the corporate world for 15 to 20 years," Barbera says. "They would love to get out of that world, but a lot is resting on their shoulders: college costs, retirements. We help them develop a plan that lets them out of that world while still staying comfortable."

His experience suggests that a planning firm might spend \$5,000 to \$10,000 to engage a small marketing firm and \$30,000 to \$40,000 to hire a larger company.

Barbera says that the expense has definitely been worthwhile. "I've seen my thinking really get more creative, and I'm more willing and confident about saying 'no'

phone and cold call because I don't think it works."

But Creedon does have hopes for online and social media. "I brought on a person to help me with the website and social media aspects of marketing," he continues. "I need to present my company and what I do in today's media. I don't have the technical expertise to deal with online marketing, and I need a web presence that makes sense to the diverse people I'm trying to market to."

The return on this investment hasn't been an immediate one, Creedon says, but "it's kind of early — the website is still being revised. I'd love instant gratification and a hundred people pounding on my door, but it doesn't work that way. This is an investment over time."

FP

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

Robos Target Minority Investors

New platforms tout language capabilities and cultural understanding. “We speak their language,” says the founder of one firm.

BY SULEMAN DIN

A NEW CROP OF ROBO ADVISERS IS TAKING AIM AT minority investors who they say have been underserved by traditional wealth management.

Two recent launches tout their language capabilities: Finhabits makes its site accessible in either English or Spanish, and MarketRiders has staff who can take calls in Cantonese, Mandarin, or both.

Digital platforms catering to these investor communities

can be used to educate them about saving for retirement better, partly because they understand their culture, says Carlos Garcia, Finhabits' founder.

“We understand the consumer well, we speak their language and understand their culture,” Garcia says. “They know they can go into a Wells Fargo branch and open an investment account, but they don’t. There’s a different dynamic.”

Garcia, who grew up on the Texas border town of El Paso,

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on to something.**

and is a computer science and electrical engineering graduate from MIT — built up Finhabits' initial client base among Hispanic communities across his home state the old-fashioned way: lots of meetings, selling the service to small business owners, even getting the word out through segments on local radio stations.

He acknowledges there are banks in these communities with Latino roots or serving customers in Spanish, and the traditional wealth management industry has tried to appeal to Hispanic clients, too.

"But they typically offer them high-commission products the consumer doesn't understand or need," Garcia says. "We are simplifying the language, offering a transparent, easy-

to-access service."

Former Scottrade executives Jonathan Yao and Kris Wallace say they want to aggressively pursue investors in Chinese-American communities in cities like Los Angeles, New York and San Francisco, as well as across the Asia-Pacific region.

Not catering to these communities is a missed opportunity says Yao, adding that MarketRiders is targeting "emerging affluent" clients with \$50,000 to \$500,000 to invest.

They will face other platforms that hope to tap into the same Asian market, both here and abroad. A number of local banks and fintech startups are racing to bring robo advice to Chinese investors.

"Right now, China has more and

more investors," says Yao, predicting that by 2020 Chinese investors will use robo platforms to manage \$1 trillion of their assets.

"They are looking for U.S. products and services when they start to trade stocks and ETFs. Also they are looking for long-term asset management."

In a crowded digital advice market, having focus helps, says Tim Welsh, president of the consulting firm Nexus Strategy.

"The wealth management industry is such a fragmented business — there are IRAs, IBDs, banks, wirehouses — [that] so as long as they have an understanding and a clear view of whom they're selling their robo to, they will find opportunities," Welsh says. **FP**

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

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Riskalyze Revamps Robo Offering

To address industry demands for a higher standard of care for clients, the firm has dubbed its platform a “One-Click Fiduciary.”

BY ANN MARSH

AS COMPETITION INTENSIFIES WITHIN THE B2B digital platform market, Riskalyze announced a new version of its robo adviser, Autopilot, stressing that a deeper approach to serving advisers was needed.

“Automating client engagement and account opening isn’t quite enough,” says Riskalyze CEO Aaron Klein, who made the announcement at this year’s T3 Conference. “The problem with automation has been that there has been no personalization. The problem with personalization is that there’s been no scale. The adviser of the future is going to have to fuse those together in order to survive.”

Reflecting the industry’s regulatory concerns, Riskalyze has dubbed the latest iteration of its two-year-old digital platform as a “One-Click Fiduciary.”

Klein says that advisers on the platform can access any blend of funds or stocks to build a portfolio, assign models to client accounts, and trade across custodians. Multi-custodian accounts can be automated too.

“If an adviser changes one of their models and that affects 75 different client accounts, they will be able to sift through these accounts, and say, ‘These five accounts I’m about to meet, so I’m going to snooze those for a week. The rest of them I click approve and send them along through.’”

