OCTOBER 2019

SPECIAL REPORT: **SUCCESSION PLANNING**

Financial Planning

INVESTED IN ADVISORS | OCTOBER 2019

David Eads,
founder of Vital Investment Management, says buy-sell succession agreements
"provide a great road map to where you're headed."

DO DILIGENCE

Advisors take pride in preparing clients for the unexpected. Why don't more do the same for their own firms?
Here's how to go about it.

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Vol. 49 / No. 10

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Conversations That Connect

Ask these key questions to help build your clients' trust.

To strengthen your client relationships, start with your conversations. These discussions help forge connections with your clients, earning their trust as a financial ally. As a result, you'll be better prepared to make recommendations that service their goals and needs.

Our Insights Panel shares strategies to keep lines of communication open. The experts include: financial capability expert and Faculty Director of the Center for Financial Security at the University of Wisconsin–Madison, J. Michael Collins; client behavior coach and author of "The Emotional Investor," Jay Mooreland; advisor champion and Director of Retirement Research at Carson Wealth, Jamie Hopkins; and financial psychology expert and co-founder of Mindful Asset Planning, Susan Zimmerman. Their prompts and conversation starters can build the trust and connections essential for effective planning.

Key Questions That Can Keep Communication Lines Open

Get acquainted

1. How close are you to your financial goals on a scale from 1 to 10?

Ask about goals to help clients see you as their trusted source of financial information, advises Michael. Asking clients to rate their progress toward their goals can demonstrate their knowledge in regards to finances and financial products. If a client feels that they rate as a 2 out of 10, Michael suggests encouraging them by saying, "Great – that's better than a zero. What takes you to a three? What would help get you to a four?"

2. How often do you review your financial statements?

Most consumers may look at their bank statements once a month or review their portfolios a few times a year. Knowing how often your clients review their statements can help you tailor conversations to their engagement levels and prevent clients from feeling overwhelmed.

3. How do you spend your free time?

Pay attention to what your clients engage with to get a better understanding of what influences their thinking, Michael explains. Ask questions that reveal your clients' passions, hobbies, and TV and film preferences. Knowing how they spend their free time will help you use language and references that build connections and help make clients comfortable.

Dig deeper

4. What's one financial decision you would change – and what have you learned from it?

Jay believes that this question will reveal your clients' values and the emotional states that drive their behaviors. As you learn how their behaviors have changed, you'll have a stronger grasp of your clients' emotional needs and values, and a better sense for their concerns or anxieties.

5. What keeps you awake at night?

Clients' worries can vary. For instance, 3 in 4 people surveyed have concerns that range from losing their job to not saving enough for retirement.[1] Many people report they're excited to think about their retirement, but 36% say they dread thinking about what their lives will be like once they finally stop working.[2] Knowing your clients' worries can help you draft a plan that builds their confidence while easing their concerns. "Bring some confidence back to clients so that they know they can continue sharing their information and getting guidance as they go along," says Susan.

If upcoming life changes make your clients feel uneasy, acknowledge that uneasiness. Use nonclinical, friendly language and take breaks from difficult topics when your clients need them. If a client is reluctant to share, Michael advises shifting your focus for the time being to a technical topic, such as beneficiaries.

6. What else could you tell me about that?

Simple follow-up questions give you a clear picture of the thinking behind some of the big financial decisions your clients have made. To help clients feel more comfortable, Jamie recommends approaching these conversations carefully: "Ask open-ended questions. Listen. Be confident, but not patronizing." Follow up by asking, "Oh, you said X? What do you mean by X?" This shows your clients that you're eager to learn.

Look ahead

7. "What if?"

To build trust with your clients, make sure they know that you're thinking ahead to a range of life events they might experience. Michael recommends asking them to consider the different scenarios they could experience in the next 5, 10, or 15 years. With each possibility, prompt your clients to consider what they would do if one scenario or another occurs, such as retirement or illness. As Michael suggests, "Break down the kinds of things that could happen realistically."

As you keep these seven questions in mind, think about the other ways you've led discussions with clients and how your clients have responded. Lean on your strengths as you drive these conversations to build strong bonds and be seen as a trusted expert.

Learn more about how to drive effective client conversations at
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[1] 2019 Consumer Financial Literacy Survey. National Foundation for Credit Counseling, March 25, 2019.
[2] 2019 Retirement Confidence Survey Summary Report. Employee Benefit Research Institute, April 23, 2019.

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[1]WealthManagement.com's 2017 Independent Broker-Dealer Report Card published April 2017.
[2]WealthManagement.com's 2018 Industry Awards announced September 2018. [3]Investment Advisor Magazine's Broker-Dealer of the Year Poll published 2017.
[4]Financial Planning's FP50 List of Top Independent Broker-Dealers published 2016. [5]InvestmentNews Research published April 2019.

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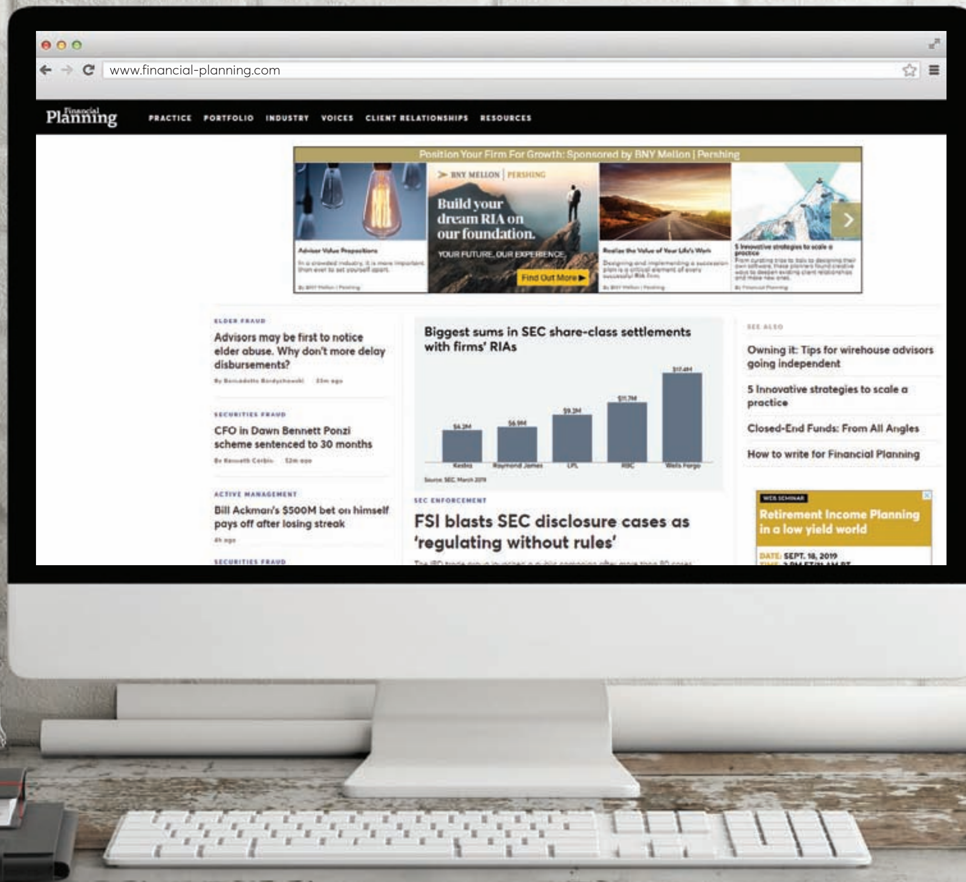
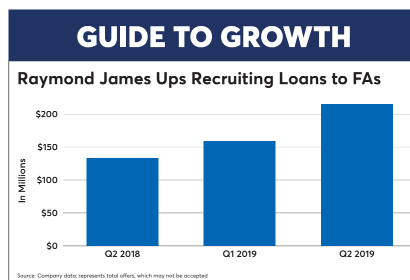


WEB SPECIAL

'Big Business' at Robos

In the digital advice arms race, the biggest independent brands have embraced what some call a questionable marketing tactic to win clients: paid bloggers. While the practice is openly disclosed, some industry observers suggest the strategy crosses an ethical gray line: https://bit.ly/2KBEdgs

GUIDE TO GROWTH



Recruiting Loans: Will Advisors Bite?

Raymond James is churning out more offers than it did a year ago — approximately $214 million as of June 30, up from $132 million from the year-ago period, according to the company's earnings report. Go to https://bit.ly/2PmLxkx

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Financial Planning

Editor's View

In Case of Emergency

A buy-sell plan is a priority for almost any practice, no matter the age of the founder or owner.

Do you have a succession plan in place? Excellent. Now pull it out and look again.

"It's important that every company reevaluate their plan, particularly as time goes by," Creative Planning CEO Peter Mallouk told me during a recent visit to *Financial Planning's* offices in New York. "What you want changes. And, as your firm grows, what you have to do also changes."

Has the practice grown or shrunk? Has your hand-picked successor moved on? Have you hired another promising candidate? These are all good reasons to review the documents again.

For those who don't yet have a plan, or have a rudimentary one, consider what five or six hours now could save you in the future.

"I've seen peers — who had firms that were $400 million or $500 million — die unexpectedly at young ages and I watched their businesses disintegrate," Mallouk told me. "That's not even a slight exaggeration. That's the most common outcome."

The former estate planning attorney recommends buy-sell agreements, particularly for firms with more than one partner.

When a co-founder passes, Mallouk told me, the surviving partner may believe the business is worth very little, but the former founder's spouse may disagree. "It's very, very important that, if you have a partner, you have a buy-sell agreement that addresses what's going to happen — not just in the event of a death, but if there's a physical or mental incapacity, so the disadvantaged party isn't having to negotiate from a position of weakness."

Young advisors, too, should be prepared for every eventuality, says contributing writer Donald Jay Korn, the author of the story, "Do Diligence."

"Everyone should be concerned about injury, divorce and departure for greater opportunities, regardless of whether they paid much attention to their own retirement plans or mortality," Korn tells me.

How to start? Perhaps it's no surprise Mallouk, given his former profession, recommends hiring an estate planning attorney. "Then I would get tax advice from a CPA to make sure a buy-sell is structured in a way to minimize taxes," he adds. "It's sort of a team approach." **—Chelsea Emery**

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Retirement Advisor Confidence Index

Fears of Recession Sap Confidence

Many skittish investors are being spooked by increased economic uncertainty, causing them to pull back from equities and bonds, advisors say.

By Kenneth Corbin

Fears of a global recession are weighing heavily on investors' confidence in their retirement plans, as risk-averse clients pull out of equities and bonds, according to the latest Retirement Advisor Confidence Index — *Financial Planning's* monthly barometer of business conditions for wealth managers.

"Clients are feeling more concerned about the economy and the equity markets," one retirement advisor says. "We have been receiving more questions about lowering risk in their portfolios."

Another advisor puts it more bluntly: "Clients are more and more nervous. We are preparing for recession."

One advisor reports fielding "lots of questions about recession and market participation."

Concerns about tariffs and trade wars, volatility, a potential market correction and other factors combined to sap clients' appetite for risk, which plunged to its lowest level of the year in the most recent RACI survey.

In that poll, risk tolerance notched a score of 32 — down more than 16 points from the previous month and more than 20 points from the same month last year.

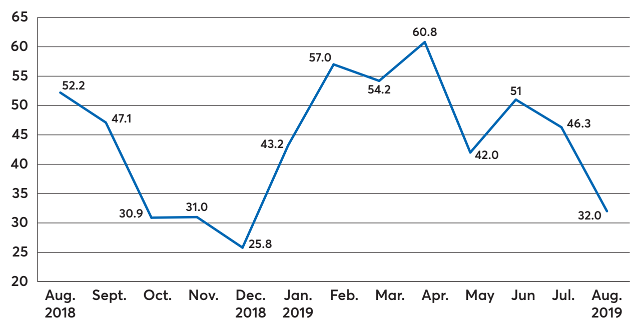
RACI scores below 50 mark a decline in confidence, while scores above that level indicate an increase.

Overall, retirement confidence slumped to 46 for the most recent month, continuing a downward slide that left the RACI composite below 50 for the past two months. Before that, the last RACI score under 50 came in December. "I remain concerned about the increasing probability of a recession within six to 24 months," one advisor says. "I am proactively moving my clients into more cautious allocations."

"Words are starting to creep in like 'recession,' 'crash,' etc.," another advisor says.

