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Slide in stocks punctuates seven-year bull run

Advisers keep clients focused on long-term view of market

By Jeff Benjamin

As investors continued to flee the stock market indiscriminately last Friday in response to anything that looked like troubling news, cool-headed advisers kept their clients focused on the long term by pointing out that the week-long pullback, as sharp as it was, came in the wake of a seven-year bull market run.

"Selling begets selling, and we're not used to seeing stocks go down like this, but we have to remember that pullbacks are normal," said Quincy Krosby, chief market strategist at Prudential Financial.

In a big-picture context, the S&P 500 Index was down 4.27% for the year when the market closed last Friday. The jarring part is that the benchmark started the week in positive territory for the year. In fact, at its mid-July peak, the index was up nearly 6% this year.

But by Friday afternoon, sellers clearly had the upper hand. After losing 2.1% Thursday, the S&P 500 closed down another 3.16% Friday, dropping 64.39 points to 1,971.34. The blue chip Dow Jones Industrial Average fell 3.12%, and was down 530.94 points to 16,459.75 at Friday's close, off 7.65% for the year. It was the worst day for U.S. stocks since 2011, and the worst two-day drop since the financial crisis.

LATE-SUMMER VOLATILITY

The peak-to-trough drop of more than 7 percentage points in the S&P 500 is scary only when considering how quickly it occurred, according to Phil Blancato, chief executive of Ladenberg Thalmann Asset Management.

"Keep in mind, this is late summer-early fall, and this kind of volatility has been the norm for many, many years," he said. "Also, we've just gone through a train wreck of an earnings season."

Taking a deeper dive, Mr. Blancato pointed out that while the earnings reports from the energy, industrial and materials sectors generally disappointed, consumer-related sectors held up and continue to look strong.

"Positive earnings surprises during the sec-

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DAVID VOGIN

The industry's 800-pound tech gorilla

Yodlee is Envestnet's eighth major purchase in five years

By Alessandra Malito

ENVESTNET says it wants to be financial advisers' one-stop shop for investment services and technology. So far, it has been willing to put its money where its mouth is.

In the last five years, Envestnet has shelled out more than $800 million to acquire eight companies, the latest and most expensive being the $590 million purchase of Yodlee Inc., a cloud-based data analytics firm, announced Aug. 10.

"It's what has been missing," said Bill Crager, president of Envestnet. "We've got a very comprehensive wealth management and investment management platform, but we really haven't engaged at all in the consumer finance part of an investor's life."

With the Yodlee acquisition, advisers' clients will be able to link their bank and credit card information to their advisers' platform to create a fuller picture of their net worth. By using the data aggregated by the software, advisers will be able to gauge what investment strategies they should implement for their clients.

> "One of our key challenges is to just keep up with the pace of change."
>
> Jud Bergman
> CEO
> Envestnet

"Bank accounts and credit card information or mortgages have been separate from investment life," Mr. Crager said. "By acquiring Yodlee, we pull those pieces together in a very powerful way."

Yodlee is the third major acquisition Envestnet has made this year. In February it bought online investment platform Upside for an undisclosed sum and in May, it spent $30.5 million to pick up financial planning software Finance Logix.

(Also last week, the company said it would make NextShares, a hybrid of active mutual funds and ETFs created by asset manager Eaton Vance, available

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EDITOR'S NOTE

More articles to help you do your job

As editor, I rely on members of *InvestmentNews'* advisory board to share their insights about what's going on in the financial advisory world. I also count on them to keep a close eye on the stories, webcasts, videos, research, events and conferences we produce, and to offer feedback on how we can up our game.

Frederick P. Gabriel Jr.

One bit of feedback that comes up fairly frequently at our quarterly meetings is to keep producing content that will help advisers become better at their jobs. With that in mind, I'd like to call your attention to two features found in this week's issue.

The first is a new column by well-known financial adviser and renowned illustrator Carl Richards, on Page 3. The column, which will appear twice a month in *InvestmentNews* and on InvestmentNews.com, aims to help advisers communicate more effectively with clients.

Carl's column, appropriately named "Master Communicator," features tips for communicating as well as simple, straightforward illustrations designed to beat back the blank stares advisers get when trying to explain difficult concepts to clients.

Personally speaking, I have been a big fan of Carl's for years. His first book, "The Behavior Gap: Simple Ways to Stop Doing Dumb Things with Money" (Penguin Group, 2012), really raised my awareness of the psychological issues that inform many of my financial decisions.

I am delighted he accepted my offer to write for *InvestmentNews*, and hope many of you find his words and illustrations useful.

I'd like to point out another feature that is a direct result of feedback from our advisory board: Adviser's Consultant. We have been running this column on a regular basis for quite some time now. Each column, written by reporter Liz Skinner, highlights an adviser who excels in a particular aspect of running a business, and explains his or her process for accomplishing it — replete with tip sheet. In this week's column, on Page 11, we profile Paul Tramontano, whose firm, Constellation Wealth Advisors, stands out for its ability to serve the ultra-wealthy.

If you believe your firm is running some aspect of your business in a way that stands out from your peers, I urge you to contact Liz at lskinner@investmentnews.com.

Who knows, maybe we'll write about you, too.

fgabriel@investmentnews.com, Twitter: @fredpgabriel

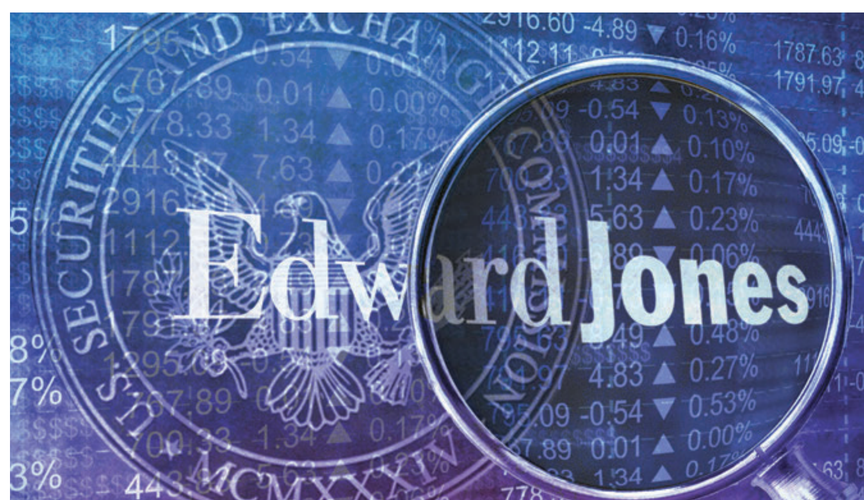
We'll be back.

InvestmentNews won't publish a print edition Aug. 31. Print publication resumes Sept. 7.

SEC members call for bond rules

In the wake of Edward Jones flap, commissioners target new pricing disclosures

By Mark Schoeff Jr.



One of the few things to unite the Securities and Exchange Commission recently is a demand by four of its five members that self-regulatory organizations step up their oversight of bond pricing.

On Aug. 13, shortly after the agency announced a $20 million settlement with Edward D. Jones & Co. for allegedly overcharging customers on new municipal bond sales, the SEC commissioners issued a joint statement telling the municipal bond and broker-dealer regulators to issue rules in this arena — or the SEC would do so itself.

"The commission's recent enforcement action against Edward D. Jones involving the offer and sale of municipal bonds to retail investors highlights the need for clear rules requiring the disclosure of mark-ups and mark-downs," wrote SEC Commissioners Luis Aguilar, Daniel Gallagher, Kara Stein and Michael Piwowar.

"We encourage the Financial Industry Regulatory Authority and the Municipal Securities Rulemaking Board to complete rules mandating transparency of mark-ups and mark-downs, even in riskless principal trades," the SEC members wrote. "If not, we believe the commission should propose rules to address this important issue."

The statement did not include SEC Chairwoman Mary Jo White, but she has made a similar call over the last year for better information on bond pricing in what is often a murky market.

FINRA AND MSRB

Both the MSRB and Finra recently have indicated that they will move ahead with rules to address this issue.

The MSRB said Edward Jones violated existing pricing rules and that the regulator is trying to enhance those safeguards.

"To further protect investors, the MSRB continues to work with Finra to develop additional price transparency for bond investors through the disclosure of information on customer confirmations," the MSRB said in a statement. "This work complements other MSRB price transparency initiatives, including the recent creation of a best-execution requirement and the availability of additional pre- and post-trade data on our EMMA website."

Following its July board meeting, Finra said it would release a revised proposal that would require firms to disclose on customer confirmations the price firms paid for fixed-income securities and the price they charged customers for the same investments.

The original proposal was released in November and the comment period closed in February.

After its July board meeting, the

Continued on Page 32

RIA fined $2.8 million, owner barred

By Mason Braswell

The Securities and Exchange Commission has fined a former registered investment adviser $2.8 million and barred its owner, Jacob Cooper, from the securities business.

Dubbed the "Main Street Madoff" by former clients, Mr. Cooper allegedly deceived investors as part of a fraudulent kickback scheme that is estimated to have resulted in $44 million in losses.

Mr. Cooper, owner of Total Wealth Management in San Diego and one-time host of a popular radio show, "Uncommon Wealth," allegedly placed most of the $100 million in assets under management at the firm into alternative investments or hedge funds that he controlled, and then invested in entities with revenue-sharing agreements, the SEC said.

Mr. Cooper also failed to do necessary due diligence on the investments, according to the SEC. At least one of the investments turned out to be a Ponzi scheme, and another in coffee shop franchises is believed to have been insolvent since inception, according to the order.

"Cooper's willful violations of the anti-fraud provisions were egregious," wrote Brenda P. Murray, chief administrative law judge at the SEC, in her order. "Cooper misled investors, most of whom gave him discretionary authority to invest their retirement funds. Cooper was compensated handsomely for directing client funds into certain investments and never disclosed these conflict of interest arrangements to clients."

Jacob Cooper

From 2009 to 2014, Total Wealth Management made $1.3 million from the revenue-sharing agreements, according to the order. From February 2010 to December 2014, Mr. Cooper was "well compensated" as well, receiving almost $2 million in total, according to the order.

The $2.8 million fine includes $750,000 in civil penalties and $1.8 million in disgorgement. The SEC originally sought $28 million, the maximum penalty, but Ms. Murray disagreed with the way it was calculated and considered the maximum penalty to be $750,000.

ADDITIONAL CLAIMS

The SEC first charged Mr. Cooper and Total Wealth in April 2014. The commission then filed additional claims in February after Mr. Cooper attempted to use investor funds to pay for a settlement and attorneys' fees in the first case.

Mr. Cooper, who told the SEC that he is destitute, could not be reached for comment. An attorney who represented him in the case with the SEC, Vincent J.

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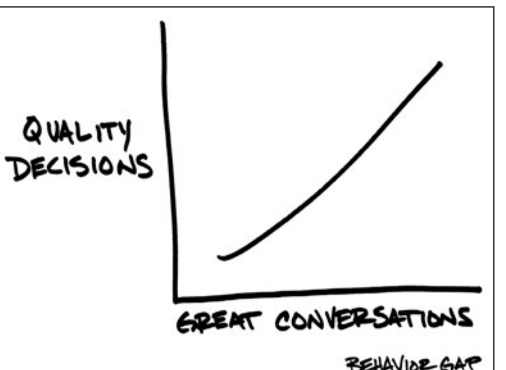
CARL RICHARDS

Conversation separates us from the algorithms

For financial advisers, learning to have great conversations with clients is the golf swing of our business. But it doesn't come easily to everyone, and few of us have any direct training.

With Master Communicator, I plan to share the lessons I've learned over the years about how to communicate effectively. And it all started with something I'm sure you've experienced, too.

Podcast
To listen to Carl Richards' podcast about this column, go to InvestmentNews.com/richards



More than once, you've probably sat across from a client and tried to explain something super-critical. But the only response you got was a blank stare. How do we break through and make these incredibly important connections?

As algorithms take over the technical side of our business, it's important to remember that they can't duplicate our ability to create one-on-one human connections. Plus, we know that great financial advice takes more than spreadsheets and calculators. It also requires understanding dreams and goals, fears and worries.

As long as we remain human, human advisers will continue to play a critical role, but we have to do our part. It starts with learning to ask great questions, listening to the answers with complete focus and showing empathy. Sounds simple, but try doing it all at once and you'll see it takes practice. There's a lot that goes into this process.

With this series, I hope to show you very specific ways to communicate more effectively and have more meaningful conversations with clients. I'd love to hear how this process works for you and what you find helpful. So please, let me know what you think at mastercomm@behaviorgap.com.

Carl Richards is a certified financial planner and the director of investor education for the BAM Alliance. He's also author of the weekly "Sketch Guy" column at the New York Times. In 2015, he published his second book, "The One-Page Financial Plan: A Simple Way to Be Smart About Your Money" (Portfolio, 2015). You can learn more about Carl and his work at behaviorgap.com.

Lewinsky will tell advisers about downside of Internet

By Alessandra Malito

Monica Lewinsky: "I was Patient Zero of losing a personal reputation on a global scale."
GETTY IMAGES

Peak Advisor Alliance founder Ron Carson has announced an unexpected name as keynote speaker at this year's Excell fall conference: Monica Lewinsky.

The choice, which came after Mr. Carson heard Ms. Lewinsky speak about cyberbullying and shame in a TED talk in March, has received mixed responses. But Mr. Carson poses one question as a rebuttal to all the critics: Would you be willing to talk, in public, about your darkest moment?

Ms. Lewinsky was, and is — that's why he thinks she'll be a breath of fresh air for advisers in her role as a keynote speaker at the event, as first reported by RIABiz.

"It's a great example of how we can use that same transparency," Mr. Carson said. "We are not perfect, but here, I have learned from it."

In the late 1990s, Ms. Lewinsky was the focus of intense scrutiny and the center of a White

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IN VOICES
Readers weigh in on Monica Lewinsky.
Page 10

Finra sweep homes in on broker pay

By Mason Braswell

Finra is taking a closer look at potential conflicts of interest in how firms pay their brokers.

In a targeted exam letter, the Financial Industry Regulatory Authority Inc. is asking firms about a broad range of compensation practices, from the common payout grids that determine how much of their annual revenue brokers take home, to recruiting incentives and mutual fund fees. The letter also asks the firms about the compensation they receive from product sponsors and how they promote specific products or categories of products.

"The intent of this review is to continue our assessment of the efforts employed by firms to identify, mitigate and manage conflicts of interest, specifically with respect to compensation practices," the regulator wrote.

> "IT IS REALLY designed to determine ... practices around compensation."
> **Dan Sibears**
> Executive vice president
> Finra

The letter, which is going out to about a dozen firms, is designed as an information-gathering exercise rather than aimed at finding violations, according to Finra's executive vice president of regulatory operations-shared services, Dan Sibears. Finra often uses such sweeps to determine whether firms are properly managing conflicts of interest or if it needs to issue additional guidance.

This sweep is a follow-up to a report from October 2013 that looked at compensation practices more generally.

'RIGHT REASON'

"It is really designed to determine whether practices around compensation or certain products that are sold are being sold for the right reason and there are not compensa-

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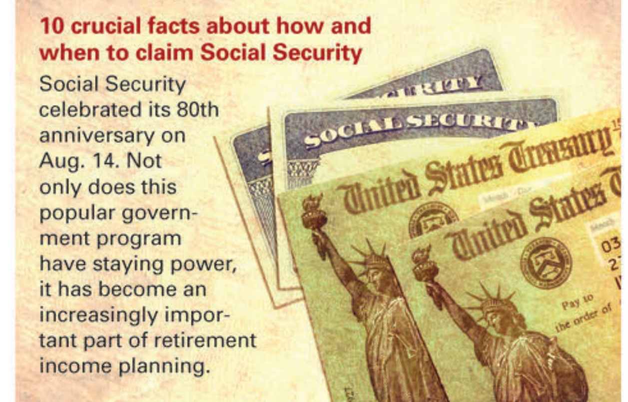

10 crucial facts about how and when to claim Social Security

Social Security celebrated its 80th anniversary on Aug. 14. Not only does this popular government program have staying power, it has become an increasingly important part of retirement income planning.

InvestmentNews.com/claim

Which presidential candidate is most like you?

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InvestmentNews.com/candidate

VIDEO

Wealth Track

The quality that sets leading companies apart

Thomas Russo, managing member of Gardner Russo & Gardner, says companies that reinvest every penny possible in their businesses, such as Berkshire Hathaway, are much better off than those that return cash in stock buybacks and dividends.

InvestmentNews.com/quality

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The unexpected problem with delaying Social Security

File-and-suspend strategy could affect Medicare premiums

Mary Beth Franklin
On Retirement

Recently I wrote about a double whammy to future retirement income for some higher-income clients in 2016. Although there is not likely to be a cost-of-living adjustment for Social Security benefits next year, Medicare premiums may increase sharply for some, resulting in a net decline in retirement income.

My column prompted a slew of anxious emails from financial advisers. Does that mean their clients who elected to file and suspend their Social Security benefits would be hit with a big Medicare Part B increase next year?

Yes, unfortunately it does.

Don't panic. Delaying Social Security benefits until they are worth the maximum amount at age 70 is still a good strategy for clients who want to increase their future retirement income. But that decision could be painful in the short run.

First, let me review the situation.

Normally, Medicare Part B premiums are deducted from monthly Social Security benefits. In 2015, most Medicare beneficiaries pay $104.90 per month for Medicare B, which covers outpatient services and doctor visits. Medicare A, which covers hospitalization, is free.

About 25% of retirees — individuals with a modified adjusted gross income over $85,000 or married couples with a combined MAGI of $170,000 or more — pay higher monthly premiums for Medicare Part B, in some cases, a lot higher. MAGI includes annual adjusted gross income plus tax-free interest.

PREMIUM BRACKETS

There are five Medicare premium brackets. In 2015, surcharges for Medicare Part B range from $42 to $230.80 per month on top of the standard $104.90-per-month premium. These premiums, as much as $335.70 per month, apply per person, so married couples where both spouses are Medicare age would pay twice as much.

The income brackets are based on the latest available tax return. A 2014 tax return filed in 2015 will be the basis for the Medicare premiums paid in 2016.

The 2015 Social Security and Medicare trustees report projects a 52% increase in Medicare Part B premiums for 2016. The actual increase, which may vary from the projection, will be announced by the Department of Health and Human Services in the fall.