His firm decided to tune the platform to reflect how the 19,000 advisers were already engaging with it, Klein adds. “Twenty-six percent use a managed account platform to solve this problem. But the other 75% are do-it-yourselfers. They want to maintain control of the portfolio and they want to personalize and actively manage each client’s situation. The DIY model and the old robo model really aren’t going to cut it anymore.”

For advisers with a Riskalyze license (the firm also announced a new tier of service) pricing is set at 15 basis points and is lowered to 10 bps with \$5 million on Autopilot. Klein says the majority of Autopilot clients are advisers man-



“We think that automating client engagement and account opening isn’t quite enough,” says Riskalyze CEO Aaron Klein.

aging between \$50 million to \$65 million.

A number of digital-first firms and traditional brands have developed and are offering their own platforms for advisers, including Betterment, Schwab and Invesco. Others, such as BlackRock’s FutureAdvisor and SigFig, have developed enterprise robo solutions for institutional adviser forces.

In the RIA space, Klein downplayed the competition from automated advice firms. “I very much believe that investing is a lot like tax preparation. We all could use Turbo Tax, but about four times as many people go to H&R Block.”

“They are finding it pretty difficult to compete with human advice and that’s a whole other discussion,” Klein says, referencing Betterment’s recent announcement to offer hybrid advice. “We are equipping thousands of advisers to effectively compete against Betterment and Wealthfront and I think it’s working.”

FP

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

Inheriting IRA Trouble

When a tax-deferred account is part of an estate, failure to follow the tax rules correctly can result in financial turmoil.

BY ED SLOTT

IRAs ARE GREAT TOOLS THAT CARRY VALUABLE tax advantages, and are an important part of many clients' portfolios. When IRAs are part of an estate, however, they are subject to rules that are highly inflexible. When survivors receive advice that does not address these rules adequately, there can be disastrous financial consequences.

A ruling by the U.S. Tax Court in December provides one such tax horror story, and it could easily have been avoided. It is worth recounting in detail to uncover lessons that could help advisers in creating estate plans that include IRAs.

The case involved the estate of a Florida man, Thomas W. Ozimkoski Sr., who died in August 2006. Just seven months before his death, Ozimkoski executed a will that left the bulk of his property to his wife, Suzanne D. Oster Ozimkoski, and named her as personal representative of his estate. At the time of his death, Ozimkoski had a traditional IRA at Wachovia and a 1967 Harley Davidson motorcycle.

He also had a son, Thomas Jr., who was unhappy about the will. The son went to probate court and faced off against Suzanne, his stepmother. The IRA custodian, Wachovia Securities, froze the funds in the IRA pending the outcome of the litigation.

When the dust settled, a settlement had been reached. Suzanne would pay Junior the sum of \$110,000 and transfer title of Senior's motorcycle to him. The settlement provided that the payment would be made within 30 days of the date on which Senior's IRA was unfrozen by Wachovia. The settlement also said that "all payments shall be net payments free of any tax."

CARRYING OUT THE SETTLEMENT

The motorcycle transfer seems to have gone smoothly, but the same was not true of the payment of the IRA funds.

On July 2, 2008, Wachovia transferred \$235,495 from the deceased's IRA to an IRA set up in Suzanne's name. Suzanne took a distribution from her IRA and wrote a personal check for \$110,000 to Junior to make the payment required under



the settlement agreement. She also took other distributions from her IRA in 2008, for a total of \$174,597.

Wachovia issued a 2008 Form 1099-R showing taxable distributions of \$174,597 to Suzanne. The distributions were coded as early distributions because Suzanne took them from her own IRA and she was under age 59½.

Suzanne filed her 2008 federal income tax return late and reported only her wage income from the Boys and Girls Club, just under \$15,000. She did not report any of the IRA distributions as income.

The IRS subsequently issued a notice of deficiency to Suzanne for 2008. The IRS said Suzanne owed \$62,185 in taxes and a 10% penalty on the IRA distributions. She was also hit with an accuracy-related penalty of \$12,437. Suzanne disagreed and brought her case to the Tax Court, representing herself.

The Tax Court held that Suzanne owed income taxes, the 10% early distribution penalty and part of the accuracy penalty. The court did not buy Suzanne's argument that the IRA distributions should not be included in her income because Junior was entitled to \$110,000 of the IRA under the settle-

ment agreement. Instead, the court agreed with the IRS that the distributions were taxable to Suzanne because they were from her own IRA.

WHO IS THE BENEFICIARY?

The Tax Court began its decision by tackling the important issue of exactly who was the beneficiary of Senior's IRA. Generally, the answer is whoever is named on the beneficiary designation form. However, Wells Fargo, the successor to Wachovia, did not have Senior's IRA beneficiary designation form. It is unclear whether the form had not been filled out or went missing.