Those sentiments were reflected in asset flows, with

RISK TOLERANCE



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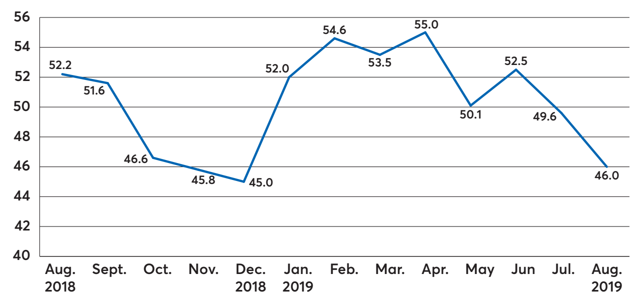
RETIREMENT ADVISOR CONFIDENCE INDEX



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advisors reporting that retirement clients were fleeing from both equities and bonds.

The RACI component that measures assets used to purchase equities dipped to 44.6, down 5.4 points from the previous month and 15.2 points from last year. Like the overall confidence index, equities posted their lowest mark of 2019.

A similar — if less dramatic — story was told by bonds

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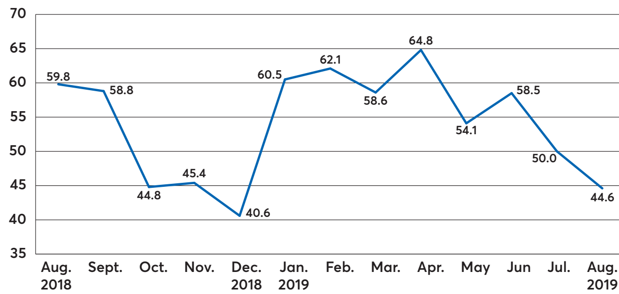
and debt-based securities. In that component of the RACI survey, advisors reported a score of 44.6, off slightly from the previous month and the third consecutive month of decline. That score was down eight points from a year ago.

Of course, some advisors say that it is important to help their clients stay focused on the big picture, despite their uncertainty and skittishness, as they plan for retirement.

"Investing for retirement is one of the most important aspects of our business," one says. "Given that it is a long-term proposition, we tend to advise our clients to focus on the long term and not to be dissuaded by short-term market fluctuations due to geopolitical or economic issues." **FP**

CLIENT ASSETS USED TO PURCHASE EQUITIES



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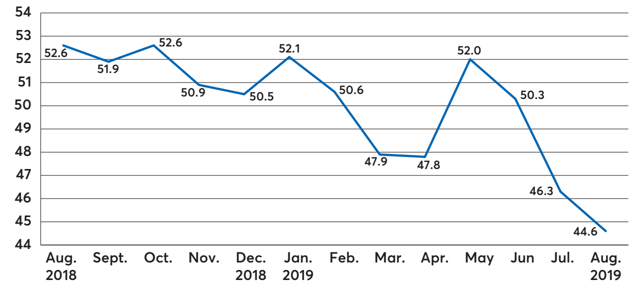
CLIENT ASSETS USED TO PURCHASE BONDS AND DEBT-BASED SECURITIES



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Swimming in the Deep End

To prepare next-generation planners for succession, you must allow them to build confidence, even if mistakes happen.

By Carolyn McClanahan

When succession planning is on the horizon, how does the owner of a planning firm transfer the mantle of trust to their successor? Financial advice, after all, is very personal. We know our clients' goals, financial successes and mistakes, family joys and upheavals — and sometimes even the dark skeletons in their closets. The relationship takes time to build and years of showing up when a client needs help.

Owners should be ready to throw proteges in the pool, and as they gain confidence and experience, require them to swim in the deep end. Here's how to go about it:

There are three parts to an advisor's development: acquiring technical knowledge, healthy business and time management skills as well as excellent communication skills. Each component is part book learning and part hands-on experience.

Depending on the motivation of the younger advisor, the book learning can occur very quickly. That can result in a mismatch about what that advisor knows in theory, versus knowing how to apply that knowledge in practice.

The key to such development is to set ground rules and create a culture of trust between the senior advisor and future successors. These rules minimize mistakes while giving the young advisors confidence to step outside their comfort zones.

The first ground rule is learning to confidently embrace saying, "I don't know." Toxic firm cultures deride people for saying they don't know something or for making mistakes. This leads to bloviated bluffing with clients and the tendency to hide or lie about errors. Our rule? If you don't know something, look it up, and if you still aren't 100% crystal clear, ask.

Stress to the young advisor that advisor-client trust develops when everyone leaves ego at the door and that questions and mistakes are valued as an opportunity to create excellence.

In our firm, if you are asked a question by a co-worker and you don't know the answer, say, "I don't know." If you are asked a question by a client and you don't know the answer, say, "I don't know, but I will find out" — and make sure you get back to the client with a resolution to their quandary.

The second ground rule is to practice extreme preparedness.

Toxic firm cultures deride people for saying they don't know something or for making mistakes.

Having free rein to say "I don't know" can never be a crutch for lack of preparation. Any new task or client meeting can naturally provoke anxiety, but being unprepared will significantly up your "I don't know" count — and may cause you to look anxious and sweaty in the process. This will not engender client confidence.

Our rule: Be prepared. Know the client's agenda, know your agenda and have the information and documents ready to respond to curveballs thrown your way.

Into the Pool

In medical school, you first learn by doing all the routine grunt work — looking up test results, drawing blood, writing patient notes and entering doctor's orders. Yet that grunt work teaches valuable lessons. You have to learn how to crawl before

you can walk. Likewise, once an advisor understands the basics, the next step is to let them become proficient at one thing at a time.

Our next-generation advisor, Joey Loss, started out by performing the grunt work of projections, estate planning, 401(k) administration and tax planning. Then, within months of coming on board, he immersed himself in insurance planning, while continuing to help out with more rote tasks. Loss learned the particulars of each client's insurance situation, talked with clients to get their needed input, helped shop for appropriate coverage and put together the insurance reviews. After a period of oversight, he knew the material as well as Carrie Jones, our senior advisor who previously had overseen insurance planning. Both now know the insurance situations for all of our clients much better than I ever hoped to — and our clients love the depth of the bench we've developed.

Time management and communication skills are taught concomitantly with technical skills. For time management, we spend an hour each week as a team reviewing completed and upcoming work and how we stand on workflow for the year. Newer team members get into the groove and understand our time-management expectations.

Once an advisor understands the basics, the next step is to let them become proficient at one thing at a time.

One of my roles in medical academia was to teach the "bedside manner" class, so I have particular interest in the art of having productive conversations on difficult topics. When a client comes in to discuss a challenging subject, all three planners are present. Through this process, Loss and Jones have picked up techniques I previously taught medical residents, such as appreciative inquiry, reflective empathy, validation and clarifying and summarizing the conversation.

Since I love to tackle tough conversations, it's been challenging for me to shut up and let Loss and Jones handle them. Post-meeting, we provide each other with feedback. And yes, they critique me, too!

BLOOMBERG NEWS

Firm owners should be ready to throw their proteges in the pool. As younger advisors gain confidence and experience, they should be increasingly required to swim in the deep end.

Swimming in the Deep End

Over the past year, Loss became the expert in insurance planning and college planning. He communicates directly with clients from start to finish on these topics. Clients understand that we wouldn't let him loose without being confident that he knows what he is doing. It is a joy for me when clients call and ask for him directly. The mantle of trust on these subjects has been transferred.

Loss is now taking deeper dives on estate planning, investment education, projections and tax planning. Jones completes the more complicated estate planning and projections and has mostly taken insurance back from Loss so he can concentrate on these other projects. I do the complex tax planning. Our goal is to rotate the cycles so we are all cross-trained on each of these client topics, gradually giving Loss the more complicated cases.

The deep end on communication has also evolved. We are all still involved in most of our meetings because we cover many different topics. However, we may tag-team the meeting so we all have alone time with the client. If it is a meeting on a single topic, the person in charge meets with the client alone, which now means Loss has client meetings without anyone else present.

My own deep end of the pool as far as succession planning has been relinquishing control once our objectives have been achieved. Thankfully, our process and desire for success for us and the clients has turned what could be a dreadful journey into a fun adventure. **FP**

***Carolyn McClanahan,** a CFP and M.D., is a* Financial Planning *columnist and director of financial planning at Life Planning Partners in Jacksonville, Florida. Follow her on Twitter at @CarolynMcC.*

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Cruz

Succession Planning Pro Tips

One of the most successful transitions I've ever seen was that of a founder who created a six-year plan to find her replacement.

By Kelli Cruz

Over the past two years, the number of calls I have received about how to successfully transition ownership to an internal successor has increased dramatically. It's about time.

Two-thirds of financial planning firms are now developing an internal successor and 45% have a working plan in place or have recently implemented their succession plan, according to this year's FA Insight People and Pay study.

I generally tell firms that, to develop career tracks, expand ownership and effectively transition leadership from one generation to the next, there should be a strategic plan to institutionalize their business models. This plan includes taking on more owners and making sure ownership is less concentrated, creating ownership opportunities for younger team members and working alongside internal successors to ensure a smooth transition.

Succession seeks to address two vital issues and it's an integral part of a broader strategic planning process.

First, how will the business grow and create value for clients, owners and employees? Second, how will the business transition to a new generation of owners while preserving its reputation and legacy?

Transferring the firm's value in succession is the cornerstone of the planning process. The value is dependent upon the strength of the firm's operational processes — the skills and capabilities of staff.

To address succession challenges, firms should develop and implement a human capital strategy that should include:

- Creating a scalable organizational structure that transitions from employees doing multiple job functions to more role specialization (lead advisor, service advisor, support advisor), including creating dedicated management roles (operations manager, director of client services, chief operating officer, chief compliance officer) and defined career paths for the advisory, investment management and operational areas of the firm.
- Focusing on performance and career development, including formalized coaching and mentoring programs.
- Aligning both short- and long-term compensation structures so potential new owners can afford to buy ownership over time.
- Developing sound criteria for the core competencies and traits of a successful owner and leader.
- Mapping a realistic time line that allows for the smooth transition of clients and the management of the firm.

As most successions are managed as phased-out exits, your human capital practices are essential: First the owner backs away from the daily operations, then delegates management responsibilities for the firm and clients, then finally sells the ownership stake.

Two-thirds of financial planning firms now are developing an internal successor and 45% have a working plan.

One of the most successful examples I have seen was a founder who created a strategic succession plan to find her replacements.

She recognized it would take three internal successors to replace what she had

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been doing and grow the firm to the next level.

Once she identified the candidates, she gave herself enough time — six years — to develop them. She divided firm operations into three areas — one for each of them; 1) management of the firm's business development and growth plans, 2) management of the financial planning process and advisors, 3) management of investment management of the client's assets and the firm's financials.

She transitioned her clients over a three-year period. By the last year, 100% of her clients had been transitioned and she was working part-time. When she retired completely, she had not only transitioned all the clients, the day-to-day running of the firm and the sale of her equity, but she had started her own successful transition into retirement.

The Right People

To make succession efficient and effective, firms must have the right people in place with suitable skills at the correct time.

When assessing succession candidates, character and culture fit, shared vision and leadership are as important, if not more so, than financial criteria. Current owners will likely have to work side-by-side with new owners for years — perhaps even decades. Candidates can make their revenue numbers and be technically competent, but if they don't match with your culture, it can cause serious problems.

Also keep in mind that there is no substitute for observing and working with people over time to gauge their cultural and leadership qualifications. The importance of leadership qualities in successors are borne out by the FA Insight study, which lists the top three leading factors considered when assessing a new owner as: "character, values and fit with firm culture" (71%), "shared vision on firm growth strategy" (37%) and "leadership and management ability (35%).

There is no substitute for observing and working with people to gauge their cultural and leadership qualifications.

Bringing up the rear in that study are: ability to engage with clients (27%), business development ability (26%), entrepreneurial spirit (18%), professional maturity (16%), ability to manage complex clients (14%), financial commitment (10%) and ability to mentor and develop others (6%)

To these factors, I would add the following core leadership competencies for evaluating partner candidates that I have used in my consulting work:

Establishing focus: The ability to develop and communicate goals in support of the business' mission.

Fostering teamwork: The ability to demonstrate interest, skill and success in getting groups to learn to work together.

Empowering others: The ability to convey confidence in employees' ability to be successful — especially at challenging new tasks; delegating significant responsibility and authority; and allowing employees freedom to decide how they will accomplish their goals and resolve issues.

Managing change: The ability to demonstrate support for innovation and for organizational changes needed to improve the organization's effectiveness; initiating, sponsoring and implementing organizational change; helping others to successfully manage organizational change.

Developing others: The ability to delegate responsibility, to work with others and coach and develop their unique capabilities.

Managing performance: The ability to take responsibility for one's own or one's employees' performance by setting clear goals and expectations; tracking progress against the goals; ensuring feedback; and addressing performance problems and issues promptly.

Attention to communication: The ability to ensure that information is passed on to those who should be kept informed.

Influencing others: The ability to gain support for ideas, proposals, projects and solutions.