However, only some Medicare beneficiaries will pay the higher pre-

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[1] LIMRA International U.S. Individual Annuities Sales Survey Fourth Quarter 2013 YTD. Jackson ranked first in total annuity sales out of 60 participating companies that provided LIMRA with quarterly data during 2013.

[2] Ratings current as of 3/31/14. Financial strength ratings do not apply to the principal amount or investment performance of the separate account or underlying investments of variable products.

[3] Service Quality Measurement (SQM), 2013.

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Citi to pay $180M for fund sales

By Mason Braswell

Citigroup Inc. has agreed to pay $180 million to settle charges related to two hedge funds that the SEC said were improperly marketed and sold by private bankers and Smith Barney brokers in the run-up to the financial crisis.

Citigroup's alternative investment unit and brokers at the firm misrepresented the two funds, the Falcon Strategies Fund and ASTA/MAT funds, as low-risk, safe bond substitutes to advisory clients, despite the fact that the funds' own marketing materials said they should not be used as bond substitutes.

From 2002 to 2007, the company raised almost $3 billion from about 4,000 investors in the two funds, which resulted in billions of dollars in losses when the funds collapsed in 2008, the SEC said.

'BRINK OF DISASTER'

"Advisers at these Citigroup affiliates were supposed to be looking out for investors' best interests, but falsely assured them they were making safe investments even when the funds were on the brink of disaster," Andrew Ceresney, director of the SEC's enforcement division, said in a statement. "Firms cannot insulate themselves from liability for their employees' misrepresentations by invoking the fine print contained in written disclosures."

A spokeswoman for Citigroup, Danielle Romero-Apsilos, said in an email the company was "pleased to have resolved this matter." Citi did not admit or deny the SEC's allegations.

The Smith Barney unit was acquired by Morgan Stanley Wealth Management in 2009 as part of a joint venture. A spokeswoman for Morgan Stanley, Christine Jockle, declined to comment, noting that the allegations occurred prior to the acquisition.

The SEC placed a significant portion of the blame on Citigroup's alternative investment unit, which was acting as the fund manager for both funds and was responsible for almost all the fund-related commu-

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VIEWPOINT

EDITORIAL

Nattering nabobs

AS THE LABOR DEPARTMENT moves ever closer to a final fiduciary standard rule, the rhetoric, predictably, has reached fever pitch.

The department's recently completed four-day marathon of hearings featured the usual suspects trotting out the usual arguments — and self-funded studies — for or against the rule.

Industry representatives insisted that the rule as proposed is too expansive and would significantly limit the choice of products for investors, raise the cost of advice and generally wreak havoc with retirement plans and savers.

The Labor Department says the rule is needed to insure brokers don't put clients in high-fee products that could erode retirement savings, and proponents argued that the rule, while perhaps needing some clarifications and tweaks, is pretty spot on.

Seventy-five witnesses spoke over the four days, and the Labor Department, in addition to posting a transcript of the hearings, has opened a new public comment period that is scheduled to end Wednesday. It would appear the department is doing all it can to gather input from all sides.

While the hearings gave interested parties a soapbox on which to repeat their arguments, they offered precious little new information or insight.

Indeed, as Duane Thompson, senior policy analyst for Fi360, a fiduciary-duty consulting firm, told *InvestmentNews* reporter Mark Schoeff before the hearing, "It's more of a political exercise than anything else."

But as the DOL inches toward the fiduciary finish line, foes are becoming particularly virulent in their opposition, as if a fiduciary standard for retirement plan brokers would pave a slippery slope to the end of the world as we know it. At the very least, one can hear the gears of lawsuits beginning to turn so they'll be at full speed when a final rule is promulgated.

OLD CANARD

Despite all the noise — and it is noise — there remains no valid reason why brokers working with 401(k) and individual retirement accounts cannot place their clients' interests ahead of their own. The suggestion, based on data not independently verified, that a fiduciary rule for such brokers would limit choice and raise costs for investors is an old canard that makes for great headlines but fails the smell test.

THE HEARINGS OFFERED precious little new information or insight.

In 2010, Michael Finke and Thomas P. Langdon, both certified financial planners, took an in-depth look at brokers, dividing them into those who worked in states that apply a strict fiduciary standard, those in states with a limited fiduciary standard and those in states that apply no fiduciary standard.

Their study, in which they polled 544,000 registered representatives, found no evidence that a fiduciary standard on brokers would have a material impact on their business.

"Imposition of a universal fiduciary standard among financial advisers may result in a net welfare gain to society, and in particular to consumers who are ill-equipped to reduce agency costs on their own by more closely monitoring an adviser with superior information, although this will likely occur at the expense of the broker-dealer industry," the authors concluded. "These results provide evidence that the industry is likely to operate after the imposition of fiduciary regulation in much the same way it did prior to the proposed change in market conduct standards that currently exist for brokers."

Here's an idea: With just 19% of Americans saving more for their retirement today than they were a year ago and 14% saving less (not to mention the 10% who contributed nothing to their retirement accounts this year or last year), according to Bankrate.com, how about fiduciary rule opponents get together to help Americans actually save for retirement.

Letters

Questions surround Curian exit

Your recent article, "Curian Capital's sudden exit creates a TAMP feeding frenzy" [*InvestmentNews*, Aug. 4], started a useful dialog about the nature of TAMPs. As far as we can tell, the shuttering of a business with $11 billion in assets and its attendant revenue stream is unprecedented in American business. This shocking event raises many important questions.

The fundamental question is: Why didn't Curian sell its business? There was certainly value there, and a sale would arguably make for a more orderly transition for investors and for financial advisers who had money on the Curian platform. Did this decision have something to do with the fact that Curian was owned by a U.S. insurance subsidiary of a U.K.-based insurance company? Did it have to do with Curian's technology, as some other TAMP executives speculated in the article? Or were there other reasons?

Now that many financial advisers are being forced to move their clients' assets, we encourage them to ask hard questions about their new partner. Is their new TAMP committed to leading-edge technology that reduces costs and serves investors? What is their ownership status, and are the owners committed to the business? Given the importance of regulatory compliance in our business, what is the TAMP's regulatory track record? Positive answers to these questions could turn this crisis into an opportunity for financial advisers and their clients in 2016.

Scott Winters
CEO and co-founder
EQIS
San Rafael, Calif.

ADD YOUR VOICE to the mix. Readers: Keep letters brief. Include your name, title, company, address and a telephone number for verification purposes. Email Frederick P. Gabriel Jr. at fgabriel@investmentnews.com. All mail may be edited.

We only win when our clients win

Recently the independent advisory world has been abuzz with the news about Curian Capital's unexpected decision to close shop. In my 30 years in financial services, I have never seen such an abrupt decision to stop serving clients. It's also an event that brought home to me the importance of our core values of integrity, excellence and respect.

Those of us in the business of serving advisers and investors have an important responsibility — one of fostering confidence among investors who are relying on advisers and service providers to help them achieve their lifelong goals and dreams.

While we're all in business, putting financial returns ahead of client needs is not only wrong, it is just bad business. Creating value in our industry is directly linked to helping investors. For advisers, making money must never be part of the portfolio construction process.

When we back up our promise to investors with dedicated service, excellence in execution and integrity in every decision we make, together, as an industry, we can win the hearts and minds of investors — real people who are also our friends, neighbors and family members. This is what we must do to build trust and confidence.

Charles Goldman
President and CEO
AssetMark Inc.
Concord, Calif.

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Portfolio Manager Viewpoints

The Dangerous Game of Chasing Stability

Rupal Bhansali
Chief Investment Officer,
International and Global
Equities, Ariel Investments

Mark Cortazzo
Senior Partner
Macro Consulting Group

On July 14, Ariel Investments' Rupal Bhansali and Macro Consulting's Mark Cortazzo joined InvestmentNews contributing correspondent Consuelo Mack in a recent installment of Portfolio Manager Viewpoints to discuss the hazards of seeking safe havens and the benefits of contrarian value investing.

Consuelo Mack | How can advisers deliver exactly what clients are clamoring for: high returns with low risk?

Rupal Bhansali | Since 2008, there has been almost an obsession for stability, which may be riskier than investors assume. That obsession with stability has found its way into the equity markets. Many fixed-income proxies —utility and consumer staple stocks, real estate investment trusts — have become overvalued.

For example Procter & Gamble is viewed as a blue-chip consumer staple with an expectation of stability in an investment, versus Toyota, which being in the auto industry can be fairly cyclical and volatile. For many years the two performed pretty much in sync, and Toyota has in fact outperformed P&G in the last couple of years.

Sometimes what appears to be stable can prove to be a poor investment and what appears to be volatile can be a good one. There's nothing intrinsically low risk and high return about stability.

The tipping point is valuation. If all of the stability and none of the volatility is priced in, that can be a high-risk, low-reward investment; if all the volatility is priced in and the stability isn't, you can take advantage of that. Low valuations reduce risk, and high valuations increase it.

Volatility is the friend of the long-term and the enemy of the short-term investor. You make contrarian investing work by letting the opportunity come to you, and for that you need to cast your net wide. If you buy investments with underlying quality, you also can have current income.

Plain and simple, contrarian investing means buying things when they go on sale.

A characteristic of contrarian investing is that the best opportunities are generally the most misunderstood, the most out of favor. It's the lonely trade, in contrast to owning something that everybody wants, which by definition becomes a crowded trade. Another tenet is that you start with low expectations — as if all the bad news or worst-case scenarios are priced in, and people think they will get worse.

Risk should not be defined as short-term volatility but as permanent loss of capital — which can happen in the bond markets, as investors in Greek bonds found out. It's not about asset classes. Risk exists everywhere. Valuations tell you whether or not you're being paid to take the risk.

Contrarian value investing can deliver good return with low risk over time but can fail to do that in the short run. It requires patience and management of expectations. Good advisers will focus their clients on the destination — the long term — rather than the journey, which is the short term.

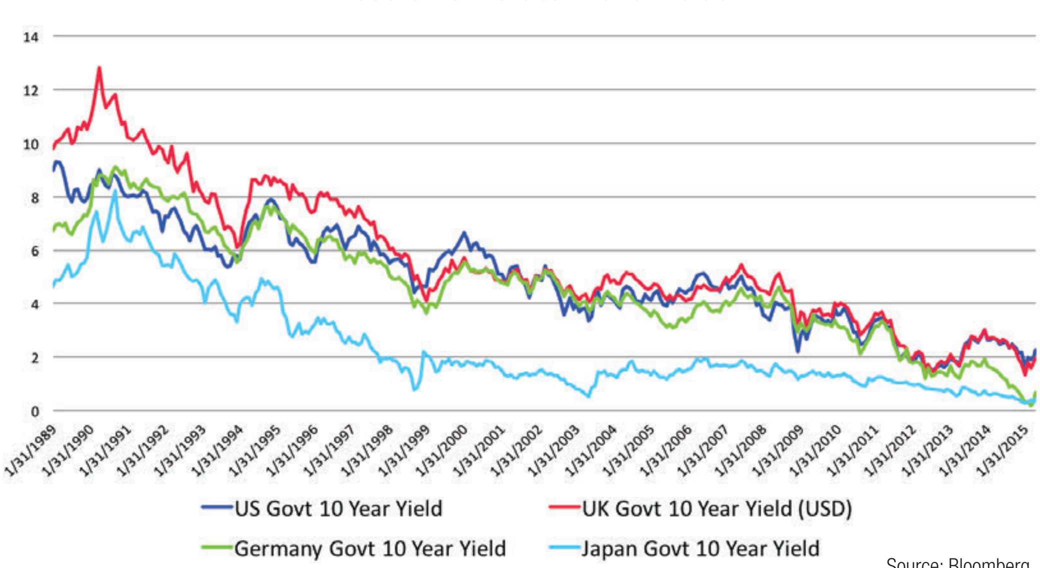
Mack | What's the difference between being a value investor and a contrarian value investor?

Bhansali | Contrarian is a particular type of value investing. You buy things that are unpopular, and that trade offers superior return for lower risk. It's not relative value investing, where someone buys a stock that's trading at a discount on the S&P 500.

Mark Cortazzo | In many cases, you have to be a contrarian to buy value stocks. Things are typically traded at an attractive valuation because they're ugly ducklings.

During the tech boom, value-oriented stocks were trading at a market cap that was lower than the company's cash on hand, but you still had to use a cattle prod to get anyone to buy them. You fish alone a lot if you're a value manager.

Record Low Global Bond Yields



Source: Bloomberg

Mack | How do you feel about dividend-paying stocks as a way to create stability as you look for growth?

Bhansali | We don't screen just for high-dividend-yielding stocks; we often buy companies that don't pay a dividend but have the potential to pay one.

There are also many jurisdictions where the tax treatment of dividends versus share buyback is different, and we don't want to disadvantage the investor by looking at a metric that can get skewed depending on that treatment.

A better way to approach stability is to think about what can give better total returns, rather than just higher dividend yields.

Mack | How key is the dividend function for you?

Cortazzo | It's very important. We run a dividend component of the portfolio with individual equities. And it's not just about what the yield is but about the quality of that yield. How sustainable is it? What percentage of earnings? We frequently see companies paying more than 100% of their earnings as dividends. That can't be done for long periods.

A utility or high-dividend-paying stock is not a replacement for a bond. In 2008, convertible bonds went down about 30%, high yield declined between 25% and 30%, and REITs fell 40%.

These things act like stocks but are called bonds. If you're building bonds in the portfolio as a risk mitigator, it isn't effective when the markets are stressed. Expectations are baked into the price, and you're going to be surprised at some point — whether you expect Tesla to take over the world or for Apple to be 50% of the S&P 500's market cap.

Mack | How long are you willing to own something you're uncomfortable with?

Cortazzo | That's the difficult part about value investing — you're assumed wrong until proved right. You looked really stupid holding value stocks during the '90s, until you suddenly got very, very smart.

Going back to the 1920s and looking at five-year rolling periods, value stocks have outperformed more than 80% of the time. If you're charging 1% a year and can get more of your clients' assets into value-oriented stocks — which is tough because it's not what they want to do — you can earn your keep and still provide alpha.

You can make it part of the portfolio, but you have to explain to clients that a lot of strategies work over time because they don't work all the time. If you make clients understand they're not going to be touching this money, they will be rewarded consistently. It makes sense, because they're doing what Warren Buffett does: buying what and when nobody else wants to buy. I compare it to getting your kids to eat green beans by putting them in the applesauce.

It's uncomfortable, but as the saying goes, what's comfortable is rarely profitable because that has already been priced into the trade. +

Watch the full webcast and get CE credit: www.investmentnews.com/stability.

VIEWPOINT

Performance matters, but services deliver results

Many believe that for any registered investment adviser striving to grow a business, it's all about performance. Wrong! Increasing client retention is what is critical.

Performance counts, but client service is more important — for your business and for your clients' success.

Performance alone won't get clients to their long-term goals. Behaviorists have long proven that investors are regularly their own worst enemies, especially in extreme times — good and bad. Exchange-traded fund and mutual fund flows spike with volatility — ill-timed, reactive buying and selling. If you don't help clients stay disciplined, it won't matter how good your returns are. Clients who succumb to behavioral backfires erratically miss long-term returns, jettisoning their goals.

And if the focus is only on performance, service often grows stale, falling by the wayside.

But it's more than just "service" — singular — that's needed.

One overlooked, discouraging development in our world is the tendency toward one-note service.

JAMES YANG

DIVERSE MENU

Investors have varied interests, communication needs and wants. Some love talking about markets. Others aren't interested in the nitty-gritty and prefer a quick hit. Many like building a personal relationship with their primary contact. Some crave reassurance whenever markets wobble. Some want face-to-face contact, others prefer the phone and still others like sticking to email, letters or video.

But many advisory firms offer just one or two communication modes. The trouble is, clients aren't one note, and many receive information differently. Offering a variety of delivery methods raises the odds you click with each client, which helps you reduce your termination rate and better serve clients.

Firms have varied, unique service models, and you needn't mimic every single offering. You simply need a diverse menu of features catering to different communication preferences — and via multiple delivery systems. Have a few offerings for clients who crave eyeball-to-eyeball contact, a few for those preferring the phone, some for the uber-busy folks who rely on email, written materials for those who love reading ... videos, infographics and so on.

My firm's investment counselors are in California and Washington, so we do lots of phone and email. But we also hit the road to see clients in person.

We hold big client-only seminars annually in most metropolitan areas. For those who prefer smaller events, our research and service staff host roundtable discussions and more intimate presentations such as at lunches and dinners to serve working and retired folks alike. We also hold educational workshops for those keen to learn how markets work, and include their family members and beneficiaries. All help us serve clients in person, in addition to phone and email contact. Not all clients attend, but many thousands do.

'PLURAL COUNTS!'

National face-to-face programs are tougher for smaller firms whose clients are half local and half far-flung. But try as hard as possible to offer as many different types of service as possible. Services — plural counts!

Can't reach certain areas? Try hosting events online, where clients can stream the presentation and submit questions in real time.

OPINIONS MATTER. Share yours through our op-ed section. Please submit 700 words to cnelson@investmentnews.com. Op-eds should be thought-leadership focused and make a case for something that affects advisers, possibly including a call to action. Nothing promotional or self-serving. Pieces will be vetted based on appropriateness, timeliness and overlap with other contributions.

Vary your written materials as well: in-depth reports, one-pagers and versions in between.

Providing services, not just service, cements your relationships. It gives you avenues to help keep your clients on track, especially in extreme moments, when folks are most prone to self-destructive decisions. We've all seen emotional investors react to market movement, usually to their own detriment. The stronger your client relationships, the more they'll accept your tough-love advice through huge market swings.

CLIENTS NEED to hear from you when feelings put their goals at risk.

Our job as investment advisers isn't to be yes-men and yes-women. It's to counsel — guide clients along the path that's best for them. Steer them back when they lurch. Ensure they capture bull market returns if their needs require long-term growth. Help them resist the temptation to chase heat. Coach them through volatility so they don't lock in losses near market troughs, missing the rebounds. Always keep their long-term needs in mind.

Fear and greed are powerfully dangerous diverters. How many of your clients wanted to flee stocks near the 2009 bottom, or even in a relatively minor headline-laden correction? How many asked to ditch diversification for something hot and narrow late in some bull run? How many wanted to overload tech in 1999? How many never wanted to own stocks again in March 2009?

Clients need to hear from you when their feelings put their needs and goals at risk. They need to hear it from someone they know and trust. Otherwise, they'll hurt themselves.