In the absence of the form, the estate became the beneficiary by default. Because Suzanne inherited through the estate, the IRA became a probate asset, which can be subject to a will contest. If the beneficiary is named on the form, however, the account bypasses probate and goes directly to her.

Because the estate, not Suzanne, was the beneficiary of the IRA, Wachovia incorrectly rolled it over to her IRA, according to the court. What Wachovia should have done was distribute the IRA assets to Senior's estate rather than to Suzanne's IRA. The court said it had no jurisdiction to fix that mistake.

The court expressed sympathy for Suzanne, noting that her attorney during the probate litigation clearly failed to counsel her on the tax ramifications of paying Junior from her own IRA. However, the court said it could not change the ultimate ruling.

The court also said Suzanne owed the 10% early distribution penalty on the funds taken from her IRA. There is an exception to the penalty for distributions due to death, but that did not apply to her. This is because a spouse beneficiary may no longer claim the exception if she rolls over the funds from her deceased spouse's IRA into her own IRA and then withdraws the funds from her IRA.

The court gave Suzanne a break on the accuracy penalty. They believed she had acted in good faith with respect to the portion of her underpayment attributable to her

failure to include in her taxable income the \$110,000 she paid to Junior.

LESSONS LEARNED

This case offers a number of lessons for advisers and clients:

The importance of beneficiary forms. When Thomas Ozimkoski Sr. updated his will to leave everything to his wife, he should have also updated his IRA beneficiary designation form. If he had, the IRA would have passed directly to her and never became part of the disputed probate estate.

The need for competent advisers. A competent adviser in this case would have realized that any payment coming from an IRA will be taxable. If Junior is not paying the tax, someone else is. A good adviser would have realized Wachovia's error and had the custodian reverse the transaction and retitle the inherited IRA properly.

Avoid incorrect rollovers. With proper advice, Suzanne could have elected to remain a beneficiary rather than do a spousal rollover. By remaining a beneficiary here, she could have taken the distributions she needed and avoided the 10% early distribution penalty.

A positive outcome in one court may be irrelevant for tax purposes. The settlement agreement said that all payments to Junior shall be net payments, free of any tax, and the widow was under the impression that she owed no taxes. But tax rules did not allow this outcome.

After the mistaken rollover, the Tax Court could not unwind that transaction, and instead had to decide the widow's tax liability based on the erroneous transfer of the IRA assets to her own account, and her subsequent distributions.

How the death exception to the 10% penalty actually works. This exception to the penalty is for beneficiaries, but does not apply when the spouse rolls the retirement funds over to his or her own IRA. Once a spousal rollover occurs, the spouse is then the IRA owner and not a beneficiary. **FP**

A competent adviser would have realized that any payment coming from an IRA will be taxable. If one party is not paying the tax, someone else is.

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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.

Protect Those Who Report Abuse

A Senate bill would provide liability protections for advisers who speak out about suspected exploitation of elderly clients.

BY KENNETH CORBIN

ADVISERS, BROKERS AND FINANCIAL FIRMS MAY finally receive legal cover if they report incidents where they believe that elderly clients might be the victims of financial abuse.

Lawmakers from both sides of the aisle are trying to build momentum behind the Senior Safe Act, which also has the backing of such organizations as the Investment Adviser Association, SIFMA and the Insured Retirement Institute — trade groups not always aligned on other public policy issues.

The chairwoman of the Senate Aging Committee, Sen. Susan Collins (R-Maine) is sponsoring the act, which she reintroduced in January. The legislation cleared the House last year but stalled in the Senate.

MOST EGREGIOUS SCAMS

Collins released a report detailing the types of scams that are most commonly reported to the Aging Committee's fraud hotline. Topping that list is the so-called IRS scam, where the scammer impersonates a federal agent and informs the victim they owe back taxes, often threatening them with an imminent arrest if they don't immediately come up with the money, and sometimes coming back for more.

The fifth-ranked scam on the committee's list is elder financial abuse, defined as the "illegal or improper use of an older adult's funds, property or assets." Often the perpetrators are close to the victim and occupy a position of trust.

This kind of abuse often goes unreported. The Government Accountability Office pegs the annual costs of elder financial abuse and fraud at \$2.9 billion, while other estimates have put the figure far higher.

The Senior Safe Act would give financial companies and their employees a safe harbor from civil lawsuits if they reported suspected abuse to the appropriate regulatory, law enforcement or adult protective services. To invoke that liability shield, firms would have to administer training to their



employees regarding spotting signs of elder abuse.

Supporters say that Collins' bill would provide a much-needed explicit statutory cover to protect financial firms reporting elder abuse.

A consortium of regulators, including the SEC and FTC, has sought to clarify an exemption for reporting elder abuse under existing privacy law. In 2013, that group issued guidance stating that "reporting suspected financial abuse of older adults to appropriate local, state or federal agencies does not, in general, violate the privacy provisions of the [Gramm-Leach-Bliley Act] or its implementing regulations."