Building collaborative relationships: The ability to develop, maintain and strengthen partnerships with others inside or outside the organization who can provide information, assistance and support.

It's also important to assess these attributes and be open to working with outside resources to coach your partner candidates successfully. Implementing 360-degree assessments and peer reviews, providing ongoing feedback and creating promotional opportunities for development are essential to advancing internal candidates. Incorporating an annual formal assessment of these competencies and tying compensation decisions to the results will help to reinforce the path to partnership.

Finally, I suggest developing a solid understanding of the most significant challenges your firm and the advisory industry are likely to face over the next five to 10 years and the skills and experiences future partners will need to clear these hurdles. After all, leadership succession requires looking through the windshield, not in the rear-view mirror. Investing in a credible forecast makes it possible to hone in on the skills and capabilities needed to continue the success of your firm. **FP**

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

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ALSO IN RIA IQ: GETTING M&A DEALS DONE, P. 22

Selected RIA Capital Providers

Live Oak Bank, Wilmington, North Carolina
PPC Loan, The Woodlands, Texas
SkyView Partners, Wayzata, Minnesota
Dynasty Financial Partners, St. Petersburg, Florida
Oak Street Funding, Indianapolis, Indiana
Estancia Capital Management, Scottsdale, Arizona

Source: DeVoe & Co.

Capital Options Explode for Advisory Firms

Demand for loans has spurred DeVoe & Co. to launch a referral service.

By Charles Paikert

RIAs used to have a hard time accessing capital. Not anymore.

"There's been more creative capital and lending solutions for RIAs introduced in the last six months than there's been in the last six years," says David DeVoe, whose eponymous M&A consulting firm is launching a new referral service for clients interested in getting loans or investment capital.

Why has the demand for loans and equity capital solutions exploded?

DeVoe points to the frenzied activity in the M&A market for RIAs, which reached a record high through the first half of the year, and the increasing number of aging advisory firm owners seeking financing for succession plans.

The competitive M&A market has also increased the need for buyers to offer cash up front, notes Scott Slater, vice president of practice management and consulting for Fidelity Clearing & Custody Solutions.

"It's very much a seller's market, and significant up-front cash has become more common to get deals done," Slater says.

An advisory firm's ability to generate a consistent fee-based revenue stream also "makes lending to RIAs less risky," points out Mike Papedis, managing partner of Fusion Financial Partners, a Carlsbad, California-based RIA transition and consulting firm.

What's more, capital is currently inexpensive, with the 10-year Treasury yield well below 2% as of early September.

As a result, a flood of new capital providers and offerings have appeared on the market.

They include the launch of Merchant Credit Partners, SkyView Partners' introduction of its digital lender marketplace and two products from Dynasty Capital Strategies: revenue participation notes and a note that is forgiven over eight years in return for a portion of the advisory firms' cash flow.

Private equity-backed lending pools are expected to hit the market soon.

Private equity-backed lending pools are also expected to hit the market by the end of the year. Advisors seeking capital can also choose from traditional PE investors, conventional bank loans, SBA loans and so-called "patient capital" providers such as family offices.

So many RIAs have inquired about the capital options now available to them that DeVoe says his firm was spurred to open its new CapitalWorks referral service to handle the inquiries.

Around 30 capital providers, including Live Oak Bank, PPC, SkyView (formerly known as Succession Lending), Dynasty, Bain Capital, Estancia Capital Management and Oak Street Funding will be on the CapitalWorks platform.

For the time being, RIAs

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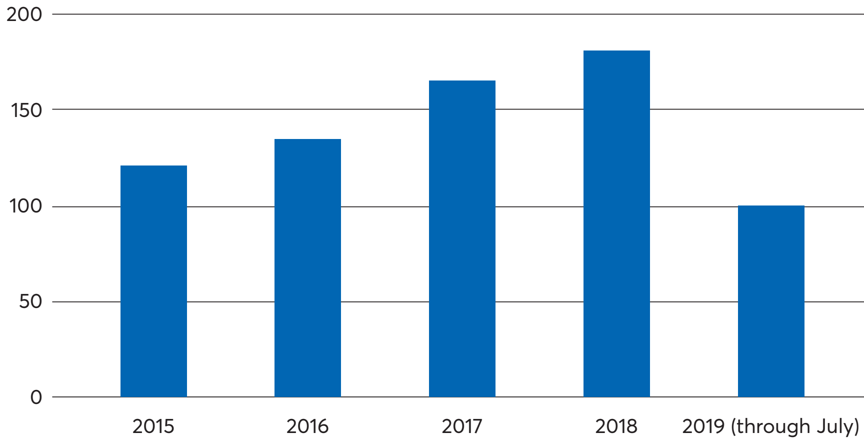
RIA M&A Deal Volume



Source: Echelon RIA M&A Deal Report

won't be charged for referrals and companies will not have to pay to be on the platform, DeVoe says.

However, DeVoe & Co. will accept a standard referral fee if it is a provider's policy to give one, DeVoe adds. The M&A firm also expects to charge lenders a fee if the provider wants DeVoe & Co. to "go deeper" and spend more time learning about its offering, DeVoe says.

After learning about an advisory firm's enterprise goals and capital needs, the RIA will go through a "decision tree" of options for a lender or investor that will be "fully unbiased," DeVoe says.

Around 30 capital providers will be on the new referral platform.

Initial industry reaction to the new service has been positive.

"This seems very smart," says Matt Sonnen, CEO of consulting firm PFI Advisers. "There is a lot of demand for financing from RIAs, and we've seen a lot of lending solutions crop up in recent years. For advisors to have a

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known brand like DeVoe walk them through the various options will be a huge value add."

As new lenders pour into the market, RIAs are looking for a resource, agrees Rick D'Amico, who is head of Merchant Credit Partners. "There's definitely value in bringing more institutional advice and transparency to the RIA capital markets," D'Amico says.

In addition to offering advisors more credit options, the platform is a shrewd business move for DeVoe, notes Dynasty CEO Shirl Penney.

"Dave is smart to create another catalyst for why a seller would call his firm," Penney says. **FP**

M&A activity for RIAs reached a record high in the first half of 2019, according to David DeVoe, founder of consulting firm DeVoe & Co.

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

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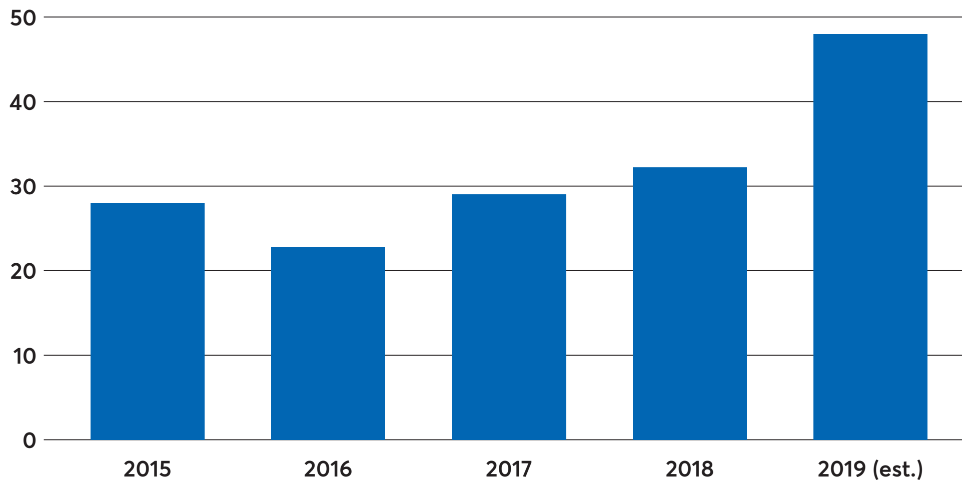
$1 Billion-Plus RIA M&A Deals



Source: Echelon Partners

How Buyers Snare M&A Deals in a Sellers' Market

HighTower adds a nearly $1 billion RIA to its growing roster.

By Charles Paikert

How do M&A deals get done in a super-competitive market for RIA firms?

Writing the biggest check always helps. Cultural fit is important — as buyers and sellers constantly reiterate.

And the buyer must provide resources the seller feels are indispensible to its needs.

HighTower Advisors won't say if it was the highest bidder in its latest deal, a cash and equity purchase of what it's calling a "substantial" stake in Lexington Wealth Management, an RIA based in Lexington, Massachusetts, with $929 million in AUM.

But company executives have made no secret of the fact that they intend to use the considerable capital resources of its private equity owner,, Thomas H. Lee Partners, to get more such deals done.

Checking the Boxes

And HighTower does appear to have checked the other boxes to Lexington's satisfaction. The Massachusetts RIA found its way to the Chicago-based aggregator after carefully surveying the intensely competitive RIA market. Lexington decided it "really wanted to grow and get better," says Michael Tucci, the RIA's co-founder and CEO.

But the advisory firm knew that getting to the next level meant exploring an M&A deal. Lexington then retained consultant Andy Putterman and investment banker Silver Lane Partners, a division of Raymond James.

Lexington ended up meeting with 20 firms, including banks, regional RIAs, private equity firms and national aggregators as it considered its sale options, according to Tucci.

A 'Dot on their Map'

"At the end of the day, [those firms] essentially wanted us to become a dot on their map," he says. "And some firms say things in big print that they take away in small print."

Tucci and co-founder and President Kristine Porcaro "didn't want to abdicate" their active management roles, Tucci says. "We have a lot of gas left in our tank and we wanted a real partner."

"The environment of capital chasing opportunities in the RIA space is becoming more dynamic," says Matt Crow, president of Mercer Capital.

HighTower promised to retain the firm's entrepreneurial ethos and personnel — and the firm also had the capital to allow Lexington to make sub-acquisitions in New England.

"HighTower sees Boston and New England as a key growth area," confirms Silver Lane managing director Edward Higham. "They are seeking to deploy additional

capital to build out the region through tuck-in acquisitions onto the Lexington platform."

HighTower is also building up value for an anticipated liquidity event in the near future.

Building Enterprise Value

Noting that private equity "is not long-term capital," HighTower CEO Bob Oros told *Financial Planning* earlier this year that "if we build the firm the right way, we will have quite a few options when the time comes [to make a decision]. We want to build enterprise value that people will be attracted to."

HighTower's potential to have an IPO can bring the equity leverage to get deals done.
Tim Welsh, president, Nexus Strategy

Tucci wouldn't say if the possibility of a forthcoming HighTower IPO factored into Lexington's decision to sell, but industry consultant Tim Welsh notes that HighTower's "potential to have an IPO can bring the equity leverage to get deals done."

What's more, Oros' ability to communicate HighTower's new M&A focus "is resonating in the marketplace, whereas in the past, their direction was more muddled," Welsh points out.

In a seller's market, however, that M&A focus comes at a price.

HighTower CEO Bob Oros says the firm wants to build enterprise value that "people will be attracted to."

HighTower Highlights

Assets under management: $48 billion

Advisors: 344

High-net-worth clients: 8,000

Offices: 99

States: 33

Sources: SEC Form ADV, company data

A 'More Dynamic' Environment

"The environment of capital chasing opportunities in the RIA space is becoming more dynamic," says Matt Crow, president of M&A research and consulting firm Mercer Capital, "with an increasing number of lender solutions, as well as permanent capital providers, competing with the HighTowers of the community for deals."

And EBITDA valuation multiples keep rising, according to industry executives, reaching levels of high single digits to low double digits for a billion-dollar firm like Lexington.

Another critical factor, adds Brooks Hamner, vice president at Mercer, is how the valuation multiple is applied. Reported EBITDA may result in one multiple, but pro forma, run-rate or an adjusted EBITDA could be another.

Oros has addressed restlessness among HighTower advisors, which culminated in several major defections before he took over as CEO in January. Around 90% of HighTower advisors' revenues are now under contract, compared to less than a quarter in 2017, Oros told *Barron's* in August.

EBITDA valuation multiples keep rising, according to industry executives, reaching levels up to low double digits for a billion-dollar firm like Lexington.

The Lexington deal is HighTower's third billion-dollar-plus transaction this year. In February, the aggregator bought an equity stake in Green Square Wealth Management, a multifamily office in Memphis, Tennessee, with $2.2 billion in AUM.

HighTower also made a strategic investment in LourdMurray, a Beverly Hills, California-based wealth management firm that recently merged with Delphi Private Advisors, based in San Diego. The firms had a combined AUM of $4.4 billion. **FP**

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

Advisor David Eads has plans in place for his firm, his clients and his family in case of catastrophe.

Photo by Jason Innes

DO DILIGENCE

To weigh whether a buy-sell agreement is needed, advisors should consider what would happen to their practice if personal disaster struck.

By Donald Jay Korn

Somewhere in America, a financial planner is having "the talk" with a business-owner client about succession.