STRONG FOUNDATIONS

Investment advice means telling clients what they need to hear, not what they want to hear. If you've built strong foundations through services with each client, you have the best chance of success. They'll know you're looking out for them. They'll understand the reasoning, philosophy and values behind your recommendations, which breeds comfort. They'll know their interests come first. You won't win everyone over, but you'll help far more often than not.

Yes, performance matters. But services are what help clients receive much needed results over the long term. The more services you provide, the more you help folks stay on track.

Ken Fisher is the founder, chairman and chief executive of Fisher Investments, a registered investment adviser with more than $65 billion under management.

Maximize an HSA to fund Medicare and other health expenses

Use the hat trick of tax-free cash for retirement care

Health savings accounts, which have been in existence for over 10 years, are becoming increasingly popular amid efforts to stem the dramatic rise in typical health insurance costs.

HSAs work hand in hand with high-deductible health plans (HDHP), a type of health coverage that involves lower premiums, higher deductibles and higher out-of-pocket maximums. By the way, not all health plans with higher deductibles meet the criteria to be HDHPs. To qualify to open and contribute to an HSA, an individual must be covered by an approved HDHP.

An HSA is the most tax-preferred savings account in the United States today. HSAs provide triple benefits, as funds are contributed pre-tax, grow tax-free and are distributed with no tax due as long as the money is used for health and medical expenses. IRS Publication 969 outlines the rules regarding individual HSAs.

NOT 'USE IT OR LOSE IT'

Unlike a flexible spending account (FSA) or health reimbursement account (HRA), an HSA is not "use it or lose it." An HSA belongs to the individual and is custodied by a bank, credit union or financial institution. Unused funds roll over and accumulate year to year tax-free. HSAs are assets that can be passed to a beneficiary.

An effective retirement planning strategy is to maximize an HSA's ability to provide tax-free funds for Medicare and other retirement health costs. Here's how the strategy works: The account holder makes the maximum annual contribution to the HSA and keeps the funds in the account rather withdrawing money on a routine basis for health care expenses. This allows the balance to grow and accumulate tax-free year over year.

Contribution limits ($3,350 per individual and $6,650 per family in 2015, with catch-up allowances) are based on a full calendar year of HDHP participation. If a member is covered by the HDHP plan for less than one year, HSA contribution limits are prorated based on the number of months of participation. But if the HDHP plan starts in December, the full-year contribution limit is allowed for that year. Contributions to an HSA can be made through April 15 of the current year toward the prior year's limits.

As people accumulate larger balances in their accounts, financial institutions are responding by providing more investment opportunities, such as mutual funds, on HSA platforms. Some offer private-label HSA platforms that financial advisers can use with their clients.

An important note of caution: Advise your clients not to sign up for any part of Medicare if they would like to continue to contribute to their HSA. Conventional wisdom used to say that people could/should take Medicare Part A once they were eligible at 65 even if they had another source of health coverage because there was no additional cost. That is no longer the case for those with HDHPs who would like to contribute new dollars into their HSA.

If individuals choose to take Social Security retirement benefits, they must accept at least Medicare Part A. This can be an unintended consequence for those who use the Social Security retirement strategy known as file and suspend, as well as those who elect to begin receiving Social Security retirement benefits. If people contribute to an HSA when they use any part of Medicare, they could be subject to an IRS penalty.

Another caveat: People who are 65 or older need to make sure that the HDHP is Medicare Part D-creditable. That allows them to use a special enrollment period to avoid coverage gaps and penalties when they enroll in Medicare Part D in the future.

EASILY MISUNDERSTOOD

Given some of these rules, there are aspects of HSAs that can easily be misunderstood in retirement planning. For example, employers and individuals may think people are not allowed to contribute new dollars to HSA accounts after 65 even if they have not enrolled in any part of Medicare. Conversely, they may be contributing new dollars to HSAs when they are not qualified to do so.

An HSA is an increasingly important tool in retirement planning. It provides a tax-free source of cash flow when spent on medical expenses in retirement. The fact that HSA money will not cause an income-related increase in Medicare premiums creates a double retirement-planning bonus for your clients.

Katy Votava, Ph.D., RN, is president of Goodcare.com, a consulting service that works with financial advisers and consumers concerning health care coverage.

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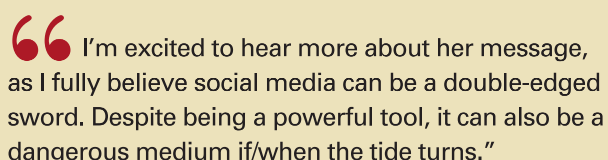
IN VOICES

InvestmentNews readers weigh in on top stories

Lewinsky keynote elicits sympathy, talk of politics

Cyberbullying — the topic of Monica Lewinsky's keynote at Ron Carson's Peak Advisor Alliance Excell conference this fall — lived on again in the comments on Alessandra Malito's story on the topic for *InvestmentNews*. Perhaps more enlightening were advisers' thoughts on the inspirational aspects of coming back from one's darkest moment and how they can use that lesson with clients. Of course, remarks about this choice of keynote being politically motivated weren't far behind. To leave your own comments, visit InvestmentNews.com/Lewinsky.



"I'm excited to hear more about her message, as I fully believe social media can be a double-edged sword. Despite being a powerful tool, it can also be a dangerous medium if/when the tide turns."

— JackS

"I compliment Monica Lewinsky for 'making lemonade out of lemons.' Anyone can criticize, but the test of true character is to get up from your darkest moments and learn from your mistakes. It's a lesson that we as financial advisers can take back to our clients and children."

— Joe B.

"I'm glad to hear of this [news] because I actually was taking a deep dive into using Peak Advisor for my practice, but having heard Carson speak, I found his presentation compelling, but the taint of his political bias kept arising … There are hundreds of people who could speak about this, but in our painfully elongated presidential election cycle, the motivation here is pretty clear. No thanks."

— keg

"I'm not sure where all this talk of politics is coming from. Ron is smart enough to know that you keep politics out of your practice, for fear of alienating half of your book."

— Phil21

"I am guilty of making fun of her at the time, but the courage of this woman to speak so candidly about her experiences without excuses is laudable … Personal privacy no longer exists and that is simply wrong morally and ethically."

— fbcx

"You go girl. Lots of guts and class. Go forward and enjoy the rest of your life productively as illustrated by this speech!"

— FRED_TAYLOR

GETTY IMAGES

How to serve the ultra-rich

Advising the wealthy means being prepared to bend over backward

By Liz Skinner

Paul Tramontano regularly reviews what clients of Constellation Wealth Advisors encounter when they walk through the advisory firm's front doors. Then this chief executive makes the changes necessary to improve the experience.

He knows that helping extremely wealthy clients with their finances requires special services that go beyond a couple of phone calls and a meeting each year.

At New York-based Constellation, where clients' average wealth ranges from $25 million to $35 million, customer service may include having an adviser fly to Florida for lunch with a client whose son recently died or working administrative miracles to get a loan secured before the imminent closing of a real estate deal.

"We acquire a lot of clients because we've been good investors, but we keep a lot of clients because we are great at service," Mr. Tramontano said.

ADVISER'S CONSULTANT
CLIENT EXPERIENCE

The firm's advisers handle as few as 10 clients and a maximum of 50 because they try to meet with each client once a quarter.

At a minimum, the firm provides a quarterly slideshow of what's going on in the world and how the investment committee views the capital markets. It's important to educate clients to understand what's happening with their money — and clients appreciate it, Mr. Tramontano said.

"If you understand why you own something, you're a better investor," he said.

Constellation's excellent client service includes a comfortable meeting space, with couches instead of giant boardroom tables that might intimidate older clients or prospects. The staff offers clients a beverage (always served with a glass) and will order them a meal if they haven't eaten.

"We want people to come here and feel comfortable because we are going to talk about personal things," Mr. Tramontano said.

Constellation, a $6.5 billion firm, has agreed to be acquired by First Republic Bank later this year.

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Paul Tramontano: His firm's advisers handle as few as 10 clients to ensure proper attention.

Tip sheet

- **Meet clients** where they choose, which may be their home or office. Also, have comfortable spaces available for clients who want to come into your office.
- **Have a hands-on** team that goes out of their way for clients. This can be encouraged by regularly asking staff for examples of how they've provided over-the-top service.
- **Staff members** should be familiar with all the clients so that when one calls, the person answering the phone immediately knows who they're talking with.
- **Serve as the quarterback** with clients' other tax, legal and insurance professionals. Do things that help these other advisers be more efficient with their billable time. For example, Constellation collects all relevant tax documentation and sends it to clients' accountants each year.
- **Hire a high-quality** team that is motivated and enjoys the work. Then make sure to keep them by offering superior compensation and benefits.
- **Be ready to work** with clients' children. Constellation seeks to educate the next generation slowly, over time, by sending out books and articles and hosting instructive events for the kids of clients.

Exit planner cert trains for biz sales

By Liz Skinner

An obscure designation called the Certified Exit Planner may be one way financial advisers who work with business owners can distinguish themselves from the average planner.

It also may help them when it comes time to develop a succession plan for their own firms.

The six-year-old certification program, overseen by the Business Enterprise Institute, teaches a seven-step exit process to those who advise business owners, including financial advisers. "The program is ideal for anyone who works with business owners and wants to help them with eventually exiting the business," said Lisa Fannin, marketing coordinator for Denver-based BEI. "It offers training in business valuation, growing the value of a firm and all the tax and legal implications of transferring a business successfully."

About 190 people have attained the designation and about 56% of them are in the financial industry, Ms. Fannin said.

The CExP has a 68% pass rate and requires attendance at a two-day training session, completion of 10 online courses and 30 hours of work creating written exit plan strategies.

Roger Verboon, director of succession, continuity and acquisition planning at Securities America, said it took him almost six months to complete the program.

"I have suggested to a number of advisers that they look into the certification," he said.

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*Source: Morningstar as of 05/01/2015. Based on 2015 industry average expense ratio for emerging market ETFs of 0.49% and Vanguard Emerging Markets Government Bond Index Fund ETF expense ratio of 0.34%. The next lowest expense ratio is 0.47%.

There may be other material differences between products that must be considered prior to investing.

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CONTENTSTRATEGY STUDIO

broker-dealer perspectives

an executive Q&A with

JENNIFER BACARELLA
Director of Firm Development

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Three challenges facing today's independent reps

Intergenerational wealth transfer, succession planning and social media are issues vexing almost all independent advisers. But one innovative broker-dealer has a unique solution for all three.

There probably never has been a better time for a registered representative to consider a move to independence or to enhance one's existing independent business by affiliating with a more suitable broker-dealer. Today, technological excellence is practically a given, as is an abundance of product choice. Even more encouraging, clients often are just as excited and enthusiastic about a move as their advisor. Still, independence has its challenges, so InvestmentNews Content Strategy Studio recently sat down with Jennifer Bacarella, Director of Firm Development at Sigma Financial Corporation and Parkland Securities, LLC to discuss key issues facing independent reps today and what her Ann Arbor, Mich.-based broker-dealer is doing to help their affiliated representatives meet those challenges and grow successful businesses. The following is an edited transcript of that conversation.

Content Strategy Studio: What are the biggest issues facing independent reps today?

Jennifer Bacarella: I believe there are three. The first is succession planning. When we updated our representative agreement, we were amazed at how many reps named their spouse or child as the beneficiary of their practice. Essentially, that meant they had no other professional in mind to serve their clients if something were to happen to them.

The second is social media. The issue is more than just deciding whether to use LinkedIn or Twitter or Facebook; it's really about how advisors want the public to perceive them, and about how deeply they want to be involved in social media. We find that social media participation is a daunting proposition for some, while others want to dive right in with no filter.

Finally, there's the wealth transfer starting from baby boomers to the next generation. Independent reps worry about whether they will be able to retain the assets of their boomer clients and if their practices can attract the next generation. Some feel they have to be more tech-oriented. Others feel they need to hire younger advisors or employ younger staff. There's a lot of uncertainty.

CSS: Let's go into each of those issues. What's the stumbling block in succession planning? Is it financial? Is it emotional? Both?

JB: The first issue is advisors seeing "retirement" as a viable option. So much depends on how the advisor started in the business, and their mentor's example. We've had advisors in their 80s still actively working with clients. If that's what a younger advisor has seen, they probably think of this business as one you can't retire from.

Our industry doesn't really have an easy retirement model to look at, either. The business has no standard 25- or 30-year work time frame, as in education or other fields. Many older advisors would like to cut back their hours, but not quit entirely. So, even as they advise their clients about retirement, they just don't think about it for themselves. Often it's clients who bring up the advisor's retirement because they're concerned about who will be managing their money in the future.

The second issue is trying to find a successor who's the right fit. Some advisors overthink that to the extreme. They try to find an exact duplicate of themselves, because they're convinced their clients won't be able to form a relationship with anyone who doesn't see and do things precisely the way they do. The truth is, we've had advisors take over the practices of retiring advisors who were their direct opposites in almost every way, and clients have transitioned quite happily.

Finally, there's the worth of the practice. Recurring revenue and whether clients are actively adding money or are in the distribution stage are important factors in valuations. While everybody wants two or three times recurring revenue, many aspects of a practice can move the number. Very simply, the more transactional the business, the lower the multiple.

What we also see is that when advisors finally commit to selling, they start to regret their decision about a month before it happens. After the close, for about two months, they feel like they shouldn't have sold. I've never met an advisor who was super happy on the day of the closing or who said that selling was the best thing they ever did. I think the regret stems from the loss of the social aspect of this business and the sense of helping people.

CSS: So wouldn't transitioning out rather than quitting cold make more sense?

JB: Absolutely. We helped an advisor do that this year. We identified the purchaser and helped the current advisor develop a three-year transition plan. The process started by introducing the younger advisor to the current advisor's clients, who loved it because they had been wondering about the advisor's future plans. He never really had an answer for them, so when he "created the answer" by taking on a partner, clients told him they were very happy. The most interesting part was that clients only told him later that they had been thinking about leaving him and finding someone younger. So, often it's not what people say, but what's on their minds.

A three-year transition gives an advisor a chance to wind down. The first year involves working pretty much full-time, while the second is more part-time. During the third year, the advisor comes to the office maybe

10 hours a week for large client appointments, planning meetings, and things like that. This gradual phasing out gives advisors a sense of completion. They can say to themselves that they did a good job and can walk away knowing their clients are in capable hands.

We've also helped the families of advisors who had done no succession planning, suddenly leaving spouses with a business they know nothing about at a time they are ill-equipped to make major decisions. We've helped them realize the value of their late spouse's business by bringing in other advisors to work with their clients, and then further assist by helping identify purchasers.

CSS: What advice do you give about social media?

JB: We always start by asking reps, "What do you think makes your practice great?" It could be anything. We have many advisors who are very active in their communities. If that's the case, the advisor could focus on community involvement in their social media. People who love their community as much as the advisor does are going to notice this passion, relate to it, and naturally gravitate toward the advisor.

Also, we recommend advisors ask their clients to tell them what brought them to their practice and what keeps them there. They can then focus their social media efforts around that feedback, because the qualities clients highlight are the key things an advisor should be saying and doing to grab the attention of people like those they already serve.

So, the goal is for advisors to find their voice and use social media effectively, addressing issues they are passionate about and know well, while staying compliant. We have two compliance members focused specifically on social media to efficiently help advisors participate.

CSS: How do you address asset retention as wealth moves from the boomer generation to the next?

JB: We suggest that advisors address the issue head-on. We know wealth transfers will happen, and advisors should bring this up with their clients in a straightforward, helpful way. Advisors could have introductory meetings with clients and heirs, where we recommend advisors reassure all involved that the practice is stable, and has a succession plan in place, emphasizing the willingness and desire to maintain a relationship beyond the current generation.

CSS: How does Sigma help advisors address other important issues?

JB: While we're truly a hands-off broker-dealer and don't impose any goals or requirements, we're here to support advisors and share ideas. More than 15 years ago, we created a case planning department staffed with specialists. In addition to product and financial planning specialists, we've added a highly experienced editor, who helps us effectively communicate with our advisors, and can assist advisors with bios and proofreading and other marketing support functions. This assistance can save advisors lots of time and help them present themselves more professionally.

We also now have a specialist in identity theft, fraud, and cyber security. This may not seem like a standard support function, but since electronic security is affecting our reps and their clients, we want to be a resource. We have created a prevention program and trained our staff to comply with federal regulations. Additionally, we are proactively working on resources and education to help protect our advisors and their clients.

CSS: What about technology?

JB: We moved our RIA platform to Fidelity in 2009 and our broker side in 2012 because we found them to be a great fit. They're private, they're driven by what their clients want them to do — which is how we work with our reps — and their technology is top-notch. But we don't force technology on any of our reps. It's never "either/or." If they want to enter trades themselves on their iPads, they can; if they want to call our trade desk, that's fine too. They know there's always a live person here to help, who will go the extra mile in support of their practice.

CSS: With so many broker-dealers to choose from, why should an advisor consider Sigma?

JB: I'll start with what's probably the most unusual thing about us: Since our founding in 1983, we've had the same individual owner — Jerry Rydell. He started the firm with a vision of creating an environment where advisors would be independent, and able to do business with whoever they wanted, so that they could offer clients the best investment opportunities possible. He named it "Sigma" because he looked at the firm as a fraternity of representatives working independently.

Today, there aren't many truly independent firms like us left. We serve 1,100 reps through Sigma Financial and Parkland Securities from our Midwest back office — which East Coast reps say they like, always commenting about how friendly we are — and we don't have any proprietary products or promote specific products. We're very careful about what we allow on our platform. We believe the thoughtful due diligence process we put products through has prevented many of the problems and losses that other firms and their clients have experienced.

Finally, since we have no plans to go public or sell the firm, we do have a succession plan. We'd be remiss if we didn't. I'm one of three executives in our 40s who run the business and have been with the firm for 20 years or more. There's a multi-generational approach within the firm that many people find very refreshing.

CSS: Anything else that sets you apart?

JB: Maybe it's strange to talk about leaving before a rep even gets here, but if a rep decides to leave us and go to another broker-dealer, we don't do anything to keep their clients or make it hard to leave. Sometimes they just feel somewhere else will be a better fit. Whatever the reason, we fully support them and their clients in the transition. We pay them for 90 days because we want the transition to be as smooth as possible, and we want them to know they can always come back. We're like a twist on the song "Hotel California" — you can check out, and you really can leave.

CSS: How would an interested advisor contact you?

JB: We can be reached by phone at (800) 373-1612. Ask for me or anyone in Firm Development. Advisors can also email us at fd@bdops.com. Finally, interested advisors can visit www.joinsigma.com.