But many firms have been reluctant to establish such policies and training programs, according Diane Menio of the Center for Advocacy for the Rights and Interests of the Elderly.

"We keep pulling out the Gramm-Leach-Bliley Act and saying you can do this — you're covered," she says. "But they still are not doing it."

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Kenneth Corbin is a *Financial Planning* contributing writer in Washington and Boston. Follow him on Twitter at @kecorb.

PORTFOLIO

ALSO IN PORTFOLIO: P. 57: Intriguing ETF Offerings

Calculating Returns Correctly

Advisers must ensure they are using the geometric mean rather than the arithmetic mean when figuring investment returns.

BY CRAIG L. ISRAELSEN

MANY ADVISERS SELDOM — IF EVER — TAKE THE time to determine the return of investments on their own. Generally, they will rely on third-party calculations for the average annualized performance of funds and stocks.

That isn't necessarily a problem, because high-quality data providers always use the geometric mean when showing average annualized returns. The problem may arise when you are called upon to calculate an average return of an investment over a multi-year period.

If you need to calculate the average return of an investment, make sure you use the geometric rather than the arithmetic mean. Doing the math wrong means your clients won't fully understand their investment returns — and misrepresenting performance — may result in a fine. Here's why.

The calculation for the arithmetic mean is the sum of all the numbers divided by total number count. It can never

be an accurate guide for investment returns over the years, unless there is zero volatility, which is a next-to-impossible scenario. The geometric mean, on the other hand, takes into account compounding — the returns compound upon each other. The arithmetic mean ignores compounding.

In other words, the geometric mean recognizes the process by which investments actually grow or decline, which is geometric in nature, not arithmetic. You must calculate the geometric mean to get a truly precise look at how a fund or stock has performed over time.

To see how it works, refer to the "Global Investment Performance Standards Handbook," 3rd Edition, 2012, published by the CFA Institute; specifically Section 2 (page 15): Calculation Methodology and Section 3-5 Provision 5.B.2.d (page 204).

Consider the returns of the S&P 500, the MSCI Emerg-

Case Study One

What is the average annualized two-year return of ABC Fund?

<u>Year One</u> ABC Fund has a return of -50% (loss of 50%).	<u>Year One</u> Starting balance of \$1,000 in ABC Fund. ABC Fund suffers a 50% loss, which amounts to a loss of \$500. \$1,000 starting value minus \$500 loss = \$500 account value at the end of year one.	The arithmetic mean (or simple average) is calculated as follows: $(-50 + 100) / 2 = 25\%$. Is 25% the "average" return over the two-year period? Clearly that is not correct once we examine what happened to a \$1,000 investment into the ABC Fund over the two-year period. The growth of money is all investors ultimately care about. Thus, our calculation of average return must align itself with that reality. There was no gain in the ABC Fund over the two-year period. Obviously, we cannot describe a situation in which there was no gain in the account over a two-year period as having experienced a 25% average return. The arithmetic mean calculation is not appropriate when calculating the average annualized return of any investment product. The correct average annualized two-year return in this case is 0%, as determined by the following: $PV = <\$1,000>$, $FV = \$1,000$, $n = 2$, and then solve for i in your financial calculator.
	<u>Year Two</u> ABC Fund has a return of +100% (gain of 100%). <u>Year Two</u> Starting balance of \$500 in ABC Fund. ABC Fund has a gain of 100%, which amounts to a \$500 gain. \$500 starting value + \$500 gain = \$1,000 account value of the end of year two.	

ing Markets Index and the three-month Treasury bill from 2000 through 2016 (see “Three Asset Classes”).

Per the chart, the correct 17-year average annualized return (or geometric mean) for the S&P 500 is 4.51%, whereas the incorrect arithmetic average return is the significantly higher 6.16%.

The next column displays the annual growth of \$10,000. The terminal value by the end of 2016 is \$21,167. The correct growth rate (or average annualized percentage return) that turns the \$10,000 into \$21,167 is 4.51%, not 6.16%.

As illustrated, the geometric mean is the rate of return that correctly expresses the growth of \$10,000. The arithmetic mean overstates the actual annualized growth rate of \$10,000. For this reason, the arithmetic mean is always incorrect when expressing the rate at which invested money grows over time.

Also, the gap between the incorrect arithmetic mean and the correct geometric mean widens as the standard deviation of return increases. For example, the difference between the two means is very small for the three-month Treasury bill (1.69% arithmetic mean versus 1.67% geometric mean). But the standard deviation of the 17 annual T-bill returns is also very small, at 2%.

By contrast, the fluctuation of returns for the MSCI EM Index is huge, as evidenced by

the standard deviation of 32.6%. Accordingly, the difference between the arithmetic mean (11.09%) and geometric mean (6.18%) is large.