For your firm's sake, your family's sake and your legacy's sake, the advisor says, you need to plan for unexpected accidents, illness and divorce, as well as the inevitable — death. Planners typically advise such clients to address these risks via insurance and, for many business owners, with buy-sell agreements.

It seems to follow, then, that advisors should take their own advice and enter into a buy-sell when it comes to succession planning for their own firm. To understand why this agreement can be crucial, consider what would happen without one in case of a personal disaster. You (or possibly your heirs) would be sellers, looking for someone to buy your interest in your practice. There would likely be time pressure and a lack of negotiating leverage for the seller.

With this and other downsides in mind, some advisors support buy-sells enthusiastically, reasoning that a well-drafted plan can lock in fair compensation for a reduced or lost career. But others are ambivalent about the instrument, and still others say buy-sells are just not for them.

Basically, a buy-sell agreement is a binding contract that sets terms for the compensation of a departing (or departed) business owner or co-owner. In the pro camp is Rob Siegmann, principal at Total Wealth Planning in Cincinnati.

"All advisors should have buy-sell agreements in place as part of their succession and business continuity plans," he says.

Siegmann speaks, in part, from experience. He worked at a firm where the founder — a sole owner who didn't participate in the business any longer — did not have a buy-sell. As a result, he says, advisor-employees "grew restless." When Siegmann bought the firm, along with two partners, "we put our buy-sell agreement in place as part of our partnership discussions and purchase negotiations." The newly named advisory firm's buy-sell agreement now calls for the remaining two owners to buy out

the third over a 10-year payout.

This buy-sell would apply in "all scenarios" in which one partner leaves the firm, Siegmann says.

One advantage of having a buy-sell is that it can cover many different events — indeed, a comprehensive agreement should go beyond the seller's death or disability. Siegmann, for instance, groups the "triggers" as voluntary or involuntary, but buy-sells also might be categorized as catastrophe plans or practice continuation agreements.

Retirement, for instance, on Siegmann's seller's schedule would qualify as voluntary.

On the involuntary side, he mentions the four D's, adding divorce and disagreement to the two common buy-sell triggers of death and disability.

Why Include Divorce?

"Buy-sell agreements typically clarify who is eligible to hold a percentage of the enterprise in case of death or divorce of a partner," says Genevia Fulbright, president of Fulbright & Fulbright, a CPA consulting firm in Durham, North Carolina. "These provisions can help avoid automatic transitions to uninterested or unqualified family members who might inherit the business. We have seen situations where small business owners have failed to plan and are forced to immediately wind down operations by a partner's beneficiary who does not understand the business."

Similarly, advisors would likely want to be able to buy out an ex-spouse who obtained an interest in the practice after a divorce on terms set by a buy-sell or to restrict resale rights.

Fulbright explains that other triggers can be included in a buy-sell, ranging from violation of ethical standards to a partner's desire to explore opportunities outside of the business. "A buy-sell also can include details regarding the level of work required to maintain the partnership," she says.

Flex Plan

Yet even the above list of eventualities covered by a buy-sell isn't exhaustive.

David Eads, CEO of Vital Investment Management in Loveland, Colorado, has executed two buy-sells in recent years, the first as a buyer as part of a succession plan for a retiring advisor.

The second agreement was created with Eads as a potential future seller, mainly to facilitate merger activity, because the advisory practice in which Eads had acquired a 50% stake joined a much larger firm within a year of his executing the first buy-sell. Three years later, Eads triggered that second buy-sell with a request to depart the merged firm.

He negotiated a modification of the latter agreement, enabling him to solicit his clients, in exchange for relinquishing a payment for his partnership value.

"The most surprising thing I have learned from my buy-sell agreements is their flexibility," Eads says. "They provide a great roadmap to where you're headed, but the actual execution of the buy-sell usually needs to be tweaked to the current situation of both the buyer and seller."

Eads, 36, reports that he's in the process of creating a buy-sell agreement with another local fee-only RIA. Although some years from retiring, he intends to protect his clients and his family in case of catastrophe.

In addition to their ability to cover many contingencies, buy-sells deserve advisors' consideration because they're well established as a means of delivering satisfaction.

They're Done Because They Work

That is, they work.

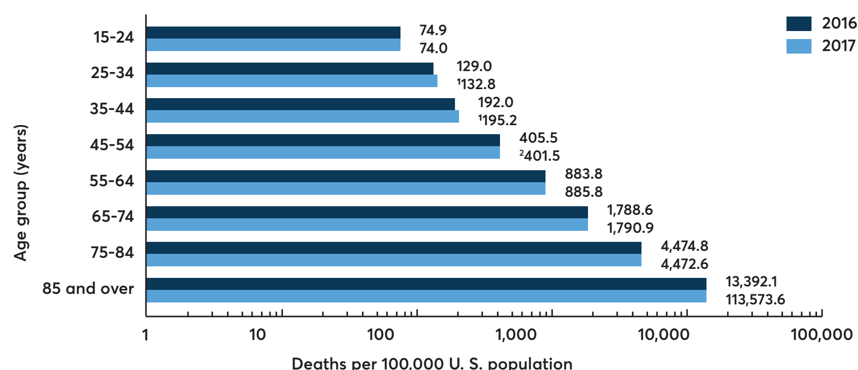
For example, Damon Dyas, an advisor at Cornerstone Financial Group, a private practice of Ameriprise Financial Services, in Southfield, Michigan, had entered into a buy-sell with another Cornerstone advisor, as required by Ameriprise.

Dyas faced a cash need and used "practice equity" instead of taking out a loan by selling his practice to the advisor who had signed the buy-sell with him.

Now, Dyas' buy-sell agreement is no longer active, and he is considered an employee of the practice.

"Nothing else has changed about my day-to-day duties," Dyas says, adding, "I do receive more back-office support and benefits, being an

How Many Americans Will Die Each Year?



Source: CDC/National Center for Health Statistics

KEYS TO SUCCESSFUL SUCCESSION PLANNING FOR RIA

Insights on optimizing negotiating power for firms in transition.

While a client-centric approach is the hallmark of RIAs, it's important that firms and advisors plan for their own futures as well. Developing a succession plan is one of the most important activities RIAs can undertake.

As part of our mission to help advisors succeed, Franklin Templeton took a deep dive into the topic of succession planning to identify the issues that are most relevant to RIAs. Here are some outtakes from the report. You can access the full paper at franklintempleton.com/successionplanning.

FIRMS NEED TO CONSIDER THE NEXT GENERATION

Many buyers want to know that would-be sellers have a next generation in place, which emphasizes the need for RIAs to institutionalize their firms—but only 11% of RIA sellers say that institutionalizing their investment process and building in-house investment management capabilities are among their three highest priorities over the next three years. Potential sellers seem to believe that their succession planning, or lack thereof, will have little impact on the potential pool of transaction partners. A little less than half feel it is very likely that they will sell or merge their firm with a third party, only slightly more than the 39% who believe it's likely that they will sell to current employees. It's possible, however, that some respondents don't grasp the nuance or the heavy lifting involved in some of these transactions.

THERE'S A DIFFERENCE BETWEEN INTERNAL SUCCESSION AND EXTERNAL SALES

- Most RIAs prefer internal succession
- About a third plan properly and succeed on their own terms
- For the rest, the execution of a transition is often poor

"Relatively few independent advisors really understand the difference between creating an internal succession plan and an external sale of the business," says David Grau, Sr., JD, President and Founder, FP Transitions. "A full succession plan is sophisticated; there are a lot of intricacies involved. It takes a diversified team to look at the problems and solve them from a variety of angles. A sale, that's different. That's simpler. That's business-broker stuff."

86% of would-be buyers deemed organizational culture and "fit" a "primary decision criterion"

According to Grau, about a third of those who desire internal succession plan effectively and succeed on their own terms. Another third begin to run out of runway and have to accelerate their plans and their own departure, with internal successors. The final third must sell to a third party or merge in order to see anything come of the business they worked so hard to build.

WHAT DO BUYERS VALUE? VALUE

Potential buyers clearly want value for their money, a sometimes vexing expectation in the current deal climate. In addition, they want to avoid obvious red flags (disciplinary or regulatory issues), and they want similar or complementary business models, value propositions, and client bases. By and large, they also want the seller to stay around long enough to help transition over those clients.

THE IMPORTANCE OF CULTURE

Potential buyers of RIA firms speak largely with one voice when it comes to the significance of organizational culture. Questioned about the importance of various criteria when evaluating a prospective acquisition candidate, fully 86% of would-be buyers deemed organizational culture and "fit" a "primary decision criterion," far outpacing any other consideration.

Keys to Successful Succession Planning for RIAs is important reading for RIAs who want to ensure the best outcomes for their firms. The paper covers topics including the factors that contribute to a firm's valuation, what's whetting buyers' appetites, potential deal breakers, how to assess cultural fit and more.

To access the full report visit
franklintempleton.com/successionplanning

Source: Institutional Investor Research. Franklin Templeton commissioned *Institutional Investor's* Custom Research Lab to conduct a survey of 162 RIA leaders at small, medium and large US firms ranging from approximately $100 million in AUM to upwards of $5 billion. The survey was administered in the autumn of 2018.

employee. Overall, I'm pleased with the transition, and there was no effect on client service."

Accentuate the Negative

Despite the advantages of buy-sells, some advisors aren't completely sold.

"I've been a one-man operation since 1982," says Bob Maloney, founder of Squam Lakes Financial Advisors in Holderness, New Hampshire, "and buy-sell agreements have no place in this type of an operation."

Yet Maloney is hardly a never buy-seller — in fact, he estimates that 20% of his business over the years has been with small business owners, so he has been involved with numerous buy-sells. He say they are "one of the cleanest ways" for such clients to deal with death or disability.

Maloney's problem with buy-sells for his firm is that, although he offers comprehensive financial planning, portfolio management is farmed out to parties he has recommended. His value as a fee-only planner comes from his holistic advice.

If Maloney were to bring in a junior advisor and work with this prospective successor for several years, he says, "maybe I would have something to transfer." But as he sees it, his practice has scant value without his personal expertise.

In Maloney's succession plan, in case of his death or disability, his wife would reach out to a younger local advisor Maloney has already identified. This other planner would have the opportunity to meet with each of Maloney's clients to determine if an ongoing engagement is desirable. No compensation to Maloney or his wife would result.

"I've been a one-man operation since 1982 and buy-sell agreements have no place in this type of an operation," says Bob Maloney of Squam Lakes Financial Advisors.

Some advisors have no buy-sell at present simply because they haven't yet found the right successor.

"I am still working on our firm's transition plan," says Carol Schmidlin, president of Franklin Planning in Sewell, New Jersey. "My goal is to find a buyer who has similar values and beliefs as I do."

Schmidlin plans to decide on the right successor in three to five years, followed by a two-year observation period before deciding whether to go ahead.

"It is very hard for me to even think about this, because I truly love what I do," Schmidlin says. "However, I know it is the right thing for my clients' best interests."

An Alternative Approach

Even without a buy-sell, some advisors have fairly comprehensive disaster protection and succession plans in place. Ryan McKeown, a CFP and senior vice president at Wealth Enhancement Group in Mankato, Minnesota, says he has a successor agreement with the other advisor on his team, who is younger. McKeown or his estate will receive a percentage of the team's profits for four years following his retirement, disability or death.

"At our firm, all of the financial advisors who are senior vice presidents have similar agreements," McKeown says. "Therefore, the senior advisors have a strong incentive to pick successors they believe will run the business well."

Wealth Enhancement Group is partially owned by certain advisors and key employees as well as a private equity investor.

Clients are assigned to teams, which may have few advisors, and the senior advisors have succession agreements strictly for the team's clients.

McKeown has equity in the parent company, as well as an agreement to sell back his shares in case of certain trigger events.

One advantage for the successor advisors is not having to go into debt in order to buy out senior colleagues when they retire, become disabled or die.

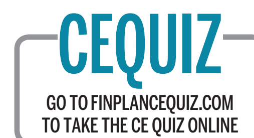
Both buyers and sellers may benefit from a formula that sets payment based on the future performance of the business, rather than a present value of estimated future cash flows or a metric of current performance.

"The arrangement I have is technically not a buy-sell," says McKeown, who also is a CPA. "However, as more RIA firms aggregate and become bigger, arrangements like ours might become more common." FP

Probability of Disability for Americans Age 35 to 65

Age	Males	Females
35	3.1%	2.5%
40	4.6	4.2
45	6.6	6.4
50	9.2	9.2
55	13.3	13.4
60	19.2	19.0
65	26.0	24.7

Source: Social Security Administration



__Donald Jay Korn__ is a contributing writer for Financial Planning *in New York.*

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Glide Path to Your Retirement

One idea: Partner with minority-interest capital to avoid losing all control.