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MANAGEMENT INSIGHTS FROM PAUL PURCELL

Employee ownership is key for Baird

TODD WINTERS

By Liz Skinner

Paul Purcell's mother died young, and the chief executive of Robert W. Baird & Co. almost followed in her footsteps in his 30s because of a terrible infection. Both these events contributed to his view of the world and the way he leads the 3,200 professionals of Milwaukee-based Baird.

Mr. Purcell, 68, readily admits to pushing people hard to succeed, much as he's pushed himself. But he's also eager to reward accomplishments, and wants everyone at the $152 billion wealth management company to view their role as critical to the firm's achievement.

The employee-owned company, which has 825 financial advisers, has landed on the Fortune 100 Best Companies to Work For list a dozen times since Mr. Purcell became CEO in 2000. Most recently, it beat out Edward Jones as the top financial services firm.

Anyone interested in a job at this nearly 100-year-old institution should know that smarts aren't going to be enough to convince them to hire you. Mr. Purcell, who was born and raised Catholic in Salt Lake City, demands recruits have a history of success and integrity, and the ability to conform to his "No Asshole" policy.

LS: *What kind of culture are you trying to foster at Baird?*
PP: I spent 22 years at Kidder Peabody, working at a very large investment banking business there out of Chicago. My first 18 years were wonderful, but things changed there after the General Electric acquisition. When it became clear to me that I needed to leave Kidder because Kidder had left me, I was looking for a firm with a specific culture, the kind of culture Kidder had in the early days. That is client-focused, utmost professional and having the highest integrity. Baird had all that. The things we focus on all day long at Baird are making sure the clients are always treated first in the firm and that we have created a value proposition that works with the clients.

LS: *How important was it to become employee-owned again?*
PP: By far the most important thing we've done. Nothing else is even close. When I came in 1994, Baird owned 20% of the firm and Northwestern Mutual owned 80%. By 2004, we were at 94% employee-owned. We had a fabulous relationship with Northwestern Mutual for 30 years, and today they are the only outside shareholder in the firm. They own a little over 6% of Baird. We have no absentee ownership; you can't own stock unless you are here working every day. We viewed that we needed to be independent to survive and prosper.

LS: *Does it make a difference in recruiting?*
PP: When we got into the downturn in 2008 and 2009, when most firms were significantly restructuring, we did not lay anybody off. We viewed that as the best recruiting opportunity in the history of financial services. At the end of 2007 we had 2,400 employees and at the end of 2014 we had 3,250. So we grew more than 35% while the industry contracted. Had we been part of Northwestern Mutual, it's highly unlikely that we could have been that aggressive. Not one of the 850 people who came would have come if they couldn't have become a shareholder in an independent, privately held, employee-owned firm.

LS: *What other things do you do to foster the kind of culture you want in the workplace?*
PP: We are very big on celebration for not only our success but individual success. We have lots of individual awards and celebrations to say to people, "Thank you very much." We have been on Fortune's List of 100 Best Companies to Work For 12 years in a row. It's a phenomenal list; Google is No. 1. For 2015, we were No. 5. We think being one of the top 10 places to work is an absolutely fabulous accomplishment for our associates.

> *"The best people ... are absolutely manic about getting better, not just winning."*

LS: *So you are the top-ranked financial services company?*
PP: Yes. This was the first year ever that we were ahead of Edward Jones, which we think is a fabulous partnership and wonderful client-driven firm. We're No. 5 and they're No. 6. We frankly never thought we'd get ahead of them, and I'm not sure we ever will again. We are honored to be in the same zip code as Edward Jones.

LS: *What qualities do you look for in a potential hire?*
PP: We look for people who have been very successful over a sustained period of time, no matter what they have done. Almost all the people we talk to are very smart; that's not a big differentiator. Work ethic, honesty, integrity, putting the client first versus themselves ... those things are important in terms of our incredible focus on teamwork. We need people who are very competitive and have a need and desire to succeed and want to get better. Ultimately, the best people, who are going to take you where you want to [be] in terms of improving your franchise, are people who are absolutely manic about getting better, not just winning.

LS: *What kind of hiring advice can you offer other financial professionals?*
PP: We have a policy that we call the No Asshole Policy, or No Jerk Policy. We will not hire people who put themselves ahead of clients or ahead of the firm. And if we do, when we figure it out, we allow them to go work someplace else.

LS: *Was there a time when you faced adversity in your life?*
PP: When I was 5, my mother died. It made me very independent at a very early age, and independence makes you more of a leader. You take control of your life earlier and in a more competitive fashion. There's no question it had a lot to do with my drive, same with my older brother.

The second thing is when I was 34, I got very sick. I got a staph infection and almost died. My kidneys shut down and I was on dialysis for nine months. I was incredibly fortunate; this hardly ever happens — my kidneys kicked back in. That nine months of being tied to that dialysis machine made me very grateful for each and every day of my life. I treat every minute of every day as precious. It clearly changed my view of life and made me a vastly better person.

LS: *Do you think the industry's high turnover rate impacts the lack of trust that the public has of the financial services profession?*
PP: Absolutely, there's no question in my mind, because I've watched this for years and years. The industry is unbelievably focused and good at protecting certain people and compensation. They take that out on other people, in my opinion. Clients don't like turnover. If someone is serving you in whatever organization and they keep changing those people, do you feel valuable? Of course you don't; you feel like a pawn in the game. The consistency of application in a client service business is incredibly important in building trust with that client, and ultimately, this business is entirely trust.

LS: *Is there anything you do to stay on top of time management?*
PP: I don't do long meetings. The enemy of any financial services firm is bureaucracy; you have to make sure you're not making work. We have very tight meetings when we have them. If you have a meeting [of] more than half an hour, you better have a really robust agenda.

Visit InvestmentNews.com/csuite for an extended version of this interview.

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TOP QUINTILE PERFORMANCE (AS OF 06/30/2015)			
	1-Year	*5-Year*	*10-Year*
MORNINGSTAR PERCENT RANK *Category: Foreign Large Blend*	14TH Percentile *out of 781 Funds*	10TH Percentile *out of 584 Funds*	3RD Percentile *out of 331 Funds*
AVERAGE ANNUAL TOTAL RETURNS (AS OF 06/30/2015)			
CLASS A (NAV) NET EXPENSE: 1.40%	0.14%	11.12%	8.54%
CLASS A (LOAD) NET EXPENSE: 1.40%	-5.16%	9.82%	7.90%
MSCI EAFE INDEX	-4.22%	9.54%	5.12%

Data quoted is past performance and current performance may be lower or higher. Past performance is no guarantee of future results. Investment return and principal value of an investment will fluctuate, and shares, when redeemed, may be worth more or less than their original cost. Please visit www.ivyfunds.com for the Fund's most recent month-end performance. Class A share performance, including sales charges, reflects the maximum applicable front-end sales load of 5.75%. Performance at net asset value (NAV) does not include the effect of sales charges.

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Separately managed accounts

Ranked by second-quarter returns

U.S. large-cap equity

Product	2Q return	1-year return	3-year return	5-year return	5-year std dev	5-year Sharpe ratio	Assets ($M)	Manager	Location
Edgewood Management - Large Cap Growth Equity*	**3.78%**	12.17%	22.27%	22.33%	14.17%	1.57	$12,163.6	Team	New York
John Hancock Asset Management - Fundamental Large Cap Core Wrap*	**3.60%**	8.93%	18.96%	19.41%	14.30%	1.35	$8,135.0	Team	Boston
Thornburg Investment Management Inc. - Thornburg U.S. Equity Wrap	**3.34%**	11.23%	21.80%	15.49%	16.72%	0.92	$1,809.4	Team	Santa Fe, N.M.
The London Co. - Concentrated	**2.67%**	8.21%	16.60%	21.54%	12.57%	1.71	$140.3	Team	Richmond, Va.
AllianceBernstein - Strategic Research*	**2.64%**	12.87%	22.59%	18.29%	18.98%	0.96	$2,754.7	Team	New York
Fred Alger Management Inc. - Large Cap Growth	**2.59%**	13.05%	20.26%	18.04%	13.63%	1.32	$1,137.6	Dan C. Chung	New York
Suffolk Capital Management - Core	**2.56%**	13.97%	24.66%	18.47%	16.86%	1.09	$704.0	Team	New York
Kovitz Investment Group - Kovitz Core Equity	**2.44%**	8.92%	17.32%	16.90%	12.40%	1.36	$1,525.6	Team	Chicago
Argent Capital Management - Large Cap Equity	**2.40%**	13.36%	20.67%	20.18%	14.51%	1.38	$2,489.7	Team	St. Louis
Polen Capital Management - Polen Focus Growth	**2.38%**	19.03%	17.17%	19.40%	13.31%	1.45	$5,889.5	Team	Boca Raton, Fla.
J.P. Morgan Asset Management - Large Cap Growth	**2.33%**	16.05%	17.44%	19.85%	14.42%	1.37	$20,831.7	Giri Devulapally	New York
Ziegler Capital Management - Red Granite Large Cap Growth	**2.30%**	17.60%	20.70%	19.39%	13.36%	1.45	$633.9	Team	Chicago
Cambiar Investors - Value Equity	**2.28%**	6.80%	18.12%	14.78%	15.44%	0.95	$3,714.3	Team	Denver
Legg Mason Inc. - ClearBridge Large Cap Growth - SMA	**2.25%**	14.97%	22.71%	20.96%	12.72%	1.64	$7,419.8	Team	Baltimore
AllianceBernstein - AB Concentrated Growth (MA)*	**2.20%**	14.33%	21.30%	20.89%	14.03%	1.48	$2,791.0	James Tierney	New York
S&P 500	**0.28%**	**7.42%**	**17.32%**	**17.35%**	**12.72%**	**1.36**			

U.S. midcap equity

Product	2Q return	1-year return	3-year return	5-year return	5-year std dev	5-year Sharpe ratio	Assets ($M)	Manager	Location
Steinberg Asset Management - Mid-Cap Value Equity	**4.29%**	2.35%	17.65%	16.07%	14.84%	1.08	$121.8	Michael A. Steinberg	New York
The Boston Co. Asset Management - SMID Cap Opportunistic Value	**4.27%**	8.29%	22.70%	20.08%	20.79%	0.96	$1,655.7	David A. Daglio	Boston
J.P. Morgan Asset Management - Mid Cap Growth	**4.11%**	13.82%	23.62%	20.30%	17.70%	1.14	$6,993.0	Timothy Parton	New York
Apex Capital Management - Small/Mid Cap Growth	**3.83%**	10.65%	22.31%	21.90%	18.76%	1.16	$5,269.9	Team	Dayton, Ohio
Pinnacle Associates Ltd. - Small Mid Cap Equity	**3.26%**	9.78%	22.42%	21.24%	19.93%	1.06	$3,128.0	Team	New York
Wells Fargo - Fundamental SMID Cap Growth Equity	**3.23%**	12.56%	19.00%	20.78%	17.89%	1.16	$114.6	Team	San Francisco
Riverbridge Partners - SMID Cap Growth	**2.85%**	10.53%	15.41%	19.49%	12.99%	1.49	$1,803.2	Team	Minneapolis
Stephens Investment Management Group - Mid Cap Growth	**2.33%**	8.41%	16.64%	18.33%	14.67%	1.24	$190.0	Ryan E. Crane	Houston
Quantum Capital Management - Mid Cap Growth	**2.23%**	13.49%	19.89%	21.58%	16.40%	1.31	$583.0	Timothy D. Chatard	San Francisco
Oak Ridge Investments - Small to Mid Cap Growth	**2.10%**	13.01%	19.91%	19.75%	15.20%	1.29	$3,793.2	Team	Chicago
Schroders Investment Management - U.S. Small & Mid Cap Opportunity	**2.07%**	12.53%	20.02%	17.49%	14.79%	1.18	$3,533.1	Jenny Jones	New York
Geneva Capital Management - Mid Cap Equity	**2.03%**	14.63%	15.72%	18.14%	15.06%	1.2	$3,422.0	Team	Milwaukee
New Amsterdam Partners - Small-Mid Cap Active Equity*	**1.95%**	11.92%	21.21%	22.49%	19.33%	1.16	$214.8	Team	New York
Artisan Partners Limited Partnership - Mid Cap Growth SMA	**1.91%**	10.24%	19.36%	20.75%	16.91%	1.22	$16,553.0	Team	Milwaukee
Tradewinds Global Investors - Small to Mid Cap Value	**1.90%**	0.51%	10.78%	8.66%	15.10%	0.57	$194.8	Andrew Thelen	Los Angeles
Russell Midcap	**-1.54%**	**6.63%**	**19.26%**	**18.23%**	**15.36%**	**1.18**			

U.S. small-cap equity

Product	2Q return	1-year return	3-year return	5-year return	5-year std dev	5-year Sharpe ratio	Assets ($M)	Manager	Location
Oberweis Asset Management Inc. - Concentrated Small-Cap Growth Strategy	**9.34%**	11.05%	17.57%	15.35%	22.38%	0.68	$156.0	Team	Lisle, Ill.
The Boston Co. Asset Management - Small Cap Growth	**6.31%**	19.89%	22.83%	20.33%	17.50%	1.16	$525.0	Todd Wakefield	Boston
Timpani Capital Management - Small Cap Growth	**6.22%**	17.33%	23.95%	22.40%	21.07%	1.06	$349.5	Brandon M. Nelson	Milwaukee
Federated Investors Inc. - MDT Small Cap Growth	**4.41%**	12.26%	21.11%	21.96%	21.04%	1.04	$121.4	Team	Pittsburgh
Apex Capital Management - Small Cap Growth	**4.33%**	14.80%	22.51%	23.52%	17.99%	1.3	$1,165.3	Team	Dayton, Ohio
Rice Hall James & Associates - Small Cap Equity	**4.20%**	14.26%	20.19%	21.17%	17.00%	1.24	$1,091.4	Team	San Diego
LMCG Investments - Small Cap Growth	**3.96%**	20.58%	25.38%	22.46%	19.59%	1.14	$337.3	Andrew Morey	Boston
Rice Hall James & Associates - Small Cap Opportunities	**3.32%**	17.41%	23.24%	25.03%	15.23%	1.64	$620.3	Team	San Diego
Conestoga Capital Advisors - Small Cap Growth	**3.30%**	8.57%	15.81%	18.38%	17.67%	1.04	$1,691.6	Team	Wayne, Pa.
Atlanta Capital Management - High Quality SMID	**3.18%**	14.16%	20.06%	20.30%	15.78%	1.28	$8,016.5	Team	Atlanta
Kennedy Capital Management - Small Cap Select	**2.98%**	0.94%	12.86%	15.24%	16.60%	0.91	$317.8	Terry Raterman	St. Louis
SouthernSun Asset Management - Small Cap	**2.93%**	-7.66%	17.25%	21.73%	21.24%	1.02	$2,518.8	Michael W. Cook Sr.	Memphis, Tenn.
PNC Capital Advisors - Small Cap Portfolio	**2.68%**	12.83%	21.84%	21.89%	16.83%	1.3	$1,156.1	Team	Baltimore
Eagle Asset Management - Small Cap Growth - Retail	**2.43%**	13.04%	19.13%	19.15%	18.44%	1.03	$9,670.9	Team	St. Petersburg, Fla.
ClearBridge Investments - ClearBridge Small Cap Value	**2.32%**	1.89%	16.14%	15.52%	18.48%	0.84	$466.6	Team	New York
Russell 2000	**0.42%**	**6.49%**	**17.81%**	**17.08%**	**17.77%**	**0.96**			

Continued on Page 18

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Continued from Page 16

International, global, emerging-markets equity

Product	2Q return	1-year return	3-year return	5-year return	5-year std dev	5-year Sharpe ratio	Assets ($M)	Manager	Location
Thornburg Investment Management Inc. - Thornburg International Equity	**4.91%**	9.53%	12.15%	9.85%	15.25%	0.64	$12,055.3	Team	Santa Fe, N.M.
Tradewinds Global Investors - International ORD	**3.62%**	-2.79%	11.30%	5.98%	13.43%	0.44	$886.2	Peter L. Boardman	Los Angeles
Cambiar Investors - International ADR	**3.54%**	1.93%	14.24%	12.91%	15.59%	0.82	$3,208.4	Team	Denver
HGK Asset Management Inc. - International Equity	**3.51%**	-2.49%	18.53%	12.74%	17.76%	0.71	$718.0	Richard Bruce	Jersey City, N.J.
Lazard Asset Management - International Equity Select ADR - SMA	**3.45%**	-0.38%	13.63%	12.55%	14.86%	0.84	$4,447.2	Team	New York
McKinley Capital Management - International Non-U.S. Growth	**2.97%**	3.62%	13.91%	10.63%	15.40%	0.69	$2,456.7	Team	Anchorage, Alaska
Hansberger Growth Investors - Hansberger International Growth ADR	**2.89%**	1.54%	12.34%	9.46%	19.34%	0.49	$570.1	Team	Burlington, Ontario
Brandes Investment Partners - International Equity	**2.81%**	-2.40%	14.01%	9.84%	14.23%	0.69	$10,885.9	Team	San Diego
NorthRoad Capital Management - International Equity	**2.81%**	-2.67%	12.01%	9.88%	13.72%	0.71	$359.6	Team	New York
Newgate Capital Management - Emerging Markets	**2.77%**	-3.03%	3.90%	2.18%	20.48%	0.1	$218.0	Team	Greenwich, Conn.
Legg Mason Inc. - ClearBridge International Growth ADR SMA	**2.68%**	3.74%	14.91%	11.71%	15.87%	0.73	$634.2	Team	Baltimore
Tradewinds Global Investors - International Value ADR	**2.66%**	-4.46%	10.00%	5.51%	13.48%	0.4	$1,174.9	Peter L. Boardman	Los Angeles
J.P. Morgan Asset Management - International ADR	**2.65%**	0.52%	11.53%	10.02%	16.13%	0.62	$12,779.1	James Fisher	New York
del Rey Global Investors - International Equity	**2.32%**	-3.67%	10.52%	5.42%	13.61%	0.39	$381.5	Paul Hechmer	Los Angeles
MFS Investment Management - MFS Research International Portfolio (ADR only)	**2.32%**	-1.84%	12.23%	10.40%	15.50%	0.67	$861.4	Team	Boston
Russell Dev ex North America Large Cap	**0.64%**	**-3.97%**	**12.50%**	**9.87%**	**15.60%**	**0.63**			
Russell Dev Large Cap	**0.21%**	**1.50%**	**14.66%**	**13.38%**	**13.60%**	**0.98**			
Russell Emerging Markets Large Cap	**1.35%**	**-4.88%**	**4.52%**	**4.26%**	**17.45%**	**0.24**			