Now we will examine two case studies to illustrate how to calculate the correct average return of an investment. Our first simple example (see “Case Study One”) will illus-

Three Asset Classes

Correct and incorrect average return calculations.

Year	S&P 500	Growth of \$10,000	MSCI Emerging Markets Index	Growth of \$10,000	3-month Treasury Bill	Growth of \$10,000
2000	(9.10)	\$9,090	(30.61)	\$6,939	5.93	\$10,593
2001	(11.89)	\$8,009	(2.37)	\$6,774	3.69	\$10,984
2002	(22.10)	\$6,239	(6.00)	\$6,368	1.67	\$11,168
2003	28.68	\$8,029	56.28	\$9,952	1.05	\$11,286
2004	10.88	\$8,902	25.95	\$12,534	1.34	\$11,436
2005	4.91	\$9,340	34.54	\$16,864	3.10	\$11,791
2006	15.79	\$10,815	32.55	\$22,353	4.76	\$12,353
2007	5.49	\$11,409	39.82	\$31,255	4.60	\$12,922
2008	(37.00)	\$7,188	(53.18)	\$14,633	1.64	\$13,134
2009	26.46	\$9,090	79.02	\$26,195	0.16	\$13,154
2010	15.06	\$10,460	19.20	\$31,224	0.14	\$13,173
2011	2.11	\$10,680	(18.17)	\$25,549	0.07	\$13,181
2012	16.00	\$12,390	18.63	\$30,309	0.08	\$13,192
2013	32.39	\$16,402	(2.27)	\$29,622	0.06	\$13,200
2014	13.69	\$18,648	(1.82)	\$29,084	0.04	\$13,204
2015	1.38	\$18,906	(14.60)	\$24,838	0.04	\$13,209
2016	11.96	\$21,167	11.60	\$27,720	0.29	\$13,248
17-Year Standard Deviation	18.1	PV = <10,000> FV = 21,167 N = 17 i = 4.51	32.6	PV = <10,000> FV = 27,720 N = 17 i = 6.18	2.0	PV = <10,000> FV = 13,248 N = 17 i = 1.67
17-Year Arithmetic % Mean (INCORRECT)	6.16		11.09		1.69	
17-Year Geometric % Mean (CORRECT)	4.51		6.18		1.67	

PV = Present Value

FV = Future Value

i = Interest Rate (Return)

N = Number of Years

Source: Steele Mutual Fund Software, calculations by author

trate the problem of representing the arithmetic mean as the average return. Our second example (see “Case Study Two”) is the case of the missing three-year average annualized return for the Zippy Fund. This fund had a cumulative return of 13.241% over the three-year period.

With that calculated, we now can compute the three-year average annualized return (or the geometric mean). To invoke a driving metaphor, the cumulative percentage return represents the total distance traveled over three years, whereas the average annualized percentage return is the rate of speed traveled per year.

The correct geometric mean will always be smaller than the incorrect arithmetic mean – precisely because the geometric mean is taking compounding into account, whereas the arithmetic mean fails to do so. To make matters worse, the arithmetic mean becomes more wrong as the annual returns of the asset being analyzed are more volatile, as we observed in “Three Asset Classes.”

USING EXCEL TO FIND THE GEOMETRIC MEAN

If you choose to perform this type of calculation in Excel, you can calculate the average annualized percentage return directly without first calculating the three-year cumulative percentage return.

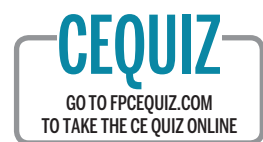
The first step is to convert the raw returns into a format that Excel will accept when using the Geomean formula. You will need to divide each raw return by 100 and then add 1.

Using the returns of the Zippy Fund, this transformation of the raw annual return data allows the Geomean function to work correctly, inasmuch as it cannot work with negative numbers in Excel. To solve this, we express the negative return of -14.70% in year two as 0.853.

Thus, in this transformed format, positive annual returns will be represented by a number over 1 (such as 1.2165). A return of 0% will be represented as 1 exactly, and negative annual returns will be transformed into a number less than 1.

Now you are ready to use the Geomean function in Excel. In cell B4, you would enter the following formula: =Geomean (B1:B3)-1. The result will display as 0.0423. If you change the cell format to %, the result will display as 4.23%.

The bottom line, no matter which method you use, is this: When you’re tempted to calculate an average return, always, always think geometrically. Use any other method and you’ll be wrong.



Case Study Two

Calculating the correct average annualized return for Zippy Fund.