By Brent Brodeski

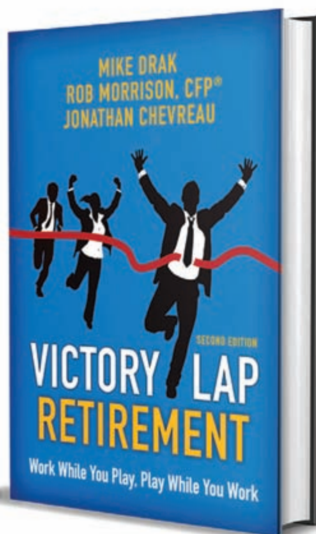
The historical idea of retirement is outdated and makes people miserable.

That's the premise of "Victory Lap Retirement," a new book by Rob Morrison, Michael Drak and Jonathan Chevreau. Morrison, a CFP and president of Huber Financial Advisors, is a friendly competitor of mine from the Chicago area.

As people live longer, they have an extended runway to enjoy financial independence. When they retire, they don't have to be bored, play too much golf, watch too much TV, eat too much junk food and drive their spouse (and advisor) nuts. Instead, they can refocus their energy on things they really enjoy.

This, of course, is advice every advisor has given clients. But too often advisors — especially RIA founders — fail to eat their own cooking.

Frequently, our succession plans are all-or-nothing. Founders either sell their firm in one move or, due to a lack of planning, have to work forever.



The first scenario usually involves a private equity or financial buyer acquiring a controlling interest in an advisory firm. Most buyers now pay 100% cash at closing. Inevitably, this means the typical founder sticks around for a couple of years and then is out.

In the second scenario, a founder just keeps doing what they have always done — albeit at a slowed pace.

The average RIA founder is over age 60, and many are like ostriches: They stick their heads in the sand, ignore the need for succession planning, ignore that their clients are aging, let organic growth slow to a crawl or even backslide, and have less fun in their business.

Eventually, such founders end up with RIAs that resemble depleted oil wells. There are other options.

Other Options

For one, invest in A-list talent to do the jobs you don't want to do. Once you are financially independent, maybe there is no actual need to sell. Instead, hire specialists and professional managers to do things you are not as good at or that you do not enjoy.

Another solution is to partner with minority-interest patient capital. Most off-the-shelf acquirers require you to give up control. But an emerging source of capital is family offices and other long-term investors.

Unlike PE firms that typically want to take control of your firm, own it for three to five years and flip it to the highest bidder, patient capital often prefers to make minority investments, leave you (and your team) in charge, collect a pro rata share of dividends and provide you liquidity to achieve financial independence without your having to sell out.

Another idea: Get off the dime regarding internal succession. If it's critical that your name remains on the door and you stay 100% independent, you can transition much of your ownership to employees.

While this may mean you get a far lower multiple and you are the bank of last resort, this can provide a very slow glide path to an eventual retirement.

The big caveat is that internal succession often takes 10 to 15 years. So, if remaining independent is key, you have little time to waste. Get on it. Recruit next-generation team members with an appetite for risk who are willing to gradually buy your stock and do jobs that you no longer enjoy.

Finally: Mix and match. You could hire A-players, sell an interest to patient capital or merge with a larger RIA that can provide you both partial liquidity and equity opportunities for your team.

My advice for RIA owners is to be deliberate. The message of the book is to avoid the retirement trap of boredom, depression and early death.

Instead, think hard and long about what success means to you and your family. You help clients with this each day. Try putting yourself first, create your ideal succession plan, and enjoy your own victory lap in retirement. **FP**

Brent Brodeski *is a* Financial Planning *columnist and CEO of Savant Capital Management in Rockford, Illinois.*

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ALSO IN PRACTICE: CULTURE SHOCK, P. 34 | EXPUNGEMENT, P. 36 | CYBERSECURITY, P. 37

LPL CEO Dan Arnold (middle), advisor Laura LaTourette (right of Arnold) and Chairman Jim Putnam (right of LaTourette) pose with a group of LGBTQ advisors and supporters at LPL's recent Focus conference. LaTourette and fellow advisor Marci Bair (2nd from right) are leading efforts to connect LGBTQ advisors and clients.

MARCI BAIR

An LGBTQ Network at LPL

Two advisors from the No. 1 IBD are building a business community for networking and education.

By Tobias Salinger

Due in part to an OSJ move, two advisors plan to build a much-needed network for LGBTQ advisors and their allies.

Laura LaTourette and Marci Bair formed what they call an LGBTQ advocacy "dream team" after LaTourette switched her office of supervisory jurisdiction under LPL Financial from Integrated Financial Group to the Wealth Consulting Group.

They'll start by serving on one of LPL's so-called business communities for diverse groups, but they plan to open the network to all of the firm's 16,000 advisors — and those working at other companies as well.

LGBTQ advisors "want and need and crave a network of camaraderie and support," Bair says, calling on any interested parties to reach out to her or LaTourette directly. They noted an outpouring of interest and supportive pledges from top LPL executives like CEO Dan Arnold at the company's annual Focus conference in August.

The newly rebranded practice — LaTourette's Dahlonega, Georgia-based Family Wealth Management Group — and Bair Financial Planning in San Diego represent two of the 29 offices of Jimmy Lee's WCG, which has $1.6 billion in AUM and 165 employees across the OSJ.

LaTourette, who, like Bair, is a lesbian, says she's passionate about not only serving the needs of LGBTQ elders but "normalizing the conversation" about them. The advisors also want to set up avenues for LGBTQ advisors to meet each other and educate allies about their community.

LGBTQ advisors can face apathy or outright discrimination, say LPL's Laura LaTourette and Marci Bair.

Integrated Financial wasn't a fit for LaTourette because it wasn't as supportive of her as an LGBTQ advisor, she says. Regardless of career advancement or whether they have come out, LGBTQ advisors often face apathy or even outright discrimination, she and Bair say.

"I was looking for an OSJ that would support me as a whole person," LaTourette says. "I'm going to join this great group and we're going to pull it together from East Coast and West Coast."

LGBTQ advisors often have to grapple with whether to discuss their sexual orientation with their broker-dealers, OSJs or clients — and the potential for backlash. Bair and LaTourette hope the network can help provide role models as advisors embark on their

own complex personal journeys.

"They can at least join this network and know that they're not the only LGBT advisor," Bair says. "If you just live in your truth and you're authentic, good things come to you. You'll be praised even more."

Co-CEO Land Bridgers of Integrated Financial — an Atlanta-based OSJ with 87 advisors and $4.1 billion in client assets — emailed a statement on LaTourette's departure.

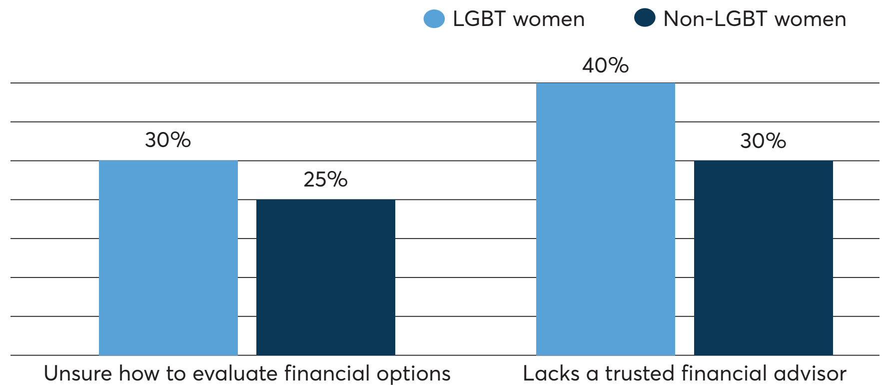
"We are grateful for our time with Laura at IFG and we wish her great success in her future endeavors," Bridgers said.

LaTourette had been affiliated with Integrated Financial for five years out of her 16 with LPL, according to FINRA BrokerCheck. The new name of her practice reflects the fact that her daughter, a former trader, and her son, a Navy submariner, will both eventually join the practice, which has $45 million in client assets.

She also expects to hire another advisor next year, LaTourette says.

LPL advisors Marci Bair (left) and Laura LaTourette show marketing materials at the company's annual Focus conference that the firm has introduced to help representatives reach LGBTQ clients and other diverse communities.

LGBTQ Women are More Likely to Say They Want Financial Advice



Source: 2018 Financial Wellness Census, Prudential

Both advisors hope heterosexual allies join the as-yet-informal organization because there aren't enough LGBTQ advisors to serve the entire community, Bair says. Representatives for LPL declined to say if the company has figures on the total number of LGBTQ advisors or whether it's compiling them.

"Advisors have shared with us how important relationships and networks are to business success," says LPL's Kathleen Zemaitis.

Bair and LaTourette led breakout presentations at LPL's Focus conference last week. The advisors rave about the repeated and strong offers of any help from the executive level by CEO Dan Arnold and Chairman Jim Putnam. They also estimate that around 400 people attended the diversity and inclusion reception, up from roughly 50 last year.

LPL's advisor business communities meet at least once a year with senior executives to discuss how to boost diversity and expand services to clients of all backgrounds. The No. 1 IBD will launch the LGBTQ committee formally in coming months.

"Advisors have shared with us how important relationships and networks are to their business success," Kathleen Zemaitis, senior vice president for advisor diversity and inclusion, said in a statement. She added that having the committees "creates a more meaningful and powerful experience at LPL, and provides a place where advisors can share, learn and grow together."

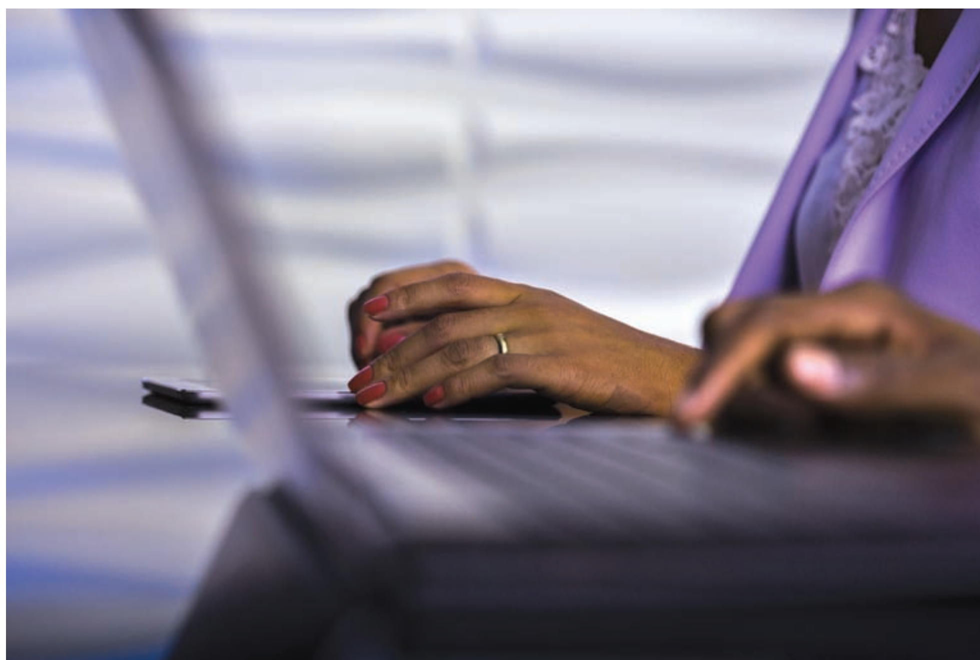
The firm also praised WCG as a "strong advocate for inclusion" within the Las Vegas-based OSJ and throughout LPL's advisor force. LPL's marketing materials for specific diverse communities, research papers and other resources also make a difference, LaTourette says.

"LPL has built the support for us," she says. "We've just come together with the enthusiasm to say, 'Let's take it to another level too.'"

She and Bair will leverage events and social media platforms for the group, which doesn't yet have a name. Some 50 LPL advisors have expressed interest; Bair predicts the number will triple as word spreads.

"We don't want to just be tolerated," Bair says. "We want to be celebrated." **FP**

__Tobias Salinger__ is a senior editor of Financial Planning. *Follow him on Twitter at @TobySalFP.*


One important idea is to find people you connect with — finding your tribe provides a security blanket of sorts.

Culture Shock

A letter to advisors on how to handle the lonely feeling that you are the only black or brown advisor in the room.

By Rianka R. Dorsainvil

Dear black and brown practitioners of the financial planning profession:

You belong and we need you.

I write this letter with a full and open heart. With any level of success comes visibility, and with that comes a responsibility to lift up others. I want to be a part of the effort to elevate the black and brown voices of the financial planning profession.