U.S. fixed income

Product	2Q return	1-year return	3-year return	5-year return	5-year std dev	5-year Sharpe ratio	Assets ($M)	Manager	Location
First Western Capital Management - High Yield Short Duration	**1.56%**	1.90%	7.22%	8.21%	5.05%	1.61	$197.4	Steven S. Michaels	Los Angeles
Pacific Income Advisers - U.S. High Yield	**1.41%**	1.64%	7.86%	9.05%	5.33%	1.68	$633.0	Team	Santa Monica, Calif.
First Western Capital Management - High Yield Fixed Income	**1.33%**	0.97%	7.49%	9.37%	5.52%	1.68	$298.7	Steven S. Michaels	Los Angeles
Diamond Hill Capital Management Inc. - Strategic Income	**0.97%**	3.42%	5.29%	6.63%	3.24%	2.02	$271.1	Team	Columbus, Ohio
Shenkman Capital Management Inc. - Short Duration High Income Strategy	**0.80%**	2.21%	4.10%	5.49%	2.56%	2.11	$3,470.5	Nicholas Sarchese	New York
Brandywine Global Investment Management - High Yield	**0.64%**	-0.84%	7.64%	10.15%	5.64%	1.79	$382.6	Team	Philadelphia
Three Peaks Capital Management - High Yield Bond	**0.38%**	1.51%	5.25%	6.58%	2.98%	2.18	$295.0	Sandy Rufenacht	Castle Rock, Colo.
Shenkman Capital Management Inc. - High Yield Bond Strategy	**0.33%**	1.52%	6.30%	7.95%	5.35%	1.47	$12,928.3	Team	New York
Oppenheimer Investment Management - High Yield Fixed Income	**0.22%**	-3.53%	5.55%	7.37%	6.26%	1.16	$228.1	Leo Dierckman	Carmel, Ind.
Lazard Asset Management - U.S. Short Duration Fixed Income	**0.16%**	0.81%	0.92%	1.36%	0.60%	2.15	$505.4	Team	New York
Pacific Income Advisers - Short Term	**0.13%**	1.05%	0.81%	1.03%	0.50%	1.88	$127.0	Team	Santa Monica, Calif.
PNC Capital Advisors - Ultra Short	**0.13%**	0.43%	0.57%	0.68%	0.22%	2.71	$686.9	Team	Baltimore
Dana Investment Advisors Inc. - Limited Volatility	**0.11%**	0.90%	0.90%	1.42%	0.56%	2.4	$1,194.2	Team	Brookfield, Wis.
Sterling Capital Management - Enhanced Cash Management	**0.11%**	0.63%	0.81%	0.98%	0.41%	2.2	$2,518.0	Team	Charlotte, N.C.
Wasmer Schroeder & Co. Inc. - Short-Term Taxable Fixed Income	**0.11%**	0.92%	1.39%	1.89%	0.90%	2	$145.6	Team	Naples, Fla.
Barclays Aggregate	**-1.68%**	**1.85%**	**1.83%**	**3.35%**	**3.04%**	**1.07**			

U.S. municipals

Product	2Q return	1-year return	3-year return	5-year return	5-year std dev	5-year Sharpe ratio	Assets ($M)	Manager	Location
Stonebridge Capital Advisors - Tax Exempt Fixed Income	**0.28%**	2.39%	3.18%	4.28%	2.54%	1.65	$502.2	Team	St. Paul, Minn.
Gurtin Fixed Income Management - Core Tax-Exempt	**0.12%**	0.76%	1.10%	1.65%	0.77%	2.06	$2,100.2	Team	Solana Beach, Calif.
PNC Capital Advisors - Enhanced Cash Municipal	**0.12%**	0.43%	0.52%	0.57%	0.11%	4.58	$142.1	Team	Baltimore
C.W. Henderson & Associates - Short-Term Strategy T/E	**0.08%**	0.54%	0.71%	0.92%	0.28%	2.99	$315.0	Team	Chicago
Sterling Capital Management - Enhanced Cash Municipal	**0.07%**	0.38%	0.63%	0.87%	0.30%	2.63	$837.7	Team Managed	Charlotte, N.C.
Gurtin Fixed Income Management - California Municipal Value	**0.06%**	4.06%	5.28%	6.15%	4.02%	1.51	$858.4	Team	Solana Beach, Calif.
PNC Capital Advisors - Short Municipal	**0.04%**	0.46%	0.73%	1.19%	0.72%	1.56	$564.7	Team	Baltimore
Sterling Capital Management - Short Term Municipal	**-0.01%**	0.44%	0.81%	1.23%	0.66%	1.76	$1,616.3	Team	Charlotte, N.C.
Capstone Asset Management Co. - Municipal Fixed Income	**-0.03%**	1.50%	1.96%	2.62%	1.99%	1.27	$416.8	Team	Houston
Appleton Partners - Short-Term Municipal Bond*	**-0.05%**	0.73%	1.13%	1.89%	1.34%	1.35	$678.6	Team	Boston
Dana Investment Advisors Inc. - Municipal Bond	**-0.07%**	1.65%	1.96%	2.65%	1.12%	2.3	$312.0	Team	Brookfield, Wis.
Eaton Vance - TABS Limited Maturity	**-0.08%**	1.21%	1.42%	2.47%	2.11%	1.13	$3,507.5	Team	Boston
Breckinridge Capital Advisors Inc. - Limited-Term Tax-Efficient Bond Strategy	**-0.09%**	0.80%	1.09%	1.71%	1.18%	1.38	$1,495.7	Team	Boston
Capital Group - Capital Group PCS Short-Term Municipal Composite*	**-0.09%**	0.58%	1.11%	1.72%	1.18%	1.39	$272.3	Team	Los Angeles
Gurtin Fixed Income Management - Municipal Value	**-0.11%**	3.58%	4.75%	5.77%	3.66%	1.55	$2,035.1	Team	Solana Beach, Calif.
Barclays Municipal Bond	**-0.89%**	**3.00%**	**3.10%**	**4.50%**	**4.18%**	**1.06**			

*Preliminary. The separately managed account products listed in these tables generated the highest performance for the second quarter ended June 30. Rankings are based on performance reported to the PrimaGuide research application by Aug. 7. In the case of ties, products are listed alphabetically. Past performance is not a guarantee of future results, and advisers should rely on additional factors when determining whether to include SMAs in their client portfolios. The PrimaGuide SMA universe isn't intended to be all-inclusive but rather represents a diversified group of products that are available to, and suitable for, the affluent retail investor.

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Get ahead of worsening news on the IRS tax account breach

An email to clients is warranted as the number of citizens exposed triples

By Liz Skinner

"YOU COULDN'T really do worse than having someone get your tax information."
Neal Frankle
Founder
Wealth Resources Group

ISTOCK

With the IRS's announcement that cyberthieves actually breached 334,000 taxpayer accounts, not 100,000 as the agency originally stated in May, client concerns about their financial information being compromised could be revived.

The Internal Revenue Service reported the new figure last Monday, but said it was not clear whether information was actually stolen from each person. Everyone whose account was hacked will receive a letter from the IRS in coming days.

"Advisers should send out an email to clients making them aware of the breach and instructing any client who receives an IRS letter to contact their advisory firm," said Steve Doster, a financial planner with Rowling & Associates.

In its statement last week, the IRS urged taxpayers to take advantage of its offer to provide free credit protection and identity-protection PINs, noting that next year's tax returns also could be targeted by these cybercriminals.

"The IRS believes some of this information may have been gathered for potentially filing fraudulent tax returns during the upcoming 2016 filing season, so anyone receiving a letter should take steps to protect themselves," the IRS statement said.

Neal Frankle, founder of Wealth Resources Group, said the hack of an IRS account is more significant than having information stolen through a corporate breach because of the depth of financial records that could be accessed.

"You couldn't really do worse than having someone get your tax information, unless maybe someone hacked into your credit bureau record," he said.

Anyone who is particularly nervous about having their identity stolen should do a credit freeze, as long as they won't be applying for a mortgage, car loan or other credit anytime soon, Mr. Doster said.

When consumers with a credit freeze need to make a large purchase or get a loan, they have to contact the major credit agencies and ask for a "thaw" for a certain period of time.

GUIDING CLIENTS

Mr. Doster said he plans to freeze his own credit so he can gain first-hand experience of the process and guide any clients who decide to take that route. While he hasn't had his identity stolen, Mr. Doster has had thieves use his credit card and has received letters like those the IRS is preparing to send out.

"There's so many companies that are getting hacked, there's nothing that will 100% stop client data from being stolen," he said. "The only way to help the situation is to close down your credit."

In an unrelated case of hacking involving 350,000 Morgan Stanley accounts, the Federal Trade Commission found earlier this month that a computer glitch was to blame for allowing a former employee to gain access to client data, not the firm's procedures.

The IRS hackers accessed accounts from the 2015 tax-filing season. The information that they may have retrieved includes Social Security numbers, dates of birth and addresses, the agency said.

The cybercriminals used personal information about taxpayers that they acquired from other sources to answer personal account-authorization questions online and gain access to the taxpayers' accounts via the IRS Get Transcript application, which was shut off in May.

The hackers, who have not been identified, attempted to break into another 281,000 taxpayer accounts, but failed to get through the authentication process. Those taxpayers also will receive a warning letter from the IRS.

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What the DOL fiduciary rule will end up looking like

Based on feedback in letters and hearings, changes can be projected

After four days of hearings at the Department of Labor earlier this month, the fate of a proposal to raise investment advice standards for retirement accounts will be determined by one thing: the strength of President Barack Obama's political backbone.

If Mr. Obama holds firm in support of the fiduciary rule, designed to curb conflicts of interest for brokers working with 401(k) and individual retirement accounts, it will be finalized next spring with modest changes.

Where do the hearings — at which the DOL heard the usual arguments from dozens of proponents and opponents — leave us?

The bottom line is that the DOL is an executive agency that operates at the will of Mr. Obama. He has said that protecting investors from inappropriate, high-fee investments in their retirement portfolios is a key part of his "middle-class economics" initiative.

So if the government sees this priority through, what will a final fiduciary rule look like?

The most supportive letter for the rule of three missives sent by Democratic senators over the past few weeks asking for changes was from Sen. Ron Wyden, D-Ore., and seven of his colleagues on the Senate Finance Committee. It is the letter that most likely provides a road map for adjustments that the DOL will make to the rule. Look for changes that would brighten the line between education and advice and for alterations in language that would make the rule more welcoming toward annuities.

BEST-INTEREST CONTRACT

In her opening comments at the hearings on Aug. 10, Phyllis Borzi, DOL assistant secretary and the intellectual and bureaucratic force behind the rule, indicated the agency is considering modifying the best-interest contract required for brokers to charge commissions by adjusting its timing and simplifying the related disclosures. It likely will clarify how the rule applies to rollovers, expand the list of permissible assets for retirement plans and lengthen the implementation period, among other changes.

If the DOL wants to put its reforms on the books and into effect before Mr. Obama leaves office, it will have to issue a final rule by next spring, perhaps by April. That would leave enough time for the eight-month implementation period, assuming it isn't lengthened.

At that point, it would be much more difficult for a Republican administration, if one is elected in 2016, to undo things.

"DOL will finalize a rule, unless they're stopped from finalizing a rule," said Barbara Roper, director of investor protection at the Consumer Federation of America.

The most dangerous threat to the DOL's effort is language in appropriations bills called riders that would prevent the agency from funding the implementation of the rule.

Once again this year, however, Congress looks as if it will not be able to come to a budget agreement. That means that by Oct. 1, the start of the new fiscal year, lawmakers will have to pass a continuing resolution that keeps the government open.

When 12 appropriations bills, containing hundreds of riders, are boiled down to one omnibus, the riders tend to fall by the wayside.

"Legislative dysfunction is our friend," Ms. Roper said. "I'm cautiously optimistic."

INEVITABLE LAWSUIT

If the fiduciary rule is finalized, another hurdle is the inevitable lawsuit. Some comment letters the DOL received by its July 21 deadline read like game plans for legal action, outlining ways the DOL has exceeded its authority with the rule. And during the hearings, the financial industry strongly reiterated its objections, asserting that the rule is unwieldy and would significantly increase liability risk and regulatory costs for brokers, and make advice more expensive for investors.

But don't sit on the edge of your chair waiting for an overhaul. The hearings demonstrated the agency believes its rule codifies a simple goal — ensuring financial advisers act in their clients' best interests — in a straightforward (if controversial) way.

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Morningstar shines an ESG light

By Jeff Benjamin

Morningstar Inc. will be doing its part to inform investors about environmental, social and governance issues across the investment landscape by attaching impact scores to all mutual funds and exchange-traded funds.

The scores, which will be calculated based on the ESG scores of each portfolio's holdings, were a long time coming, according to some financial advisers who say investors increasingly want this kind of information.

"Morningstar has been a holdout for many years in this area, but they're finally coming around to realizing this is a risk tool," said Allan Moskowitz, owner of Affirmative Wealth Management.

"This is what I specialize in, and there is definitely more demand for this kind of information, and it's not just from individual investors — it's also coming from institutional investors," he said. "I think it's good that Morningstar is going to offer a tool so you can measure these things, because we all share the air and water on the planet, and we have limited resources."

DRIVEN BY DEMAND

Jon Hale, Morningstar's director of manager research, North America, acknowledged that the addition of the ESG scoring system was driven by demand from the broad universe of investors, but said that the scoring system should not be interpreted as a new rating system by the fund-tracking firm.

"We will simply be taking portfolio holdings and asset-weighting the scores for each fund," he said. "We're just going to roll up the scores; we're not rating or characterizing them based on the scores."

The ratings on the underlying companies will be done by Amsterdam-based research firm Sustainalytics, which applies scores ranging from zero to 100 based on a company's perceived ESG impact. A higher score is considered more ESG-friendly.

Morningstar will adopt the same zero-to-100 scoring system, which will start showing up on its various platforms' data feeds later this year, Mr. Hale said.

"Investors could gather that a higher ESG score is better, but what we're trying to do here is provide a sense of what the ESG footprint is on any given fund," he said. "We're seeing interest in this from all quarters, but the idea is also that this is important to younger generations of investors."

The general universe of funds that screen for social, environmental and governance causes is eclectic and sometimes conflicting. But, according to the U.S. SIF Foundation's 2014 report on U.S. trends in sustainable, responsible and impact investing, globally there is $6.2 trillion in investments that incorporate ESG factors.

Of that total, $4.8 trillion was identified within funds (not necessarily labeled ESG) or community investing institutions.

"We do see this as a growth area, because investors want a measurable trend to link their capital to their global concerns and values," said Amy O'Brien, managing director and head of responsible investment at TIAA-CREF, which added two funds to its suite of socially responsible investments on Aug. 11.

"We're definitely seeing interest from a broader range of financial advisers," she said. "Our focus is to continue to build out in this area."

That's music to the ears of advisers like Mark Rioboli, owner and director of wealth management at Independence Advisors.

HARD TO FIND

"I have a client who is very interested in socially responsible investing, and it has been very challenging to find investments, so any research would be helpful," he said.

Rose Swanger, principal at Advise Finance, said the demand from clients is far from overwhelming, but when a client wants something in the ESG arena, it has not always been easy to locate.

"I subscribe to Morningstar's newsletters, and it's only occasionally that they have mentioned socially responsible or ESG investments, but I always save it for future reference," she said.

At this point, as Mr. Hale indicated, Morningstar is a long way from offering any kind of rating or opinion on ESG strategies, but this is a step forward, considering that advisers currently looking for ESG funds have to apply their own screens across the various platforms.

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Big ETFs defend their turf in comment letters to SEC

Many voice support for agency's push for more education on ETPs

By Jeff Benjamin

The Securities and Exchange Commission's solicitation of perspectives on the state of exchange-traded products produced a fruitful, if predictable, bounty of views from the asset management industry.

The 60-day comment period attracted 29 comments.

While the letters reflected general support for more and better investor education efforts, there were also some strategic efforts by companies to protect their turf.

For example, State Street Global Advisors, the third-largest ETF provider with $431.8 billion in ETF assets, argued that ETFs are efficient, transparent and provide good price discovery.

The Vanguard Group, the second-largest ETF provider with $432.7 billion in ETF assets, described ETFs as highly regulated, effective and efficient investment products.

PORTFOLIO DISCLOSURE

In its letter, signed by managing director and general counsel Heidi Stam, Vanguard argued full portfolio disclosure could be harmful to funds.

Disclosing a complete list of holdings "would be particularly concerning for index funds during specific events impacting a target index, such as publicly announced corporate actions and index reconstitutions," Ms. Stam wrote. "In such instances, market participants may use a fund's list of portfolio holdings to reverse engineer its proprietary portfolio management and trading techniques, anticipate the amount of a particular security the fund must buy or sell, and profit by transacting in the security prior to the fund's transactions."

In its request for comments, the SEC emphasized the accelerating pace of growth since the first ETF began trading in 1993. Between 2006 and 2013, it said, the number of ETPs rose by an average of 160 per year, up from an average annual increase of 17 between 1993 and 2005.

Through December, the SEC counted more than $2 trillion invested in 1,664 ETPs.

Along with the growth has come

> "IF YOU'RE BUYING an ETF, you want to be able to get out when you want to get out."
>
> **Todd Rosenbluth**
> Director
> S&P Capital IQ

complexity that continues to raise concerns among regulators, financial advisers and investors.

"Most mainstream ETFs function exactly as they were designed to, but others, most often in the commodity space, can expose inherent limitations that the average person doesn't understand," said Paul Schatz, president of Heritage Capital.

Mr. Schatz, who did not submit a comment letter to the SEC, cited the effects of contango and backwardation, which can dramatically impact the net asset value when underlying investments are rising or falling. Contango occurs when a futures price, typically of a commodity, is higher than the expected spot price. Backwardation is the opposite.

The same goes for ETPs that apply daily leverage to an underlying index.

"The average person doesn't understand that leveraged products aren't meant to be bought and held, because they're trading vehicles," Mr. Schatz said. "That's a huge problem, and all the education in the world doesn't seem to be solving it."

Then there is the whole riddle of fixed-income ETFs: While such ETFs have full daily liquidity, the underlying assets have much less liquidity.