<p>Zippy Fund Annual Returns</p> <p>Year One 21.65% Year Two -14.70% Year Three 9.13%</p> <p>Wrong average calculation</p> <p>$(.2165 - .147 + .0913) / 3 = .0536$ or 5.36%</p>	<p>Step 1: Correct calculation of cumulative return over three years:</p> <p>Cum Return = $[(1 + \text{Yr 1 Return}) * (1 + \text{Yr 2 Return}) * (1 + \text{Yr 3 Return})] - 1$ Cum Return = $[(1 + .2165) * (1 - .147) * (1 + .0913)] - 1$ Cum Return = $[1.2165 * 0.853 * 1.0913] - 1$ Cum Return = $1.13241 - 1 = .13241$ Cum Return = $.13241 * 100 = 13.241\%$ three-year cumulative return</p> <p>Step 2: Correct calculation of three-year average annualized return:</p> <p>Using the algebra as found in the CFA Handbook, our calculation of the average annualized return would be as follows: Annualized Return (%) = $\{[(1 + R)^{1/n}] - 1\} \times 100$,</p> <p>$\text{Annualized Return} = \{[(1 + .13241)^{1/3}] - 1\} \times 100 = 4.232\%$ three-year average annualized return</p> <p>Or, if using a financial calculator, you will enter the following to calculate the average annualized return:</p> <p>PV = -1 (representing a Present Value of \$1, entered as a negative number) FV = 1.13241 (representing the Future Value, i.e., the cumulative % return + 1). n = 3 (a three-year investment period) now, solve for i, which is the interest rate (or rate of return) i/yr = 4.232%</p> <p>The correct average return over the three-year period was 4.232%.</p>
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Craig L. Israelsen, Ph.D., a *Financial Planning* contributing writer in Springville, Utah, is an executive in residence in the personal financial planning program at the Woodbury School of Business at Utah Valley University. He is also the developer of the 7Twelve portfolio.

Intriguing ETF Offerings

As planners flock to these low-cost funds, some sponsors are successfully differentiating their products to better stand out.

BY JOSEPH LISANTI

THE ETF MARKET IS CROWDED, AND ADVISERS ARE looking for products that either fall into particular niches or are low-cost core holdings. Either way, sponsors are working hard behind the scenes to differentiate their products.

Those that do are seeing inflows. Last year, three of the top 20 ETF shops showed particularly strong gains in assets under management: VanEck (AUM up 57.4%), Northern Trust's FlexShares (up 55.1%) and Schwab (up 50.5%), according to Morningstar.

A FLEXSHARES FAN

"What's nice about FlexShares is that they are not the standard, typical ETFs," says Joanne Woiteshek, a planner at Interactive Financial Advisors in Oak Brook, Illinois.

She particularly likes the FlexShares Morningstar Global Upstream Natural Resources Index Fund (GUNR, expense ratio 0.46%). The ETF's 5% allocation to water resources, which Woiteshek considers an important category, was a factor in her choice. "GUNR is wonderful because somebody doesn't have to buy a global water ETF," she says.

The FlexShares ETF holds positions in five commodity groups: energy, agriculture, metals, water and timber.

Because it concentrates on upstream assets, it avoids some volatile portions of the commodity world, like gasoline. Even so, the ETF has experienced struggles along with commodities, and posted declines in 2014 and 2015.

"We didn't pull back," says Shundrawn Thomas, who heads the FlexShares business at Northern Trust. "What you saw in our product was strong relative performance. Smart advisers care about that."

GUNR was the first FlexShares ETF for J. Christopher Cogswell, associate director of Portfolio Resources Advisor Group in Louisville, Kentucky. Cogswell likes that, with an upstream focus, the ETF is as close as you can get to natural resources without resorting to futures. "It was a thoughtful design," he says. "It made complete sense to me."

Cogswell, whose firm packages portfolios for advisers, has

Top 20 ETF Brands by AUM

A deep dive into 2016's top performers.

Brand	Total net assets \$B 12/30/2016	2016 % growth in AUM
iShares	983.003	18.7
Vanguard	611.759	26.6
State Street	501.900	21.2
PowerShares	110.415	12.8
Schwab	59.750	50.5
First Trust	41.010	-4.1
WisdomTree	39.776	-23
Guggenheim	32.202	13.8
VanEck	29.719	57.4
ProShares	26.263	4.4
Deutsche X-Trackers	13.232	-33.5
ALPS	13.060	30.6
PIMCO	12.611	15.7
FlexShares	11.767	55.1
Direxion	10.410	19.2
Barclays	6.831	5.1
UBS	6.528	32.4
Fidelity	5.066	35.2
JPMorgan	4.877	33
United States Commodity Funds	4.633	4.9

Source: Morningstar

since begun using the FlexShares Quality Dividend Index Fund (QDF, 0.37%) and the FlexShares International Quality Dividend Index Fund (IQDF, 0.47%). He explains that he's "trying to get income from as many asset classes as I can without chasing yield."

THE INCOME CONSIDERATION

Income was a consideration for David Belding of Ascension Capital Advisors when he chose a VanEck Vectors ETF.