Over the years, many practitioners of color have reached out to me to share their stories. They tell me their confidence is sinking due to microaggressions in the financial planning profession, their fear of being the only person of color in their firm, and their feeling of being overwhelmed by the idea of fighting employers and clients to be themselves while doing what they love.

If you've ever felt this way, the truth is: I am you. Many new planners and career changers see me as a thought leader in terms of diversity and inclusion in this profession and assume I've figured it out.

Yes, I do own a firm, I am growing my practice and I have learned how to navigate the profession — while being the only person of color in the room 99% of the time.

But beneath the surface, there are layers to my story — survivor's remorse, constant battles with imposter syndrome and more.

I'm facing exactly what you're facing, and we're in this together.

Here are some lessons I've learned from my experience.

Your Crown Is Your Glory

That's right — I'm talking about your hair.

Early in my career, I wore my hair straight or in a slick back bun because I was afraid of standing out more than I already did. I thought I needed to assimilate to be accepted and welcomed.

My feelings weren't far off: Recent studies show women of color are still discriminated against in the workplace because of their hair.

You're not out of place. There is space for you at the table, and it's important to remember that as you grow.

I thought I had formed a good relationship with a client couple after three years of working with them.

One day, I decided to wear my hair naturally curly because straightening it or wearing it in a bun every day was damaging it. When the senior advisor and I entered a conference room to greet our clients, the wife embraced me.

When the husband reached for me, he held me by my shoulders and said: "There's something different about you ... ah, it's your hair. It's a bit more casual today."

Casual, he said.

Will you have those type of interactions? Maybe. However, it shouldn't stop you from being you. As hard as it is, I'm asking you to hit

ADOBE STOCK

"pause" and embrace your true self despite the discrimination.

Will clients — or even your colleagues — wonder how you can switch your hair to so many different styles? Yes. And that's OK. Let them wonder. You have a right to take up space and be who you are.

'You Is Kind, You Is Smart ... '

I once was told I was a know-it-all — and no, not by my parents.

An old colleague of mine called me that because of my willingness to voice opinions and ideas. I started to doubt myself and feel less confident. I began to ask myself: "am I a know-it-all?"

Then I thought back to a mantra I learned from the movie, "The Help." Viola Davis' character reminded the child she was nannying that she was worthy by telling her: "You is kind, you is smart, you is important."

I started telling myself that every time I started to feel my confidence falter. It didn't matter if one person thought I was a know-it-all. My intentions were good, and I had the education, experience and the know-how to serve clients in an amazing way.

"You don't have to navigate the twists and turns of growing as a person of color in this profession without backup. There are so many mentors and colleagues available to you to help you grow," writes Rianka Dorsainvil, founder of planning firm Your Greatest Contribution.

The takeaway: Don't let someone else's insecurity break down your confidence, or your self-worth.

New planners of color should be prepared for culture shock — you may not see someone who looks like you at your organization.

It may be hard for those entering the industry from a historically black college or university. You went to a place where you were surrounded by people who looked like you. You probably saw fully expressed hair and bright colors and felt a sense of pride.

I did not attend an HBCU, but my four and a half years at Virginia Tech gave me my firsthand experience with culture shock. I was one of a handful of students of color and as I got along with my major, I was the only one.

Fortunately, I had years as a student to start feeling comfortable with being the only person of color in the room. When I transitioned to working in this industry, it was not foreign to me.

You have an advantage, even if it may not feel like it. When you walk in a room, you are noticed. When you speak, people listen.

A young woman who graduated from an HBCU told me about her experience. She started with a large organization that wasn't an RIA. She felt overwhelmed as she entered her training program and started studying immediately, as she was expected to pass the series licenses and CFP exam within her first year.

Getting acclimated to so many new things at once made her feel alone. She is smart and capable, and it's not that she was unable to handle the challenge at hand, but these feelings can be daunting when you're experiencing them for the first time professionally.

As you ascend, you may often be the only person of color in the room. You may experience microaggressions and be new to dealing with a "last man standing" type of environment. It can be really discouraging and challenging to continue feeling out of place.

Let me assure you that you're not out of place. There is space for you at the table, and it's important to remember that as you grow.

Find Your Tribe

It's important to find people you connect with — finding your tribe can keep you from feeling alone and give you a security blanket of sorts. Attending conferences, joining associations and forming mastermind groups are ways that can help you find your community within this profession.

Finally, remember you do have an advantage, even though it may not feel like it. When you walk in the room, you are noticed. When you speak, people listen. When it's your turn to hold the mic, be ready.

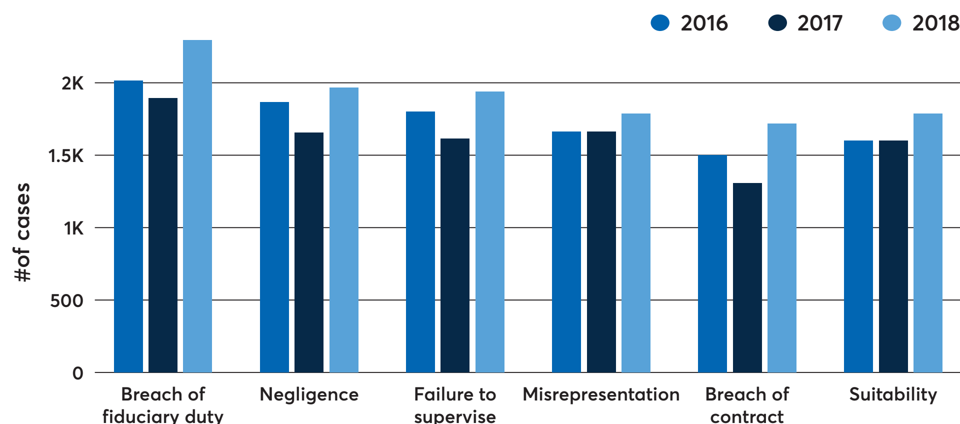
You are always the CEO of your career. While being empowered is important, remember you're not alone. You don't have to navigate the twists and turns of growing as a person of color in this profession without backup. There are many mentors and colleagues available to help you grow.

I recently recorded a podcast episode with Lazetta Rainey Braxton, CEO of Financial Fountains, answering common questions we hear frequently from our colleagues. You can find it by searching 2050 Trailblazers: Pursuing a Career in Financial Planning.

Keep pushing. We've got you. **FP**

__Rianka R. Dorsainvil__ is founder and president of Your Greatest Contribution, based in Lanham, Maryland. Follow her on Twitter at @Rianka_D.

Top Controversies in FINRA Arbitrations



Source: FINRA

Scrubbing Old Stains

Because of a 2010 FINRA rule change, it is exceedingly difficult to have a complaint removed from a CRD report.

By Alan J. Foxman

Q: I had a customer complaint more than 15 years ago that is still on my CRD report. I thought these dropped off after 10 years. I've spoken to a lawyer, but I can't seem to get a straight answer. Can you explain how this works?

A: This question drops into my inbox with suprising regularity. Clearly, it's a problem shared by many.

Unfortunately for you, it will be very difficult, if not impossible, to succeed in removing a client complaint on your Central Registration Depository report.

Here's why: Before 2010, FINRA policy stated that complaints that were more than two years old and that had not been settled or had a decision rendered in a court or arbitration proceeding, were not reportable.

Likewise, customer complaints, arbitrations or litigations that settled for less than $10,000, or $15,000 after May 2009, were also not reportable.

In essence, those policies meant that complaints would drop off an advisor's CRD after two years.

Furthermore, the customer complaint would be reported beyond the prescribed two-year period only if all of the following facts applied:

1. the complaint would have otherwise dropped off after March 2007,
2. the individual had one or more complaints within the last 10 years, and
3. the person had three or more other types of disclosable disciplinary actions, such as a regulatory sanction.

But in July 2010, the regulator decided that all complaints would continue to be disclosed for as long as the individual was registered as either an investment advisor or as a registered representative — even if the matter had previously been non-disclosable.

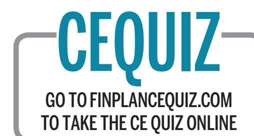
Frustratingly, this is the case even if you can answer all of the disciplinary questions on your U4 form with a "no."

Even if you have no disciplinary actions on your U4, you may have to list a customer complaint on your CRD.

The information from the disclosure reporting page is still listed on the CRD report and, in most cases, it is required to be updated with the current status of the complaint.

Once that information has been updated, it will be reflected on the CRD, and the only way to get it removed is to obtain an order of expungement from a court.

Not surprisingly, this is generally a complicated and expensive endeavor. You should speak with an experienced attorney if you choose to go that route. **FP**



Alan J. Foxman is a Financial Planning *contributing writer and managing director at Foreside Financial Group in Delray Beach, Florida.*

An Inside Look at the SEC's Cyber Exam

While the agency has publicly detailed key focus areas, there is plenty of information planners likely don't know.

By Wes Stillman

Advisors may think they are well versed in cybersecurity. But do planners know how examiners evaluate firms to determine whether they pass the test? Probably not.

With an inside look at the regulator's questions, RIA owners can begin to institute and document the protocols needed to prepare and protect themselves and their clients — not only for a regulatory exam, but for a potential cyber breach as well.

Sample Request 1: Show the policies and procedures that address the protection of customer/client/user records and information. This includes policies and procedures designed to:

- Secure customer/client/user documents and information;
- Protect against anticipated threats to customer/client/user information; and.

BLOOMBERG NEWS

- Protect against unauthorized access to customer/client/user accounts or information.

Sample Request 2: Produce a copy of the policies, procedures and standards that are designed to ensure unauthorized persons do not access the advisor's network resources and devices, or to those polices, procedures and standards that restrict access according to job functions. Additionally, provide a copy of the last internal audit that covered access rights and controls.

This first request should underscore the need for a thoughtful and detailed cybersecurity policy. Everything asked for in this request, and more, should be covered in that policy. The policy should also spell out how each of these items are monitored and enforced.

Cybersecurity preparedness and active monitoring must be a documented part of the RIA's daily operations. Areas covered should include: data and applications inventory and risk assessment, access controls, identity protection and data loss prevention.

Sample Request 3: Produce a copy of the RIA's policies, procedures and standards related to login attempts, failures, lockouts and unlocks or resets for each perimeter-facing system. Indicate how these policies are enforced and monitored. These logs should detail how the RIA is enforcing protocols around user access and access controls, including conditional access controls, as well as the firm's account lockout and password policies. They could include verifications sent regarding password changes, and password vault reporting for business applications. In addition, RIAs need to show the controls in place for accessing fintech applications, including Software as a Service and on-premises software, and, for vendors/IT support.

Firms need to produce detailed logs of suspicious activity, such as account lockouts.

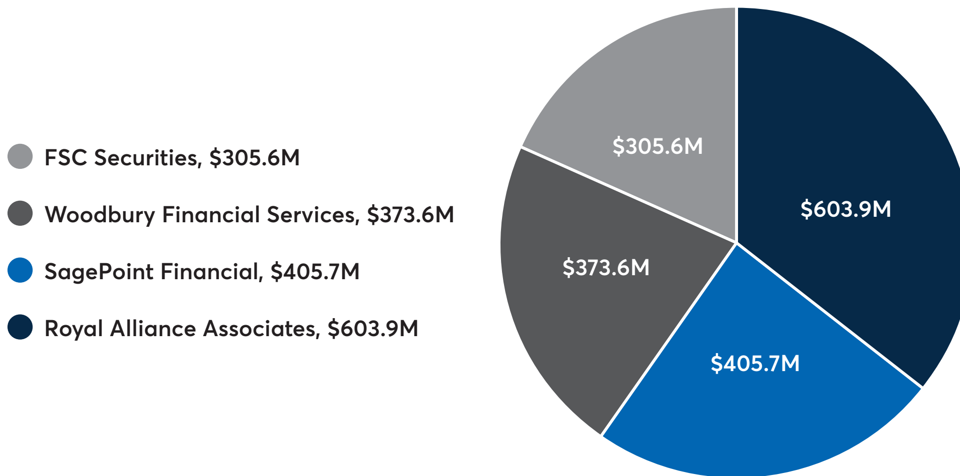
Sample Request 4: Provide a list of all cyber incidents, which should include the amount of actual client losses associated with each one, and the amount reimbursed by the RIA.

Firms need to produce detailed logs of suspicious activity, making sure to track items like account lockouts and login attempts from abnormal locations. Even attempts that might indicate a minimum level threat, such as phishing attacks, should be documented.

The examiners want to know that the firm tracks such attempted or thwarted events, because they know that every firm has them almost daily. **FP**

Wes Stillman *is the CEO of RightSize Solutions.*

Advisor Group IBD Network Generated $1.7 Billion in Revenue in 2018



Source: Company data

A $50 Million 'Thank You'

After Reverence Capital Partners acquired a majority stake, Advisor Group Partners announced rewards for 7,000 advisors.