The SEC's confusion and frustration were evident earlier this month when it issued a Wells notice to Pacific Investment Management Co. regarding the pricing of securities in the PIMCO Total Return Active ETF (BOND).

"Pricing fixed-income instruments is not the same as pricing shares of Google and IBM," Mr. Schatz said. "These are all part of the growing pains, and the free market will eventually fix these things, but I will give the SEC credit for demanding the education of consumers, even though it's an uphill battle."

In its comment letter, the Investment Company Institute said the "arbitraging in bond ETF shares is, at most, a minor contributor to and certainly not a primary driver of, price changes in the underlying bond markets."

TAPER TANTRUM TEST

The letter, signed by David Blass, ICI general counsel, detailed the trading activity in bond ETFs during the 2013 taper tantrum compared to more normal periods and found investors were not hindered during that period of market stress.

Todd Rosenbluth, director of mutual fund and ETF research at S&P Capital IQ, acknowledged that the taper tantrum was a good test of bond ETF performance and liquidity.

"If you're buying an ETF, you want to be able to get out when you want to get out," he said. "From a liquidity standpoint, I think ETFs are better than the alternative, which is owning straight bonds."

The ICI letter also cited the performance of the Global X FTSE Greece 20 ETF (GREK) during the month-long shutdown of the Greek stock exchange, from June 29 to Aug. 3, as evidence that ETFs can add liquidity to markets.

"The test of how well market participants gauged the value of GREK's underlying securities and incorporated that information into the price of GREK was apparent on the first day the Greek stock market reopened," the letter stated. "The price of GREK barely moved, while the benchmark index moved down toward the price of GREK."

Mr. Rosenbluth agreed that when the Greek stock market closed, "many investors were able to turn to GREK to express pessimism or optimism on the Greek crisis even though their market was closed. And the stock market reopened without as much investor panic because the ETF provided transparency into the local market that was otherwise closed."

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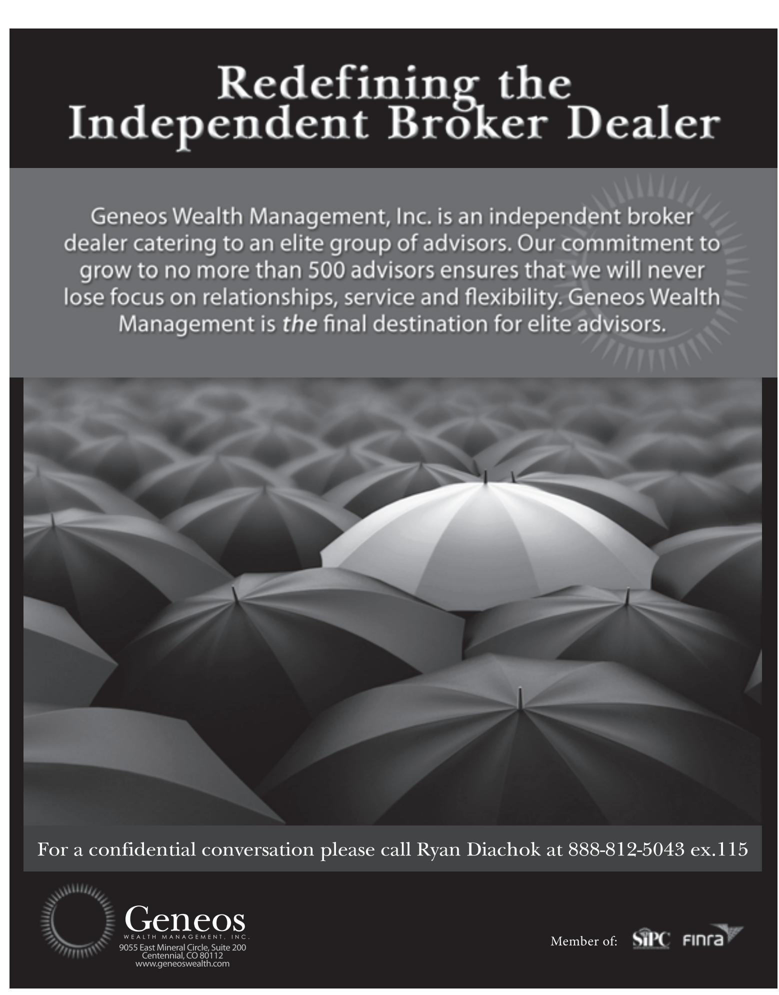

ISTOCK

Calming investors' fears about rising interest rates

I've been on a kick about Daniel Kahneman's "Thinking, Fast and Slow" (Farrar Straus & Giroux, 2011) recently, not just because I enjoy his work, but also because I frequently encounter applications of behavioral biases in my daily life.

For instance, a major cause of investor stress recently is the threat of a Federal Reserve interest-rate

hike. Of course, people have been predicting higher rates for a year or two now, but that does little to assuage clients' fears of rising rates.

Because the equity markets provide such rich fodder for study, behavioral finance has largely been ignored in fixed-income investing. And until recently, many fixed-income investors simply bought government securities and held them until maturity. This buy-and-hold mentality, in theory, meant that behavioral finance simply wasn't as relevant. In other words, the fixed-income investor was too rational for behavioral biases.

However, as the nature of fixed-income investing has changed, it has assumed many of the characteristics of equity investing. The new emphasis on fixed-income funds and ETFs promotes liquidity and more frequent trading. It is now much easier to ramp up or decrease one's allocation to fixed income, which means short-term thinking can have a major influence on portfolio decisions.

BEHAVIORAL FACTORS

Chances are that your clients are watching the debate about where interest rates are going and becoming stressed about their holdings. A number of behavioral factors are at play when it comes to talking to clients about this stress. Here are four big ones:

1. What you see is all there is. One of the overarching mental biases involved in working with clients is the brain's tendency to form a cohesive story when supplied with insufficient information. In Mr. Kahneman's words, "You will often find that knowing little makes it easier to fit everything you know into a coherent pattern." In the case of interest rates, investors often don't understand the nuances of the time value of money and how rising rates may impact their investments from a mathematical standpoint. So they receive just the information about rising rates being dangerous and form a story about the importance of getting out of fixed income "before it's too late."

2. Availability heuristic. The tendency to form a complete story from incomplete information is directly related to the notion of the availability heuristic. This is just what it sounds like; people put together a story based on the information that's available, such as news or anecdotes from friends. As an adviser, you have the opportunity to serve as an additional source of information, one that can help supplement incomplete knowledge.

3. Loss aversion. This important behavioral bias explains why clients often hate losses more than they like gains. Simply put, this is the little voice in the back of their heads that tells them to run for the hills when there is potential for price depreciation. Because that may cause clients to make poor asset allocation decisions, it is important to remind them that investments are meant to be held over the long run, and the potential for short-term loss shouldn't be a major concern.

4. Mental accounting. In this case, loss aversion is directly related to a behavioral bias known as mental accounting, in which investors tend to separate decisions related to different accounts rather than regarding their holdings as one portfolio. This leads them to worry more about losses on individual securities rather than focusing on the purpose of holding the asset class in general.

The bottom line is that when you discuss interest rates with your clients, you may want to consider some of their behavioral tendencies in framing the discussion. Remind them that while interest rates may be rising, no one can predict where the market is going. Focusing on the whole portfolio over the long term and educating them about the nuances of fixed-income risks may help to alleviate some of the communication problems.

Mike West is senior partner and chief executive of BPV Capital Management.

Five ways to boost your productivity

The farther an adviser gets from client-related activity, the greater the potential drag on output

The adviser's most important role, and the one that generates the biggest payoff, is connecting with clients. If you consider this the core of the circle, the farther an adviser gets from client-related activity, the greater the potential drag on productivity.

Here are five tips to help you boost your productivity and sharpen your focus:

1. Neutralize digital time suck.

Advisers can get swallowed up by their inbox. The average adviser reportedly gets 147 emails a day. Clients often send emails of any nature to their adviser, rather than to the most appropriate person on the team. Many advisers fall prey to responding and, worse yet, doing the task even if it is operational or administrative in nature.

One adviser broke this cycle by having his assistant develop a system for flagging, attending to, delegating and closing the loop on all requests that come into his inbox. Instead of shouting back and forth about who needed to do what as emails came in, they began holding mid- and end-of-day check-ins so the adviser could be sure nothing fell through the cracks.

The adviser claims the system has kept him out of "administrative hell" and given him back about an hour a day to focus on client connections and strategy.

2. Process makes perfect: Avoid Groundhog Day.

Advisers often waste time solving the same problems or answering the same questions repeatedly. When a recurring issue comes up, advisers need to ask themselves, "Is there a better way?"

SET ASIDE ONE to two hours a day when you do nothing but outreach.

A best practice many advisers observe (and many more ignore) is to have a well-thought-out client onboarding process. A number of advisers use a one-pager with a timeline to explain the process of transfer, statements and timing of investments. It puts clients at ease and prevents worried calls and emails.

In addition, when clients get their first statement, someone from the team needs to set up a time to review that with them. Don't wait for them to get confused or ask questions. It is stressful to move your money; you want to make new clients feel as good as possible about you and your team.

3. Stop chasing wrong-fit centers of influence.

Many advisers focus on cultivating referral partnerships with centers of influence. Unfortunately, most are unsuccessful in their attempts.

The best advisers avoid this time trap by choosing COI prospects wisely, finding an opportunity to collaborate on a client case, and focusing on the quality of relationships rather than quantity of outreach.

Starting with an attorney or CPA who already works with your best clients creates an instant connection. Another good place to begin is to think about the specific expertise your best clients need and research specialists in that discipline.

Doing joint work is a great way for you (and the COI) to determine if there is potential for a long-term relationship. Do they meet your standards for professionalism? Do they communicate well with you and the client and respect your role? And importantly, do you like them?

For archived columns, go to InvestmentNews.com/practicemanagement

If the answer to any of these questions is no, don't waste your time!

4. Take control of your day.

Time blocking has become more important with the onslaught of incoming communications. Set aside one to two hours a day when you do nothing but outreach. Hold your calls. Don't look at your emails. Don't even think of surfing the web. Train your team to disturb you only for medical emergencies. This will allow you to take control of your day and ensure you are focused on positive growth.

5. Don't follow the rabbit.

Great advisers are well-read and informed. Average advisers spend their day repeatedly falling down Internet rabbit holes that start with an innocuous article. To avoid this trap, designate time early or late in the day or at lunch to do some light reading. Use your favorite app or the bookmark function to save lengthier articles and deeper reading for weekends or evenings.

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Time to revamp your web presence

As summer slips away, take the chance to reassess the effectiveness of everything you put online

As vacations come to an end and the children head back to school, it seems as if life is finally starting to get back to normal. Schedules are more routine, days are more efficient and we have a smidgen more time on our hands. This presents advisers with the opportunity to use that extra space in their calendar to revisit and revise their online presence. Here are some places to start.

WEBSITE

Since your website is a basic yet critical component of your marketing plan, it's imperative that when clients and prospects search for you online, they find current and relevant information. Too often, I come across advisers' websites that lack the information a visitor would be seeking, or worse, contain outdated content.

On a quarterly basis, review the following pieces of your website:

Personal and professional bios: Have you added to your family or recently been appointed to a new board position? Have you received any new designations or won an industry or company award? Do you have candid pictures of you, your family and your team on your site?

Team section: Does your site feature professionally taken profile pictures, as well as a great team photo? Has a new adviser or staff member joined your firm? Or are there any former employees you need to remove from the website?

SOCIAL MEDIA PROFILE PAGES

It isn't enough just to have a profile — you need to ensure that the profile stays current and you are taking advantage of all of the best features of each platform.

For archived columns, go to InvestmentNews.com/onsocialmedia

LinkedIn: Is your profile picture current and professionally done? (You would be surprised how many adviser profile pictures I come across that appear to have been taken at a bar or on vacation, with their cohort conveniently cropped out of the picture. And these are often top tier, veteran advisers.)

Are you regularly crafting long-form posts? Have you added languages and volunteer work to your profile? Do your summary and experience sections clearly articulate what you do to help your clients, without sounding like every other financial adviser profile out there? (Hint: If your summary language contains the phrases "I help create financial security" or "I help clients achieve their financial goals," then you have missed the mark. Get started today crafting language with less industry jargon to showcase more of your own personality).

Facebook: Do you have a custom profile and cover picture on your page? Have you added information on events you are hosting or participating in? Do you take advantage of the feature that allows visitors to sign up for your e-newsletter?

STATUS UPDATES, POSTS AND OTHER CONTENT

Next, take a close look at your posts and status updates. Use the analytics offered by each of the social media platforms to determine which posts garner the most engagement. Typically, using pictures and videos will help further your reach. Are your updates a mixture of custom content, educational and inspirational material, and recognition of your achievements and those of your firm? Consistent updates of relevant, useful material remain the best way to gain new followers, and engage your network. Be sure to make every post count.

When it comes to both profile information and updates, clients want to work with advisers who are real, not someone whose online persona doesn't match who they are offline. Use this review to ensure that what others see online is truly an extension of you.

CONNECTIONS AND FOLLOWERS

While you should be setting time aside each week to send connection requests to anyone you met during the week, this review is a great opportunity to take a closer look at who you have in your network. Is there anyone you still need to add on LinkedIn? Anyone who needs to be removed? Have you used Facebook's features to invite friends and email contacts? You always want to stay on top of growing your network.

As we slide into September, it is also a great time to review your connections and determine who you should reach out to. Perhaps someone has changed jobs or earned a promotion. You may come across someone you had been meaning to call, but had just slipped your mind. Taking time to thumb through your connections will inevitably produce a wealth of people to reach out to.

It is an ever-changing world out there — make sure to keep up!

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PLANNING FOR COLLEGE
Troy Onink

Factors affecting the cost of college

Financial aid, interest expense and taxes all play a role in what clients pay for higher education

It is not just the sticker price of a college that determines the overall cost for a client's child. Merit and need-based financial aid can lower the cost, but interest on loans and the ever-present tax man can drive the cost up dramatically.

MERIT AID

Some colleges offer merit aid to all incoming students who meet or exceed specific criteria, typically based on grade point averages and scores on standardized tests such as the ACT and SAT. In short, if you have the grade, you get the aid. Other forms of merit aid may be available to a select number of students rather than all students, and some colleges offer scholarships for students in certain majors, like engineering or business. In addition, merit aid can be awarded for talent in areas like music, theater, athletics and even leadership.

Take-away: Parents need to identify which colleges offer merit aid and the criteria they require. Elite colleges like Stanford, Duke and the Ivy League schools don't offer merit aid to all incoming students. They only offer need-based aid, eligibility for which is determined by each family's finances, and which is very generous. This is not to say that there may not be some one-off scholarship these colleges offer to individual students.

Other colleges offer both need-based and merit aid. If a family's finances cannot be optimized to qualify for need-based aid, the family should seek out colleges that offer merit aid to lower their out-of-pocket cost.

NEED-BASED AID

The second type of financial aid is called need-based because eligibility is based on demonstrating a need for it using the following formula: Cost of attendance – expected family contribution (EFC) = need.

Expected family contribution is the share of the cost of college a family is expected to pay based on two primary aid formulas, known as the federal methodology and the institutional methodology. Families complete the FAFSA and CSS Profile college aid forms, which take all of the family's information and run it through the two methodologies to spit out an amount the formulas say the family can afford to pay toward the student's college costs each year.

If the student attends an in-state public college with a sticker price of $28,000 and the family has an EFC of $35,000 per year, the student doesn't show a need for aid because their EFC exceeds the cost of attendance. Conversely, if the same student attends an elite college at $65,000 per year, the student shows a need for aid of $30,000 ($65,000 - $35,000 = $30,000).

Take-away: It's ideal to identify ahead of time the family's EFC and whether the family's finances can be optimized for financial aid purposes through a planning strategy that helps them reduce their out-of-pocket cost of college and preserve assets and income for retirement.

BORROWING

Another factor that adds to the expense of obtaining a college degree is the interest paid on borrowed funds. Student loan interest over the life of the loan can add tens of thousands of dollars to the cost of college. Parents often borrow from their homes and 401(k)s, and use Parent PLUS loans from the government. All the interest paid years after college adds to the total cost.

Take-away: It's very simple. Borrow as little as possible, get the lowest interest rate you can, and repay the loan as soon as possible.

TAXES

Most parents don't have enough saved to pay for college, so they resort to paying a great deal of the cost out of their cash flow. The problem is they have to pay tax on their earned income (cash flow) before they can write the check to pay for college. For example, if clients send a child to a $61,000-a-year elite college and they are in the highest tax bracket, they have to earn $101,000 to net $61,000 after tax to pay the college bill.

For archived columns, go to InvestmentNews.com/planningforcollege

Taxes on unearned income such as interest, dividends and capital gains are lower for most clients than their tax rate on earned income, but even at a 15% capital gains rate, the added cost is a hefty sum.

One reason 529 college savings plans are such an effective tool for college planning is that the gains on the investments in 529 plans are not taxed when used to pay for qualified college expenses.

Take-away: For many affluent clients whose children will not qualify for need-based aid, tax savings may be the most effective way to reduce their out-of-pocket cost.

Troy Onink is chief executive of Stratagee.com, where he leads the new College InSource Partner Program.

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Six critical questions all advisers should be able to answer

Financial planning savvy sets you apart from the competition

As the financial services industry continues to shift away from providing strictly investment advice to a more comprehensive and holistic approach, advisers should equip themselves with the financial planning knowledge that can help them differentiate themselves from robo-advisers and the growing competition.

Below are six common financial planning questions advisers will undoubtedly receive from their clients. Advisers should be well-versed and comfortable discussing these topics with their clients if they wish to remain competitive.

1. What are my options for taking Social Security benefits?

I recently had a prospective couple come to my office seeking advice, bringing with them a sizable investment portfolio to manage. When I asked the couple why they were looking to change advisers, they told me,"[Our] financial adviser won't help us with basic issues, such as when we should take our Social Security benefits. That's really important to us."

Don't send your clients to a website calculator to figure out a Social Security strategy on their own. Does your doctor send you to WebMD when you go in with a bad cold? You are your clients' financial guide, and having some basic knowledge of Social Security strategies will help you navigate the baby boomers' dilemma of when to begin taking benefits.