The Houston-based wealth management firm uses the Fallen Angel High Yield Bond ETF (ANGL, 0.35%) as one of six equal-weight positions in its income portfolio.

Belding describes the ETF's holdings as "the highest end of the high-yield space in terms of credit exposure."

"This particular kind of debt is less duration-sensitive," he adds, but volatility and income are not the only considerations.

Because the ETF holds debt from companies that previously were investment grade, Belding foresees the possibility of capital gains.

"We see the potential for good business models that have historically had higher credit ratings to reclaim those at some point," he says.

Why did Ascension Capital pick ANGL over competing high-yield bond investments?

"The unvarnished truth is, we're chart readers," Belding says. "VanEck's ANGL just gave us a superior read to other candidates in their peer group."

ANGL is one of two VanEck ETFs being evaluated by Oatley & Diak, a family-run RIA in Parker, Colorado.

John Diak, a principal at the firm, says he might use it as a tactical holding for clients who want to be more aggressive with their bond holdings.

Also under consideration is the VanEck Morningstar Wide Moat ETF

(MOAT, 0.49%), which tracks an index of companies that Morningstar considers to have sustainable competitive advantages.

Oatley & Diak began to consider ANGL and MOAT after a recent meeting with a VanEck wholesale rep.

Edward Lopez, head of ETF product management at VanEck, estimates that about 60% of his business is in the adviser channel.

"We try to introduce our funds and see if it makes sense for them," he says, adding that reaching independents can be a challenge.

Now that he has seen a presentation on VanEck ETFs, Diak thinks MOAT could be "paired with a traditional large-cap index fund to capture outperformance based on the strategy." There's a good chance the large-cap index fund will be a Schwab

"Schwab ETFs are a very compelling option for core, broad-based exposure," he says.

Schwab is one of two custodians the ETF Store uses for client holdings. Geraci notes that customers who use Schwab as a custodian can trade the firm's ETFs commission-free.

"The trading platform can almost serve as a tiebreaker when you are looking at the different broad-based ETFs that are out there," he adds.

ECONOMIES OF SCALE

Geraci may use five or six Schwab ETFs in a client portfolio and include other providers for niche exposure.

Many specialty ETFs are available to his clients without commission, via Schwab's ETF OneSource platform.

Don't expect Schwab to launch niche ETFs anytime soon.

"We favor market-cap-weighted, low-cost ETFs," says Nate Geraci of ETF Stores.

ETF. "Quite honestly, it comes down to fees," Diak says. "They are below all of their major competitors on cost."

Schwab is one of Oatley & Diak's custodians, but the RIA spent a year or two evaluating Schwab ETFs after they were launched. "I've been impressed," Diak says, who calls the Schwab lineup "pretty meat and potatoes."

He is not the only adviser who considers cost when seeking core holdings.

"We run all-ETF model portfolios," says Nate Geraci, whose appropriately named firm, the ETF Store, is based in Overland Park, Kansas. "We consider every ETF that's out there," he adds.

"We favor market-cap-weighted, low-cost ETFs," Geraci says. This predilection often leads him to include Schwab products in client portfolios.

Jonathan de St. Paer, senior vice president at Charles Schwab Investment Management, explains that numerous competitors are adding smart beta and niche ETF products, but "we continue to see core products really driving asset flows."

The company takes advantage of its size to deliver economies of scale. Schwab is a \$3 trillion company, and its investment management arm manages \$300 billion. Its index business alone is \$120 billion, about half in ETFs.

"We think cost is really important," says de St. Paer, who notes that the company goes to great pains to build efficiency into operations and sales. But the firm's manufacturing capability doesn't lend itself to building "smaller-scale, higher-cost niche products," he adds.

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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*.



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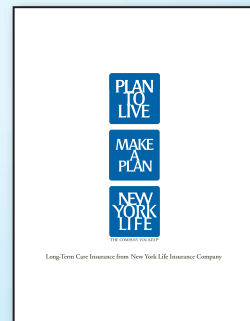
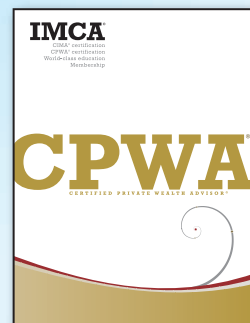
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FROM: TAX HAZARDS OF S CORPORATIONS FOR ADVISERS (online only)

1. What is the maximum number of shareholders a corporation can have in order to make an S corporation selection, per the tax code?

1. 150
2. 50
3. 100
4. 80

2. What is the full initial FICA tax for a self-employed person or small-business owner?

1. 12.5%
2. 14.3%
3. 10.2%
4. 15.3%

FROM: HOW SOCIAL SECURITY RETIREMENT AGE RULES IMPACT CLIENTS (online only)

3. If your client was born in 1960, what is his/her full retirement age?

1. 65
2. 67
3. 66
4. 66 and 2 months

4. If your client was born in 1960 and chooses to start collecting Social Security benefits in 2022 at age 62, what is the percentage that his/her benefits will be reduced?