By Tobias Salinger

Financial advisors who stayed with Advisor Group as it changed hands twice in four years will reap $50 million in awards from the firm. "We wanted to do something for them to say thank you," says Advisor Group CEO Jamie Price.

The independent broker-dealer network's new majority owner, the private equity firm Reverence Capital Partners, closed the acquisition of its stake in Advisor Group in early August. It's the largest wealth management M&A deal this year in terms of Advisor Group's $272 billion in client assets and a reported price tag of more than $2 billion.

For the network's advisors, the deal yielded the thank-you awards, a yearlong net new asset program and, in some cases, company stock.

Funds affiliated with Lightyear Capital and the Canadian pension manager PSP Investments also sold their remaining interest in the IBD network to Neuberger Berman's private equity arm, according to Price. The parties haven't disclosed the financial terms of the deal.

Former Executive Chairwoman Valerie Brown remains an investor and board member under Reverence.

Price declined to provide exact figures for the 7,000-advisor network's three-part "advisor appreciation program." He did share that the total "thank-you award" amounted to around $50 million, saying the amount for each advisor varied by production, manager decisions and other criteria.

"What we wanted to do was really continue the momentum we've had as a company," he says. "It's a significant pool of money we put up with Reverence's concurrence."

Price spoke with *Financial Planning* after winding up his seventh stop on the company's third annual 20-city roadshow, in which he and other executives visit advisors across the country.

"What we wanted to do was really continue the momentum we've had as a company," says CEO Jamie Price.

The asset program rewards advisors for bringing additional brokerage or advisory account holdings from new or existing clients onto the network's platforms, including an incremental incentive if they use the eQuipt digital onboarding tool, which the firm launched last November.

Advisor Group will pay awards for net new asset flows from Aug. 1, 2019, to Aug. 7 of next year, according to Price. The assets must go to its platforms under the clearing partners Pershing or Fidelity Clearing & Custody Solutions' National Financial Services.

With the SEC's Regulation Best Interest going into effect next June, the

product-neutral program will help advisors and the four-firm network comply with the disclosure and supervisory requirements of the rule, Price says.

"[Reg BI is] going to come faster than people think," he says, adding that the firm aims "to do the job that we're supposed to do as a wealth management company, and that is have [advisors'] backs on this kind of stuff."

In another tangible sign of the IBD network's appreciation, advisors who qualify as accredited investors gained access to company stock alongside the management team, including so-called upside warrants phasing in after a particular rate of return.

Lightyear's affiliates sold the rest of its interest in the firm between the deal and its close."Working with Valerie Brown, Jamie Price and the entire management team over these last three years has led to dramatic growth and expansion at Advisor Group, results everyone can be very proud of," Lightyear Managing Partner Mark Vassallo said in a statement.

Alexander Samuelson, a spokesman for Neuberger Berman, said in an email that the firm's private equity affiliate had invested alongside Reverence Capital, but declined to discuss the purchase price for its equity or the level of ownership.

"We strongly believe in the growth opportunity in the wealth management industry and are excited to be backing an industry leader," a Reverence co-founder, Milton Berlinski, said in a statement. "We are investing in a strong and experienced management team, and we look forward to building a successful partnership that benefits all parties."

Royal Alliance Associates, SagePoint Financial, Woodbury Financial Services and FSC Securities reached their current footprint from around 5,200 advisors and $157 billion in client assets when the Lightyear funds and PSP purchased the stake from insurer AIG in May 2016.

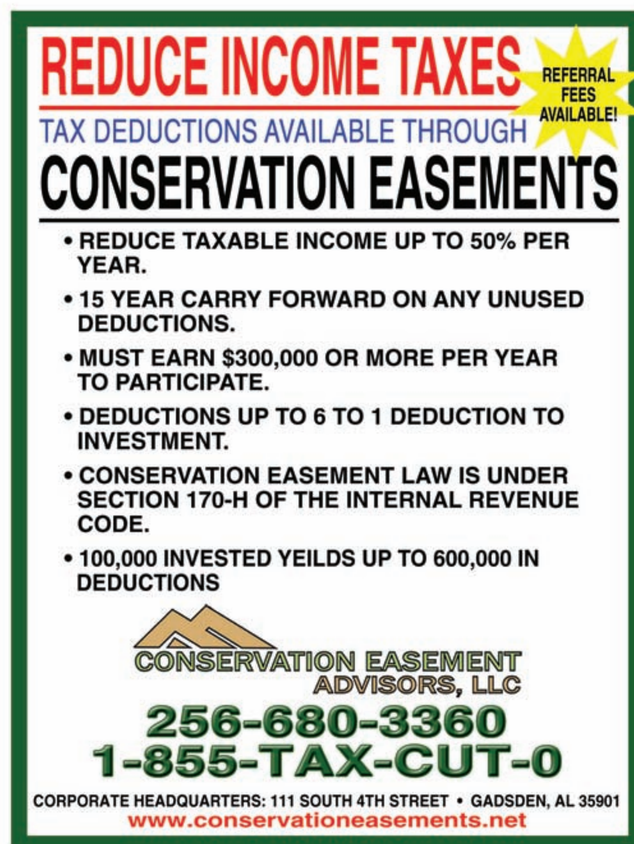
Despite all the deals Advisor Group has made, Price says it has passed on some 20 acquisitions in the past three years.

Since last year, Woodbury and Royal Alliance have absorbed advisors from Signator Investors, Questar Capital and Capital One Investing under other acquisitions that fueled the growth. Some 2,500 advisors who have joined the two Advisor Group IBDs received retention bonuses.

The thank-you awards to advisors who stayed the course throughout the flurry of deals are taking the form of cash payments or multiyear loans. Price notes that for all the deals the network has made, it also passed on more than 20 acquisitions in the past three years.

Going forward, he says, the firm will listen to M&A deals as "sub-scale" firms seek buyers, but acquisitions are never the firm's primary strategy when it creates and revises its five-year plan each year.

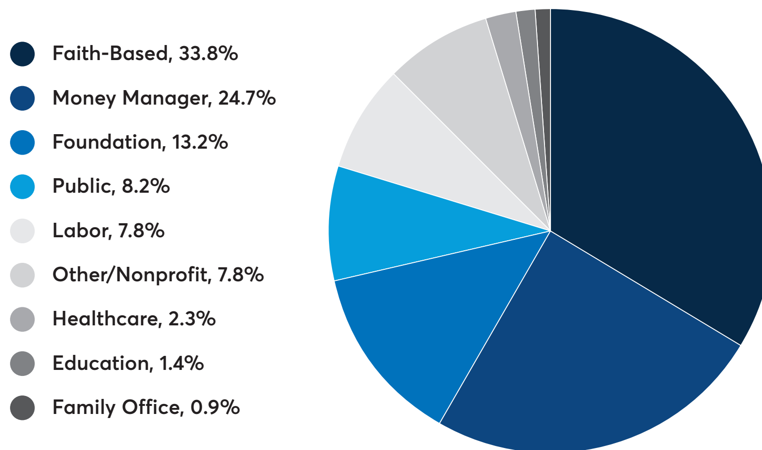
Price has also grown accustomed to answering concerns about PE firms' investments but "for the advisors that have been here since the AIG lift-out, we don't get that question at all anymore," he says. "It's really about helping advisors grow." **FP**



Tobias Salinger is a senior editor of Financial Planning. *Follow him on Twitter at @TobySalFP.*

ALSO IN ADVISORTECH: STAR POWER FOR STARTUPS, P. 42

Investors Who File Shareholder Proposals



Source: US SIF, 2006-2018

Robo Advisors Find Religion

Digital firms are launching platforms to cater to faith-based investors. Will this strategy gain a following?

By Bernadette Berdychowski

Robo advisors have a new mantra for clients: Come, all ye faithful.

These digital wealth managers, facing heightened competition, are turning to niche markets they believe are underserved. The latest? Faith-based investing.

Faith-based investing is the "bedrock" of socially responsible investing, says Blaine Townsend, director of the sustainable, responsible and impact investing group at Bailard. SRI assets grew 38% nationwide from 2016 to total $12 trillion in 2018, but faith-based institutions account for less than 1% of that sum, according to a report from US SIF Foundation.

Despite that small percentage, robos are launching platforms to cater to faith-based needs, perhaps because religious organizations are the most avid shareholder activists — 33% of investors who filed or co-filed shareholder resolutions were faith-based, according to the SIF report.

The main advantage robos provide over other investment products is the enhanced ability for customization. The digital platforms can deliver more solutions in ways that ETFs and mutual funds can't, Townsend explains. And one of the biggest advantages robos may offer faith-based clients is the opportunity to own stock in a company, Townsend says. This means the investor can further advocate for faith-based social causes as a shareholder.

Investing along Islamic principles is the faith-based option that has gained the most traction. For example, digital investment advisor Wahed Investing had $23.8 million in client assets in the U.S. as of July, and offers a platform in 130 countries, allowing over 20,000 customers to invest in compliance with Shariah law.

The firm was founded in 2015 by Junaid Wahedna, after the former investment banker met with a local imam to discuss so-called halal investing. [The Arabic word halal means "permitted."] Wahedna was surprised when the spiritual advisor recommended Wahedna invest his money in the only stock the imam knew was compliant: Apple.

Wahed's main goal is to get its name out to members of their community, Aris Parviz, head of North American operations at Wahed, says. In order to scale, the team is hiring more on-the-ground marketing experts to promote face-to-face interactions and push out educational content.

The number of Muslims in the United States is growing, according to Pew Research Center. In 2007, there were 2.35 million Muslims in the U.S., and in 2017, 3.45 million. Pew projects that in 2050 the number of Muslims in the U.S. will reach 8.1 million.

For robo advisor Wealthsimple, faith-based investing is just one part of filling the broader needs the company is seeing in the socially conscious investment segment. "If there's a demand in a certain subset, we look into it," says Daniel Tersigni, portfolio manager at the Toronto-based firm.

The firm's "autopilot" investing platform — with

over $89 million in AUM, according to its most recent Form ADV, and $5 billion combined across the U.S., Canada, and the U.K. — offers three options: round, socially responsible and halal investing. “When people invest around their values, they’re more likely to be disciplined,” Tersigni says.

In fact, the halal and SRI platforms account for 20% of Wealthsimple’s clientele. Besides the halal option, which has stricter investing principles, people of faith gravitate toward ESG and SRI investing platforms, says Tersigni.

“ESG captures a very wide branch of individuals,” he says. “It does kind of capture a number of issues.”

But there are serious headwinds for robos looking to cater to faith-based investors. Case in point: Swell Investing, which launched two years ago as an affiliate of the insurance company Pacific Life, and which shuttered its doors for good in July, with Pacific Life stating the robo wasn’t a “long-term fit.” The automated platform that focused on ESG investments had $33 million in AUM and 14,000 client accounts when it closed, according to regulatory filings.

A major problem is that creating custom portfolios based on religious values can be expensive, and the companies in the portfolios need to be constantly vetted to make sure they meet the requirements of religious laws.

For instance, Wahed offers a “purification” process for their clients at the end of each year, says Parviz. The digital firm recognizes that it’s virtually impossible to have a perfectly constructed Shariah portfolio. Companies change positions on issues constantly, and new information surfaces that reveals violations of Shariah ethics, Parviz says, such as business involvement in the production of pork, alcohol or gambling. Financial institutions are completely avoided.

Wahed’s Shariah board evaluates the amount per share that may have gone toward a cause that contradicts Muslim morals. At the end of the year, clients get a statement uploaded on their portal offering a suggested amount to donate to charity.

LIBBY GREENE

Wahed Invest’s team and partners at the Nasdaq’s Aug. 14 opening bell ceremony.

While halal investing has seen some growth worldwide, faith-based investing for other religions has yet to make similar headway. For Catholic Investment Strategies, a robo-investing platform based on guidelines set by the United States Conference of Catholic Bishops, getting the word out has been the most difficult part.

The firm created several portfolios with a range of risk tolerances that cater to USCCB guidelines. Clients sign up for Folio, answer questions about their financial goals, and the pre-screened portfolios provided by Catholic Investment Strategies do the rest.

“All that work is done in the construction of the strategy beforehand,” says Thomas Carroll, chief investment officer at Milwaukee-based Summit Investment Management which owns Catholic Investment Strategies.

Catholic Investment Strategies has struggled to see clients join the robo platform. “It’s been slow to take off,” says Carroll. “We don’t have a big budget. We’re just a small firm.”

Summit has over $74 million in AUM, according to its recent Form ADV. The lack of advertising dollars keeps it from scaling in the ways larger players in the market have been able to, Carroll says.

But he’s hopeful that, once people see there’s an option that fits their belief set, a robo can get them started.