2. How should I give money to my kids?

Transferring wealth should be done with finesse and careful coordination. I've met only a handful of clients who truly understood the gift tax rules and how to tax-efficiently transfer money to their children. Did your clients give their child $28,000 in cash to pay for tuition? Guess what—they may need to file a gift tax return due to poor planning. If instead they had written the check directly to the college—or split the gift equally between the parents—the gift tax return filing could have been avoided altogether. The point here is that a good financial adviser will educate clients before these kinds of avoidable mistakes are made. You may also score some major points with your client's CPA by knowing the basic gifting rules.

3. What is a required minimum distribution?

The oldest baby boomers (born in 1946) are about to turn 70. This means you as the adviser are responsible for assisting them in taking their RMDs before they are hit with a large penalty.

When a client asks how much their first RMD will be, do you have an estimate to give them? You should.

Consider a client who is turning 70-1/2 this month. If his or her IRA balance was $100,000 at the end of last year, you can estimate the first RMD as being approximately 4% of last year's ending balance. The exact figure would be $100,000 divided by the age factor of 27.4, which is $3,650, or roughly 3.6%. The point here is that you should be able not only to explain to your client how an RMD works, but also not look like a

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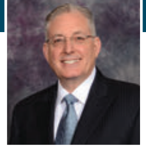
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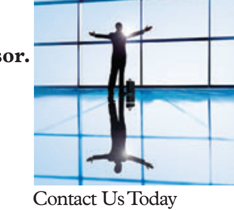
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deer in the headlights when the client brings the topic up.

4. Do I need an estate plan?

It's a no-brainer to refer a client with $10 million in assets to a good estate planner for a comprehensive estate plan. But what about the majority of your more ordinary clients?

For starters, who is keeping track of all your clients' beneficiary designations? How embarrassed would you be if you were to discover that the IRA you manage for Mr. Smith mistakenly lists his ex-wife as the primary beneficiary—and not his new wife, whom he married more than five years ago?

Aside from a beneficiary audit, consider a basic estate plan for families with young children. Who are their children's guardians and are their accounts properly titled? How about a basic will and power of attorney documents in case of an accident or severe health issue?

5. Should I refinance?

With interest rates near historic lows, now is a good time to help clients lower their debt burden. Clients with mortgage interest rates north of 5% may want to explore refinancing options. Upfront costs should be taken into consideration, which is why advisers should have well-vetted mortgage specialists in their digital rolodex. But don't just stop at the mortgage. What about that high-interest auto loan your client was talked into a couple of years ago? Many credit unions are offering auto loan refinancing rates below 1.5%, which is well below the 4% car dealerships were selling to clients a few years ago.

If you aren't helping your clients with these easy opportunities to refinance and save money, that prospective adviser your client is talking to surely will.

6. What else should I be doing to save on taxes?

The obvious answers are: max out retirement accounts, gift appreciated assets to charity, invest tax-efficiently, etc. But what about the not-so-obvious strategies? Here's an example:

If you charge an investment management fee, are you and your client taking advantage of the potential tax deduction?

Generally, fees paid for investment advice can be tax deductible if they (along with other miscellaneous itemized deductions) exceed 2% of the client's adjusted gross income. The problem is, many advisers arbitrarily pull fees from retirement accounts rather than pulling them from taxable accounts or having the client pay with outside cash. This lack of planning can result in the loss of potential tax deductions.

Consider a client with a $1 million portfolio: $900,000 in an IRA and $100,000 in a taxable account. Fees of 1% are pulled from each account annually. In this case, only the $1,000 of fees pulled from the taxable account would potentially be deductible. The $9,000 of fees from the IRA account may not be—because they were not paid with outside cash or taxable money. However, if all the fees instead were paid from the taxable account or with outside cash, the entire $10,000 potentially could be deductible (for the amount over the 2%-of-AGI floor). Every client situation will be unique, so make sure you are looking at your client's best option.

Having great attention to detail and somewhat outside-of-the-box financial planning strategies can certainly help retain and grow your client base. After all, clients can get advice from many sources nowadays—but personalized financial planning strategies from their trusted adviser cannot be automated.

Grant Webster is senior wealth manager at AKT Wealth Advisors.

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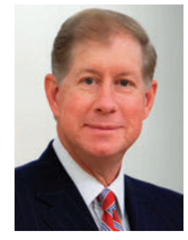
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Stick with dividend payers despite threat of rising rates

By Jeff Benjamin

The five-year dividend-investing rally may be losing momentum, but that doesn't mean investors should abandon ship just yet.

Despite last year's record aggregate dividend payout by S&P 500 companies of $351 billion and a string of double-digit annual payout increases, investors are making knee-jerk moves out of dividend payers as the Federal Reserve moves closer to an interest-rate hike.

The Fed is still on the fence about whether it will start to increase short-term rates this year or next, but investor nervousness is evident in the recent outflows from two popular dividend exchange-traded funds. The $13 billion SPDR S&P Dividend ETF (SDY) has suffered nearly $790 million in outflows so far this year, and the $24.5 billion Vanguard Dividend Appreciation ETF (VIG) has seen more than $900 million in outflows.

DISENCHANTED

In addition to fears about higher rates, which could make bond yields more attractive compared to popular bond proxies like real estate investment trusts and energy and utility stocks, investors might be disenchanted with recent total returns from dividend-oriented equities.

"If you bought dividend stocks in 2010, 2011 and 2012, you saw big relative performance, and what has started to happen is that degree of outperformance has either gone away or has slowed," said Janelle Nelson, an analyst at RBC Wealth Management.

"In a nutshell, investors that got into dividend stocks to beat the market didn't do it on average in 2013, didn't do it in 2014 and are not doing it year-to-date," she added. "The total return from dividend-paying stocks has lagged that from non-payers."

> "INVESTORS ARE also seeing the slowing of the growth rate of dividends."
>
> **David Schiegoleit**
> Managing director, investments
> U.S. Bank Wealth Management

Since the start of the year, dividend-focused mutual funds tracked by Morningstar Inc. gained an average of 0.33%, in line with the 0.57% gain by the SPDR dividend ETF and the 0.02% gain by the Vanguard dividend ETF. The S&P 500, which includes just 70 non-dividend-paying stocks, was up 3.2% over the same period.

David Schiegoleit, managing director of investments for The Private Client Reserve of U.S. Bank Wealth Management, said there are actually multiple challenges facing dividend investments.

"In terms of the higher rates, we know that the value of any security that has cash flow associated with it will go down as rates go up," he said. "But investors are also seeing the slowing of the growth rate of dividends, and we know that dividend payers are heavily weighted in the energy sector, which is being hurt as the price of oil continues to fall."

Since the financial crisis, dividend investors have enjoyed impressive year-over-year increases that peaked with a 16.3% rise in 2011. Last year's 12.7% gain was the lowest in the past four years, but still quite respectable. Investors fear, however, that annual increases are moving in the wrong direction and could fall below 10% in 2015.

While the dividend-payout trend might be slowing, it needs to be considered in context of a slow-growth global economy, according to Ben Kirby, co-manager of the $19.9 billion Thornburg Investment Income Builder Fund (TIBAX).

"I think it's a mistake to be moving out of dividend payers as an asset class right now," he said. "We're in a slow-growth world right now, and in that environment dividend stocks have a unique appeal, because over the long term we know that dividends account for about half of the total return."

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Franklin's former leader escapes lawsuit

Fund company still faces claim that investor was cheated out of shares

By Trevor Hunnicutt

The billionaire who built Franklin Templeton into one of the world's biggest mutual fund companies survived a lawsuit by the son of an early investor who said he was cheated out of a multimillion-dollar stake in the firm. But a judge said Charles B. Johnson's company still will have to defend itself in court.

U.S. magistrate judge Laurel Beeler of the U.S. District Court in San Francisco last Tuesday dismissed large parts of a lawsuit by Anthony P. Miele III, who said his father supported Franklin Templeton Investments during a difficult period in the 1970s with a $100,000 loan in exchange for shares in the company.

Mr. Miele said he was cheated out of the shares, now worth about $136 million, following his father's death, according to the complaint.

'A FISHING EXPEDITION'

Lawyers for Franklin Resources Inc., which owns Franklin Templeton, have described Mr. Miele's claims as extortion. And Mr. Johnson, now retired and living in Florida, said earlier this year the Miele family was "on a fishing expedition for their own negligence."

Mr. Miele said Mr. Johnson failed to uphold his duties because he did not make an effort to ensure Mr. Miele had received the stock. After learning that Mr. Miele's father died, Mr. Johnson asked a now-deceased broker-dealer executive, who had been barred from the securities industry and convicted of forgery, to ensure the delivery of the stock to his son, according to the complaint.

Mr. Miele, who was a child when his father died, said he never received the assets — which his lawyers say were illegally transferred — or learned of their existence. Mr. Miele said he learned about the shares when Mr. Johnson called a family member and said he "always wondered whether" they got the stock, according to the complaint.

> **$136M**
> Current value of Franklin Templeton shares suit alleges were illegally transferred

The judge dismissed all outstanding claims against Mr. Johnson, saying his actions were not illegal or contrary to his legal responsibilities as an executive. She dismissed some of Mr. Miele's other claims because they were past the statute of limitations and because the court did not find the company had a duty to disclose information it allegedly concealed about Mr. Miele's shares.

When Mr. Miele learned about the shares, he discussed the situation with the broker-dealer executive allegedly responsible for the shares, Eugene W. Mulvihill, who dissuaded him from investigating further. According to the complaint, Mr. Mulvihill said his friend "would hire a Russian hit man to kill [Mr. Miele] and your family." Mr. Mulvihill died 10 days after that 2012 conversation, at 78, of a heart attack.

Franklin Templeton and its service providers "were reluctant to produce any documents" when they were asked to help track down the shares, according to the complaint.

Mark C. Molumphy at Cotchett Pitre & McCarthy, which represents Franklin and Mr. Johnson, said the court was "bound" to accept Mr. Miele's allegations as true at this phase of the case, but he said the court recognized that further facts that come up in the lawsuit "may demonstrate that the only two remaining claims must also be dismissed."

"We are pleased that Mr. Johnson has been vindicated and it is clear that no claims lie against him," Mr. Molumphy said in a statement.

Jeffrey L. Liddle at Liddle & Robinson, a lawyer for Mr. Miele, disagreed.

"This man's stock was stolen," he said. "The decision provides a clear path for our client to get his stock and his unpaid dividends."

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Social Security delays affect premiums

Continued from Page 4

mium next year. That's because the Social Security Act contains a "hold harmless" provision that protects the vast majority of Social Security beneficiaries from paying a larger increase in Medicare Part B premiums than they receive in a Social Security COLA increase in order to avoid a net reduction in their Social Security benefit.

No increase in Social Security benefits means no Medicare Part B premium hike for most beneficiaries.

EXCEPTIONS

But there is an exception to the hold-harmless provision, and it is likely to affect many high-income clients. Anyone who is subject to Medicare premium surcharges is not protected by the hold-harmless provision. Neither are individuals who are newly entitled to Social Security in 2016 or those who are enrolled in Medicare but who have not yet started to collect Social Security benefits.

That includes clients who elected to file and suspend their Social Security benefits. This claiming strategy allows an individual who is 66 or older to file for benefits but to suspend them until later. That allows them to accrue delayed retirement credits worth 8% per year for every year they postpone collecting benefits beyond full retirement age up to age 70 for a potential benefit increase of 32%.

But because individuals who have elected to file and suspend are not actually receiving benefits, they can't experience a net decline in benefits if Medicare premiums increase. Therefore, they will pay a higher Medicare Part B premium in 2016.

Is there a way to avoid the higher Medicare Part B premiums next year? Yes, but it could prove to be a costly mistake in the long run.

As long as a retiree receives Social Security benefits for November (paid in December 2015) and December (paid in January 2016) and has his or her Medicare Part B premiums deducted from those benefits, the hold-harmless provision will apply. That also assumes the retiree's income does not exceed $85,000 if single or $170,000 if married filing jointly.

GERARDO TABONES

52% Projected increase in Medicare Part B premiums in 2016

TRADEOFF

So there's the tradeoff: If clients want to avoid a major hike in Medicare Part B premiums next year, they need to apply for Social Security benefits by October so they can begin collecting them by November and have their Medicare Part B premiums deducted from those benefits. But it means forfeiting the annual 8% per year increase in future Social Security benefits. (This assumes the clients' MAGI for 2014 does not exceed $85,000 if single or $170,000 if married. If their income is higher, they will not be protected from a Medicare premium hike even if they begin receiving Social Security benefits before the end of this year.)

Keep in mind that a 50% increase in Medicare Part B premiums — approximately $50 per month or $600 per year — is still relatively small compared to a Social Security benefit of $2,400 per month at 66 that could increase by $768 per month by delaying until age 70.

I've discussed this dilemma with Michael Kitces, author of the Nerd's Eye View blog, and he agrees that acting to avoid a short-term hike in Medicare premiums could prove to be a costly mistake in the long run. He recently published an analysis of this issue on his blog.

(Questions about Social Security? Find the answers in my ebook at InvestmentNews.com/MBFebook.)

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Citi pays up for hedge fund sales

Continued from Page 4

nications with investors and advisers, including crafting the sales pitches to investors. In some cases, the unit misled advisers about the safety of the fund, according to the settlement.

LACK OF REVIEW

"The fund manager and the fund manager's staff played a significant role in drafting and disseminating information regarding the funds to investors and financial advisers without sufficient review or oversight to ensure that the information given to investors was accurate," the SEC said.

In one case, Citigroup Private Bank had an internal risk rating that noted the funds had "significant risk to principal," but that rating was never shared with the majority of investors and financial advisers, according to the SEC.

Robert Pearce, a securities attorney with an eponymous firm who said he represented investors in about 100 cases tied to the funds, said that after the funds imploded in 2008, numerous Citigroup financial advisers and private bankers complained to the company's executive officers, including Sallie Krawcheck, who was then CEO of Citi's wealth management business.

> "THE BIG PRODUCERS with the big clients were jumping into these funds."
>
> **Robert Pearce**
> Securities attorney

Mr. Pearce said shares in the funds were generally sold in $500,000 blocks and marketed to and sold by some of the top brokers at Smith Barney.

"The big producers with the big clients were jumping into these funds," Mr. Pearce said. "They were sold as funds that were relatively safe because of this so-called hedge."

Whether to compensate investors in the funds became a source of tension between Ms. Krawcheck and other senior executives at Citigroup, as she advocated for the company to repay some of the losses in the funds, according to a 2008 report in The New York Times.

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TECH CONNECT

Advisory firms can construct their own robo-platforms

DIY approach helps advisers differentiate themselves from competitors

By Alessandra Malito

As if there weren't already enough options in the robo-adviser movement for financial advisers, now there's yet another: the build-your-own digital platform.

Advisers who want a fully customized option for launching an online automated investment platform — and don't want to use any of the robo-advisers that cater to wealth-management professionals — can create their own, with a little help from the experts.

It's worth considering the option, especially as more and more advisers slowly but surely adopt a robo-service for their firm.

The 2015 *InvestmentNews* Technology Study shows 3% of the 234 advisers surveyed said they currently offer some sort of robo-advice platform. When asked if they plan to offer automated investment advice in the next six to 12 months, 11% said yes.

Tradier Inc., a cloud-based open-source brokerage technology provider, creates white-labeled online investment platforms for advisers. Dan Raju, chief executive of Tradier, said advisers pick the build-it-yourself option for robos because they want to stand out from everyone else.

"From the trending perspective, there is a lot more of a demand to differentiate themselves in the market, rather than offer traditional run-of-the-mill products," Mr. Raju said.

Working with Tradier, advisers have the option to create a white-labeled robo service from scratch within a few weeks or choose a ready-built platform they can launch right away.

SHINE A LIGHT

The option also gives advisers a chance to shine a light on what they find to be the most important features of a robo-adviser. Mr. Raju said some clients have focused on the mobile experience, while others may want to target a particular audience, such as baby boomers or a younger crowd.

"It's totally about your brand and your brand value," he said.

For entrepreneurial advisers, there's an even more fundamental way to build your own robo. Wealthbot.io, a new robo-adviser-building website targeting wealth management firms, has open architecture that provides coding for the ambitious adviser. Using that coding, advisers — or, more likely, their web developers or other IT staff — can build the entire platform from scratch.

Gene Kobilansky, the founder of Wealthbot.io, said such a system offers flexibility and reduces the cost of ownership. Advisers with self-built robos are not only promoting their own brands, they also are eliminating the additional costs they would have to pay to a third-party vendor.

"If you look at the industry right now, a lot of advisers are ... feeling a lot of pressure for every basis point they have to pay to another provider," Mr. Kobilansky said. "They have to add that cost to customers."

Advisers do need to consider the value that a robo-adviser would bring to the practice and how much they should charge. Some choose a flat fee, while others have a tiered pricing structure.

Advisor Software, a digital advice technology provider for advisers, also has an open-architecture program in place, similar to Wealthbot.io. Erik Jepson, chief customer officer at Advisor Software, said the company also builds its own white-label robo-advisers.

Mr. Jepson agreed that there are many reasons advisers would want to build their own robo.

"One problem with white-label solutions is they are kind of ubiquitous. Everyone has the same one," he said, adding that "the ones on the market today are pretty expensive."

Laura Varas, a principal at financial services research firm Hearts & Wallets, said robo-advisers can be grouped into those that provide products, like Betterment and Motif, and those with an advice focus, like LearnVest and FlexScore. The latter type, she said, is more like the experience in a store where consumers can talk to an employee, whereas the first has become more of a commodity.

"When you say robo and I am an adviser, I'm wondering which kind am I going to offer?" Ms. Varas said. "The types of things people expect from products and stores is totally different."

While the do-it-yourself robo model may be fully customizable, Ms. Varas doesn't believe many advisers will want to pursue that route.

"What it takes to build that is an especially sturdy constitution," she said. "Most advisers would be better off renting it."

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Don't be the taxi to others' Uber

Big cities around the globe are participating in a battle between the incumbent cab industry and upstart ride-sharing companies like Uber and Lyft. After rowdy protests, Paris and Madrid have successfully limited ride-sharing services for the time being. In New York, the mayor is being pressured to slow the rapid expansion of ride-sharing services as the value of medallions (the license needed to operate a cab in New York City) has dropped approximately 30% in the past year.

LESSONS FOR ADVISERS

Despite our empathy with cab drivers, history has shown that while progress might wait patiently for a little while, it won't be stopped. There are some important lessons here for financial advisers who want to avoid going the way of the cab driver.