1. 30%
2. 25%
3. 15%
4. 35%

5. What is the flat Social Security reduction percentage for a survivor who claims benefits at age 60?

1. 25.5%
2. 28.5%
3. 30.5%
4. 23.5%

FROM: CALCULATING RETURNS CORRECTLY

6. From 2000 to 2016, what was the average annualized return of the S&P 500 based on the geometric mean?

1. 6.16%
2. 5.52%
3. 4.51%
4. 3.35%

7. What is the percentage point difference between the arithmetic and geometric mean for the 17-year average annualized return (2000-2016) of the MSCI Emerging Markets Index?

1. 4.91
2. 2.21
3. 3.35
4. 1.25

FROM: INHERITING IRA TROUBLE

8. What penalty will a widow pay if she has inherited an IRA from her husband, rolled it over into her own account and then made an early withdrawal?

1. 12%
2. 5%
3. 10%
4. 8%

FROM: ESTATE PLANNING – NOW OR WAIT?

9. Which four states have tax environments that are most conducive to trusts?

1. Massachusetts, Florida, New Hampshire, Texas
2. Ohio, Mississippi, Delaware, Washington
3. Maryland, Delaware, Oklahoma, Texas
4. Alaska, Delaware, Nevada, South Dakota

FROM: PROTECT THOSE WHO REPORT ABUSE

10. What is the annual cost of elder financial abuse and fraud, according to the GAO?

1. \$1.5 billion
2. \$2.9 billion
3. \$950 million
4. \$2.5 billion

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Financial Planning

SELFIE

Taking on the Retirement Race

An avid runner, adviser Melissa Sotudeh finds striking similarities between her passion and her practice.

BY MELISSA SOTUDEH



MY FACE WAS SWOLLEN FROM THE POLLEN IN THE air, my legs were aching, it was hot and I still had 3 miles to go. This was the longest run of the year (18 miles) and my car seemed impossibly far away – and in that moment, my eventual objective of the Boston Marathon seemed even further than eight weeks out.

As a CFP and an avid runner, I see so many parallels between financial and athletic goals. I have run five marathons in the past six years, so I'm used to the routine of getting race-ready. I even achieved my ambition of qualifying for the Boston race, set for April 17.

Preparing is the real marathon and running the race tests that preparation. It's not so different from how clients feel about retirement savings. What will they do when they reach the finish line? Will retirement bring a sense of peace or anxiety about what comes next? It's our job to coach them.

ORGANIZED TRAINING REGIMEN

For my clients, I try to emphasize the importance of preparation. Saving for retirement, financing a child's college education, paying down a mortgage – they're all daunting, but an organized training regimen makes them achievable.

At my firm, Halpern Financial, our training regimen is our processes and technology. We document everything we do and that helps create a predictable, yet personalized, standard of care.

We use customized deliverables to teach clients about the reasons behind our advice, and we provide online tools like Black Diamond and eMoney to help them track their progress. We also have in-person or phone meetings.

Another important aspect of preparation is knowing that

setbacks will occur. During the Baltimore Marathon, several potholes and hills meant I had to take care while running – and be mindful of my time. However, I had trained in all kinds of terrain, so even though it was tough, I felt prepared.

The same goes for times when a client has to dip into their emergency savings. It is not easy but having that safety net is invaluable. I often tell them to take advantage of the flush economic times in preparation for when cash flow might be tight. For example, we have some clients who have variable income because the majority of their compensation is from bonuses or commissions. We advise these clients to keep more than the traditional three months of expenses in cash reserves because we know some months will be better than others – and they can draw on those reserves.

A runner shouldn't approach the finish line without a post-race care plan – icing muscles, refueling, rehydrating – and a retiree shouldn't clock out of the last day of work without having any idea of what to do the next morning. As an adviser, I try to emphasize the importance of a distribution strategy, adjusting the asset allocation if needed, and managing the emotional part of retirement.

Unlike runners, there is no set finish line for our clients. It's not as if they win the race by saving a certain amount within a certain time. But there are ways to help them keep going to the next goal.

Runners will often ask what is your personal record? To help my clients, I ask my own version. What is the number we are aiming for? This conversation can apply to various topics, but the bottom line is that we can help clients achieve sizable goals – we just have to help them plan for it in a realistic and systematic way.

FP

Melissa Sotudeh, CFP, is a wealth adviser at Halpern Financial, an independent, fee-only wealth management firm with offices in Rockville, Maryland, and Ashburn, Virginia. She is the author of *Find Your Financial Safety School*.

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