1. Better is better, and the market knows it. Anyone who has been in New York City and used a cab knows what a dreadful experience it can be. Filthy cars, rude and noisy drivers screaming on their phone. By contrast, in a ride share, drivers tend to be genuinely friendly (they want a good rating from you), the cars are clean, you know instantly via your smartphone where they are — and we haven't even compared prices. I recently took a cab from DFW Airport to our Dallas office and paid $25 ($30 with a tip) for a dreadful experience. I returned to the airport a little later that afternoon in a clean, air-conditioned Prius with a lovely driver for $12.

2. If you don't evolve your business, no moat is deep enough to protect it. The cab industry has done nothing to improve the rider's experience in decades. It has had very little need to improve. History and size alone are not omnipotent. If you don't evolve and change to adapt to consumer needs, eventually you will be usurped.

3. Bigger does what smaller can't. The problem for cabs, very much like that in our own industry, is that an independent driver cannot make the sizable investment in technology, infrastructure and client experience that is needed to compete with the challengers. Large platform players like Uber are able to invest millions to refine and improve the client experience without the encumbrance of an entrenched system.

No doubt five years from now the cab business will be very different.

What about our industry? Most advisers obviously have a more specialized skill set than the typical cab driver, but pricing for investments is being squeezed and that will continue to occur because many advisers add very little real alpha after fees in investing. The robo-services (both independent and custodian-created) provide an engaging and dynamic solution when it comes to investments at a fraction of the price of working with an adviser.

So what's our real value?

1. Understand that we help people maximize their lives, not just their net worth.

2. We use our judgment to help people avoid costly mistakes. We help manage our clients' behavior, and that means we use our empathy and knowledge to bring truth, understanding and discipline to the way people make choices. We also discuss and contemplate alternatives when things don't work out as they'd hoped. Helping our clients stick to a financial life plan and appropriately adjust it along the way is by far our most valuable offering.

3. We simplify their life. In this ever-demanding world, we are all doing more than we ever have. That means when people pay for service, they want their lives simplified. Helping to make things understandable and controllable for clients is crucial to surviving.

Ultimately clients are going to have to pay for the guidance we provide beyond investing. But it has to be as tangible and as real as the measurements we create for tracking portfolio management.

In every disruption, there is opportunity. If cab companies and drivers had focused on investing in change rather than using all their resources to fight progress, they might have had a chance.

Joe Duran is chief executive of United Capital. Follow him @DuranMoney.

Lewinsky to be keynote speaker

Continued from Page 3

House scandal after she and then-President Bill Clinton had an extramarital affair. There are a few lessons that she can impart to advisers, Mr. Carson said.

The first will be to think about what you say and how you say it, because the person on the other side of the phone or desk isn't some "zero," he said.

OUT IN THE OPEN

The second lesson is that this is an era where everything is out in the open and nothing can really be taken back once it's out there.

"If you are committed to our profession, really be careful how and what you communicate to anybody," Mr. Carson said. "The consequences can be not only big for you but the person on the receiving end."

While some may debate Ms. Lewinsky's relevance to the wealth management industry, Brian Hamburger, founder of MarketCounsel, a business and regulatory compliance consulting firm, said he doesn't question Mr. Carson's decision. He said that while it would only be specula-

> "ADVISERS NEED to be aware that they need to treat the Internet with respect."
>
> **Dave Grant**
> Adviser
> Finance for Teachers

tion to discuss what Ms. Lewinsky will talk about in her remarks to the advisers attending the event, there's a fine line in what makes a keynote speaker good versus great.

"You can always look on YouTube and see some of the most well-respected and expensive speakers from your own living room, but the question is, when you bring them into a conference, how will it make people feel and how will it make them talk?" Mr. Hamburger said.

"If you can move people to the point where they really feel engaged, it's time well spent at a conference," he added.

Dave Grant, an adviser at Finance for Teachers Inc., said the Internet constituted a substantial part of Ms. Lewinsky's past, considering that news about her relationship with President Clinton broke on the web and went viral in the days before social media was mainstream.

INTERNET PROS, CONS

That's why she'll be able to speak to the pros and cons of using it so well.

"Advisers need to be aware that they need to treat the Internet with respect," Mr. Grant said. "It's invisible, but it's still very powerful for the positives and negatives."

Ron Carson: "Be careful how and what you communicate to anybody."

Ms. Lewinsky discussed her experience and the responses she received online during her TED Talk.

"There is a very personal price to public humiliation," Ms. Lewinsky said. "The growth of the Internet has jacked up that price.

"I was Patient Zero of losing a personal reputation on a global scale almost instantaneously," she said.

Ms. Lewinsky's public relations spokeswoman declined an interview.

Her appearance and recent breakthrough after being silent for more than a decade may help clear her reputation, Mr. Grant said.

"People need to understand — or don't understand and need to hear — what she's gone through," he said. "She still has the label of that woman with the president."

Mr. Carson said that's why people shouldn't jump to conclusions.

"My response has been, you're in for a treat," he said. "I would ask you to stay open-minded at least until the conclusion of her talk."

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SEC fines RIA $2.8M

Continued from Page 2

Brown, did not respond to calls seeking comment and a message left through his website.

FIVE-STAR RATING

Mr. Cooper denied the SEC's allegations, according to the order. He said that the risks were explained to the investors and the investors accepted those risks. Mr. Cooper also said that he performed adequate due diligence, including noting that the alleged Ponzi scheme investment had received a five-star rating from Morningstar Inc.

He told the SEC that he even turned down some investments that did not meet his standards. In addition, he contended that his disclosures were adequate, according to what he was told by a compliance consultant he hired.

A class action claim on behalf of investors is also pending in federal court in the Southern District

> "WE'RE HAPPY the SEC has done this much, but these victims would like to see more."
>
> **Maria Severson**
> Lawyer
> Aguirre & Severson

of California. An attorney representing the investors, Maria Severson of Aguirre & Severson, said the allegations in the SEC's order resonated with much of what was in the investor complaint, and that the order affirmed that Mr. Cooper was the owner and controlled the firm.

"The [administrative court] seems to find that Jacob Cooper was the mastermind," she said. "He was a one-trick pony and the trick was to get him fees."

UNABLE TO PAY

Still, she said it was unlikely that the approximately two dozen investors represented in her case would be compensated for their losses because Mr. Cooper would be unable to pay.

Mr. Cooper also converted funds for personal use, according to the investors' complaint. In one instance, clients accused him of using funds to help operate a gun store, Dixie Gun Worx, which was building a shooting range next to a shelter for victims of domestic violence.

A manager at Dixie Gun Worx, who declined to give his name, said that it is no longer affiliated with Mr. Cooper.

CLIENT STORIES

One client, who has a military background and was a pilot in Afghanistan, invested his family's life savings of $600,000 with Mr. Cooper. He testified their investments are now worth just over $300,000. A retired elementary school teacher invested $75,000, which was completely lost, according to the SEC.

"We're happy the SEC has done this much, but these victims would like to see more," Ms. Severson said.

The SEC named other affiliates of the firm, including Nathan McNamee, a former chief compliance officer, and Douglas Shoemaker, who the SEC said was a former owner of Total Wealth and a chief compliance officer before he left the firm in 2013.

The chief compliance officer who replaced him, who was not named as a party, had a degree in graphic design from Dixie State University and did not hold any securities licenses, according to the SEC.

Those charges were stayed in light of settlement proceedings, according to the order.

Ms. Murray said that Mr. Cooper, who has rebranded himself as a science fiction novelist, showed "a total lack of understanding or remorse," which "indicates a high likelihood of future violations and necessitates an imposition of the broadest possible sanction."

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GERARDO TABONES

Finra sweep targets broker pay

Continued from Page 3

tion incentives that could lead to products being pushed to investors that are not in their best interest," Mr. Sibears said. "We really want to find out if they've taken the original guidance to heart."

Finra generally does not use the exam responses to take enforcement action unless the violations are egregious. The regulator has used the sweeps to generate reports on other topics, including cybersecurity and social media.

In this letter, Finra asks firms, for example, to "describe how current compensation structures balance short-term incentives for registered representatives and clients' long-term interests."

The letter also seeks information about production thresholds that entitle brokers to higher compensation or bonuses for generating more revenue, enhanced compensation tied to revenue from particular product types, how firms promote sales of specific products, and other concerns. It then asks firms what policies they have in place to monitor for conflicts of interest and "how many compensation-related conflict of interest escalations" occurred from August 2014 through July.

But there is gray area around what constitutes a conflict of interest when it comes to compensation,

> "IS IT A CONFLICT of interest to encourage your salespeople to go out and get new clients?"
>
> **Andrew Tasnady**
> Compensation consultant
> Tasnady Associates

according to compensation consultant Andrew Tasnady of Tasnady Associates.

"Is it a conflict of interest to encourage your salespeople to go out and get new clients and new assets and call them up about their financial situations?" he said. "I find it hard to see where these definitions are exact."

Still, compensation is a key focus right now, particularly as some regulators look at the possibility of implementing a uniform fiduciary standard, according to Ryan K. Bakhtiari, an attorney with Aidikoff Uhl & Bakhtiari.

"I think about it in the broader context of what's going on in Washington with the Department of Labor's fiduciary rule and the potential for conflict disclosure," Mr. Bakhtiari said. "Finra is interested in a similar kind of thing."

The regulator has focused on some of these areas before, and earlier this summer it sought comment on a revised proposal to require brokers to make additional disclosures to clients about the incentives and bonuses they are paid to change firms.

Responses to the letter are due by Sept. 18.

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Envestnet wields its checkbook

Continued from Page 1
to some of its 41,000 affiliated financial advisers. The concept has received regulatory approval but funds are not yet available.)

DAVID VOGIN

ALL IN ONE PLACE

Envestnet's strategy is to build a platform that offers all of the services and software that advisers need so they don't have to spend time and money doing it themselves. And it is counting on the fact that as advisers continue to flee wirehouses and other broker-dealers to start their own advisory practices, they will appreciate finding all of this in one place.

But to be able to offer everything advisers want, Envestnet has had to open its checkbook.

"One of our key challenges is to just keep up with the pace of change that our advisers are asking us to do," said Jud Bergman, chief executive of Envestnet.

Incorporating its acquisitions in a profitable way is also a challenge. After peaking at about $56 in early February, Envestnet's shares have been trending down and took a beating the day after the Yodlee acquisition was announced, dropping 35% to $29.38. Last week, the stock traded in the $30-$35 range

On the same day it announced the Yodlee deal, Envestnet reported second-quarter earnings of $2.5 million on sales of $103 million, compared with $3.7 million on sales of $85 million in the year-ago period.

In a note to clients reiterating a neutral position on the stock, Alex Kramm, an analyst at UBS, said earnings met expectations, but investors appeared to question the Yodlee acquisition.

"At first glance," the analyst wrote, "Yodlee appears to be unrelated to [Envestnet's] core model and sends the combined company in a new, uncertain direction (at a big price tag). Based on the shares' performance today, we believe that investors clearly also question the deal and direction of the company. While the true opportunity set of Yodlee could become more obvious over time, we are comfortable remaining on the sidelines for now."

Jeff Houston, a senior research analyst with Northland Capital Markets, said investors thought the strategic rationale behind Yodlee wasn't explained well, but that they should be patient as Envestnet completes the acquisition.

"I think it is a very severe overreaction," he said.

Envestnet takes two approaches to incorporating its acquisitions: either placing them on its platform as is, as it did with portfolio manager Tamarac, or breaking apart an acquisition's technology and rebuilding it on the platform, as it is doing with Upside, the adviser-facing robo-adviser.

Mike Apker, executive vice president and managing director of Envestnet's Advisor Suite, said acquisitions such as Tamarac put the company in a position it otherwise would not be in.

"It is really opening new markets. It would have taken us longer to get to where the company we acquired is operating," Mr. Apker said.

Still, not everyone is sold on Envestnet's strategy.

"Envestnet has the advantage of a lot of scale," said Lex Sokolin, partner and chief operating officer of competitor Vanare. "But the disadvantage is that they try to take pieces that are different … and try to fit them together."

LIMITS CUSTOMER CHOICE

Eric Clarke, CEO of Orion Advisor Services, another Envestnet competitor, said Envestnet limits customer choice by bundling its services, something Orion avoids. Mr. Clarke said his company offers an open-architecture system so advisers have flexibility to choose the third-party vendors they want.

"When you step back and look at all of those purchases, Envestnet seems to be pursuing the strategy of going to market with an offering that represents tightly integrated products," Mr. Clarke said. "It's certainly appealing to some of their clients, but we at Orion are pursuing a different strategy. We believe the adviser knows their business best. We don't believe it's our business to tell advisers what technologies they should use. They should pick their own."

Not according to Lori Hardwick, group president of adviser services at Envestnet, who said the company's goal is to make it as simple of a process as possible for the adviser — and that comes through end-to-end integration.

"I think advisers are realizing going out and trying to find the best-in-breed point-by-point solutions is a difficult task," Ms. Hardwick said.

Mr. Crager, Envestnet's president, said having individual pieces that advisers have to integrate themselves makes "scale hard to achieve." Advisers after all have complained on numerous occasions that the technology they purchase to integrate with other programs they already have doesn't always mesh as well as they are advertised.

> **"I THINK ADVISERS are realizing going out and trying to find the best-in-breed point-by-point solutions is a difficult task."**
>
> **Lori Hardwick**
> Group president, adviser services Envestnet

Joel Bruckenstein, founder of Technology Tools for Today, said that ultimately, it's a matter of personal choice for advisers.

"There are some firms that are happier to put all their eggs in one basket if they are confident the firm they are working with is capable of providing them a good service across all applications," Mr. Bruckenstein said. "And some firms are more content to take either a best-of-breed approach or have a third party as their integrator."

Michael Minter, a financial adviser at Financial Synergies Asset Management in Houston, said he's used Envestnet and Tamarac for more than a decade and loves the capabilities, but would like to see more open architecture, especially as new companies are acquired. For example, he uses eMoney as his financial-planning software and wouldn't want to make the switch to Finance Logix so quickly.

"It's tough to abandon a product you've been using for a long time," Mr. Minter said, "so it can't be all or nothing."

Crain's Chicago Business contributed to this story.

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Envestnet acquisitions

Year	Name	Price (M)	Description
2001	Portfolio Management Consultants	N/D	manager research and asset allocation provider
2004	NetAssetManagement	N/D	web-based managed account technology
2004	Oberon Financial Technology	N/D	managed account software platform
2011	FundQuest Inc.	$28	turnkey asset management program
2012	Prima Capital Holdings Inc.	$14	manager research consulting and technology
2012	Tamarac Inc.	$54	portfolio management technology
2013	Prudential/Wealth Mgmt Solutions	up to $23	wealth management platform
2014	Placemark Holdings Inc.	$58	unified managed accounts program provider
2015	Upside	$3	robo-adviser
2015	Finance Logix	$30	financial-planning software
2015	Yodlee Inc.	$590	data analytics and account aggregation software

N/D= not disclosed. **Source:** Envestnet

Stock markets slide

Continued from Page 1
ond quarter were up almost 4%, which means inside the earnings there is a better story, and that's directly related to the strength of the consumer," he said. "Even energy prices going down, while not good for energy stocks, is good for the consumer."

Last week's sell-off gained new momentum Friday when a report out of China showed weakened manufacturing data, exacerbating concerns about the strength of China's economy.

"The headline risk is real," said Paul Springmeyer, senior portfolio manager at The Private Client Reserve at U.S. Bank Wealth Management.

In addition to weaker earnings, falling commodity prices and China's slowdown, investors have been wrestling with the notion of a Fed interest-rate hike.

Even though a September rate hike is looking less likely by the day, Mr. Springmeyer said it is hard to ignore the strong employment data, which are part of the Fed's mandate.

"The only thing that stands up for the rate increase right now is employment is improving," he said.

Mr. Springmeyer pointed out that the stock market, which historically corrects roughly every 18 months, hasn't seen a pullback of more than 10% since 2011.

"Nobody likes to see four-day dips, but you have to remember we're coming off a seven-year bull market," he said.

That sentiment is essentially where a lot of financial advisers are right now.

"I haven't received any nervous calls or emails from clients yet, and I'm certainly not worried," said Gilbert Armour, an adviser with SagePoint Financial.

"No one knows if this is a short-term correction that will reverse in a few days or the start of a longer-term slide," he added.

Rose Swanger, principal at Advise Finance, said the market volatility will test the resolve of some clients, as well as the communication skills of advisers.

"If clients are shaking already, it's time for a reevaluation of risk tolerance," she said. "On the other hand, we, as advisers, must remind clients that these market events may be just a blip in the long horizon."

Theodore Feight, owner of Creative Financial Design, relies heavily on technical indicators to navigate market turmoil, and he isn't fretting.

"All of my long-term indicators are looking very good, so this may be a buying opportunity," he said.

A key near-term stock market driver, Mr. Feight added, will be the Federal Reserve.

Investors might get a clearer picture of the Fed's plans this week when global central bankers meet for the annual Jackson Hole conference.

"Very often, Jackson Hole is a venue that imparts important messages to the markets," Ms. Krosby said. "This market will turn up on a dime if we hear anything that suggests the Fed won't raise rates."

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SEC calls for bond rules

Continued from Page 2
MSRB said in a statement it "plans to publish its markup proposal in the near future."

The MSRB's measure would be a modified version of a proposal it released in November that would require dealers to disclose the difference between the customer's price and the dealer's price for same-day, retail-size principal transactions.

SIGNIFICANT MARK-UPS

Both MSRB's bylaw and Finra's rule must be approved by the SEC.

In its regulatory notice, Finra said data about corporate bond sales in the third quarter of 2013 showed that customers paid a significant mark-up when principal and customer trades occurred within 30 minutes of each other.

"Finra is concerned that investors in fixed-income securities currently are limited in their ability to understand and compare transaction costs," Firna stated in the notice.

But a broker-dealer executive who was elected to the Finra board last month criticized the bond-pricing proposal in his campaign.

In a Jan. 19 comment letter, Joseph R.V. Romano, president of Romano Wealth Management, said he wants better transparency and investor protection, but described the Finra proposal as "misguided, patently unfair, anti-business, anti-free market and overreaching."

Mr. Romano argued that the Finra proposal mistakenly focuses on mark-ups rather than execution price as the barometer for whether customers are being treated fairly. The approach ignores the broker's expenses, he said.

"Mark-up and gross profit is not only out of reach, it is not the most relevant factor," he wrote. "The most relevant and determining factor is the end price to the retail client."

Mr. Romano declined to comment further.

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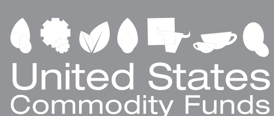

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