One thing seems inevitable: As the robo industry grows to manage a projected trillion dollars in client assets in the next four years, according to projections from research firm Aite Group, newcomers — secular and devout — will need to differentiate.

“Putting yourself out there as a niche player comes more from startups,” says Aite analyst Alois Pirker. “It’s now the next generation of where the industry is going.” **FP**

Bernadette Berdychowski *is a reporter at* Financial Planning. *Follow her on Twitter at @bberny14.*

Alex Rodriguez "would never use Acorns," one expert says, but others might because he has a stake in the app.

BLOOMBERG NEWS

Star Power for Startups

Fintechs court actors and star athletes to invest and become advocates for financial literacy.

By Bernadette Berdychowski

Instead of relying on professional athletes and Hollywood actors for paid endorsements, investment fintech and app startups are courting them to take stakes in the firms and become advocates for financial literacy and success.

While the strategy adds a compelling twist to celebrity endorsements, regulators and observers warn there are risks involved in mixing boldface names with investment and savings advice.

Among the most recent high-profile names to pair up with fintechs are Jennifer Lopez and her fiance, retired Yankees star Alex Rodriguez. They're the latest A-listers to take a stake in the micro-investing app Acorns. Actor Ashton Kutcher and his investing firm Sound Ventures have signed on, and so has the NBA superstar Kevin Durant with Thirty Five Ventures.

The tennis star Venus Williams has invested in Ellevest, an automated investment platform tailored to women. It landed $33 million funding backed by prominent investors such as the Melinda Gates-founded Pivotal Ventures and Eric Schmidt, former Alphabet executive chairman.

Another example: Actor Will Smith is investing in a new financial literacy app for teenagers called Step.

Lopez said she got involved to promote "tools for long-term financial planning and investment strategy, especially for women and mothers, who don't always receive the same opportunities or access to information of their male peers," according to a statement

There's irony in having well-heeled celebrities attach their names and their enormous bankrolls to savings apps that help the masses save for retirement, says Will Trout, a senior wealth management analyst at Celent. The celebrity lifestyle then becomes the goal, he says.

Jennifer Lopez, Ashton Kutcher, Venus Williams and Kevin Durant have stakes in investing or literacy products.

"Of course, A-Rod would never use Acorns and that's the point," Trout says. "But, maybe today's Acorns user [dreams they] can someday become as rich as him?"

But there's a need to give investor education and financial literacy more oomph among consumers.

According to a PwC survey of over 5,000 millennials about finances, only 27% sought help on retirement, and only 36% had a retirement account.

That's why a number of investing and savings startups have positioned their offerings as lifestyle brands, rather than dry (and uninspiring) investment education.

"Each one of these celebrity investors represents

a different demographic that Acorns is trying to penetrate," says April Rudin, a marketing specialist and founder of consultancy firm Rudin Group. "The people they're selecting are idols," she explains.

Not all research supports the case for celebrity endorsements translating into AUM growth for a firm. The influencer marketing industry is expected to reach $10 billion by 2020, according to CreatorIQ, a marketing technology company. But only 3% of an audience would consider purchasing a celebrity-endorsed product, according to a survey by Collective Bias, an influencer marketing agency.

But that hasn't stopped digital wealth startups from linking their brands with celebrities in previous marketing campaigns.

The leading independent robo advisor, Betterment, received media attention in August for a campaign featuring actress Maggie Siff, who stars on the TV show "Billions."

Getting People to Think

"Anything that gets people to think about saving and investing when they otherwise might not have done so is a step in the right direction," asserts Greg McBride, the chief financial analyst at Bankrate.

Acorns manages over $1.14 billion in client assets with over 2 million accounts, according to its most recent Form ADV. The average account size is around $570 and the accounts are largely held by millennial investors.

"Noah Kerner [of Acorns] and [Ellevest CEO] Sallie Krawcheck, et al., have their fingers on the pulse here," Trout says. "We're witnessing twin trends of democratization and convergence."

As financial advice becomes more accessible, firms have a need to reach a greater portion of the investing public, Trout says. At the same time, new technologies are bringing together new industry segments — for instance, like pairing banking accounts with investment accounts within financial services — but also previously distinct industries like financial services and show business.

"These trends are closely aligned with the ascendance of the millennial generation whose behavioral characteristics include skepticism and a distaste for standing on ceremony," Trout says. "When we've got a president who tweets, is A-Rod plumping for Acorns such a big deal?"

Using celebrities is expected to resonate with millennials, but some experts think the practice may present a hazard to brands.

At the same time, traditional barriers dividing types of financial services are dissolving in the wake of a decreased government interest in regulation, Trout says. "This dissolution is removing any sense of exclusivity around investing, so why not have celebrities hawking investments services?" Trout says.

Using influencer marketing to attract more people to invest carries risks, though. The SEC issued a warning in 2017 to investors stating that making investment decisions based on a celebrity's word may come with hidden dangers. Celebrities might have been lured into participating in a fraudulent scheme or linked to the product without their consent, according to the SEC alert.

"It is never a good idea to make an investment decision just because someone famous says a product or service is a good investment," the alert cautioned.

There's a potential reputational hazard for a company in being associated with a celebrity too, according to industry analysts.

While celebrity endorsements may present a hazard for individual investors, firms that use established stars to promote their brands may also be skating on thin ice, according to industry analysts.

"Using celebrities as spokespersons for a wealth management brand is risky, in my opinion," says Marie Swift, CEO of Impact Communications. "Today's well-regarded celeb may be tomorrow's headline scandal or has-been persona."

Reputational Risk Factors

A better solution for a big brand is to create its own celebrity, Swift says, like the gecko from Geico commercials or the duck from Aflac. Those memorable characters have become famous in their own right, she says, without reputational risk factors.

"Perceptions and reputation are everything," Swift says.

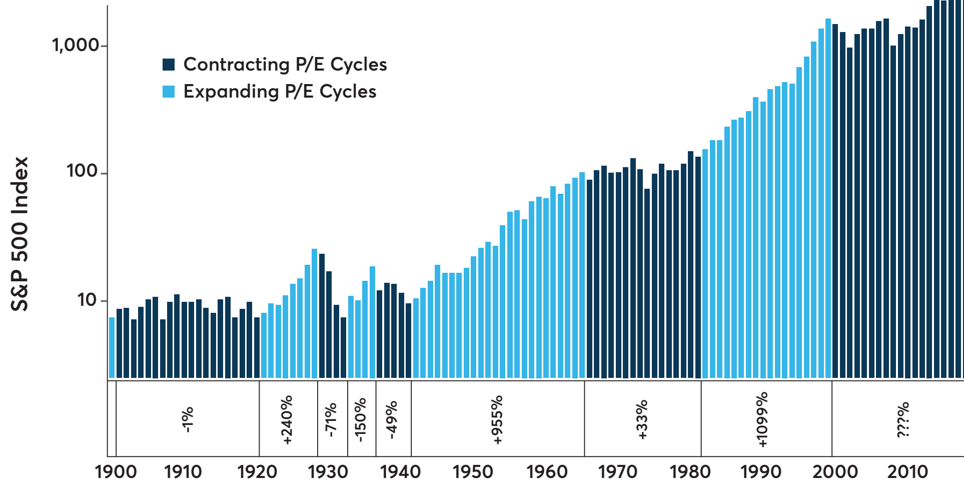
In fact, celebrity endorsements may present a troubling sign for the industry as a whole, according to Trout. The use of celebrity endorsements could risk trivializing the serious task of preparing for retirement, Trout says.

"We've entered dangerous terrain," says Trout, both for individual firms and the industry at large. "It undermines the seriousness of the enterprise in a way that puts at risk the long-term health of the industry."

The danger is magnified because part of what the firm is selling to the investor is the reputation — including the health and stability — of the financial institution, he says. "Will wealth management become just another product marketed by Hollywood?" **FP**

Bernadette Berdychowski *is a reporter at* Financial Planning. *Follow her on Twitter at @bberny14.*

Bull and Bear Stock Market Cycles



Source: Crestmont Research, designed by Michael Kitces

The 50-Year Retirement

For financially independent clients retiring early, you need a flexible approach that will enable them to thrive for decades.

By Michael Kitces

Save enough to be financially independent, and clients are free to chart their own course. That's the idea behind the Financial Independence, Retire Early, or FIRE, movement.

Notwithstanding the challenge of accumulating sufficient FIRE assets in the first place, retiring in one's 40s or even 30s leaves a very long time horizon. It's so long in fact that the classic 4% rule may be an imperfect guideline, for both good and ill.

With the kinds of extended time horizons that some FIRE adherents face, the key may be to develop more flexible spending rules that can adapt to whatever the markets or post-FIRE income may bring. While 30-year retirements have both upside and downside risk, 40- or 50-year horizons invite extraordinary upside potential — presuming the retiree can weather a potential initial storm.

The common FIRE rule of thumb is to use the 4% rule — that is, it's safe to retire early when clients have 25x their annual expenses saved up. Thus, someone who spends $40,000 a year, will need $1 million.

But what happens if the early retiree figures to earn an average of $10,000 a year in retirement for the next 40 years? This cuts the net spending need by $10,000 per year, which reduces the required savings to FIRE by $250,000. And what if the part-time income after financial independence is $20,000 per year? It cuts $500,000 off the required savings.

Granted, the retiree may still need to make this up in later years, but that's often a point at which discretionary spending is declining, which means the income may no longer be needed.

While the failure to recognize the potential for post-retirement income causes many people to save more than they need and wait longer than necessary, for those retiring extremely early the safe withdrawal rate isn't actually 4% in the first place.

Safe Withdrawal Rates

The concept of the 4% rule, popularized by Bill Bengen in 1994, was based on a 30-year time horizon. In fact, in a 1996 follow-up to his seminal study, "Asset Allocation for a Lifetime," Bengen recognized that the safe withdrawal rate should actually be 5% for those with a 20-year time horizon, but only 3.5% for those with a 45-year horizon.

A 30-year retirement has both upside and downside risk, but a 50-year horizon has greater upside potential.

Notably, decreasing the time horizon by just 10 years increased the SWR by one percentage point, to 5%, but increasing the time horizon by 15 years decreased the SWR by a half percentage point, to 3.5%. This would turn the classic 25x post-retirement spending target into a 28x rule instead — or 30x for those who are a little more conservative.

One reason that the SWR decreases only slightly, even for a much longer time horizon, is that markets themselves tend to move in 10- to 20-year cycles, with extended periods of substantial growth followed by lengthy periods of largely

sideways markets.

These are the cycles that create sequence of return risk and necessitated the 4% rule in the first place. Even if market returns average out in the long run, if clients get there with a bad sequence — like 15 years of mediocre returns followed by 15 years of great returns — they can run out of money before the good returns ever show up.

Given that bear markets typically run in roughly 15-year cycles, if a withdrawal rate is low enough to survive until the recovery and last for another 15 years — that is, 30 total — it doesn't take much more to survive the same difficult period and then last for another 30 years — for 45 total. That's because bull market cycles are typically so good that they create more than enough wealth at a modest withdrawal rate to weather the next storm.

Upside Potential

In fact, a beauty of 45-year horizons is that they increase the upside potential for good returns far more than the downside risk if returns are poor.

The chart below shows the trajectories of wealth for 50-year retirement horizons for those who retire very early with a $1 million account balance, at a 3.5% initial withdrawal rate from a 60/40 portfolio, rebalanced annually, through various periods in history.

As the chart reveals, it is necessary to use a 3.5% withdrawal rate for the one scenario that is depleted in 50 years at that rate. Yet with a $1 million starting balance, there is a 90% chance of finishing with over $3 million at the end and a 50% chance of finishing with more than $8.3 million left after 50 years, which would still be more than double the starting wealth on an inflation-adjusted basis.

To highlight just how wide the range of outcomes actually is, the chart shows equally probable percentile outcomes with both a 4% withdrawal rate for 30 years and a 3.5% withdrawal rate for 50 years.

The upside potential is so significant after weathering the initial speed bump of a mediocre first 15 years of returns that the results are even better using an 80% equity portfolio instead of just 60% in equities. Again, one scenario just barely falls short of the 50-year mark — in this case, a 1966 retiree who had to suffer through the challenging 1970s until the bull market finally arrived — but 50% of the time, the retiree finishes with almost 15 times the original wealth.

A Need for Flexibility

The fact that 40- to 50-year retirement horizons create such a wide range of outcomes, where a $1 million portfolio could either be depleted or finish with over $130 million in wealth, suggests that it's really not enough to just set an SWR and then cruise forward.

Yet there's still that one nagging scenario where disaster may occur — or more realistically, an extended period of poor returns, such as those during the Great Depression or the '70s — that can cause even a 3.5% initial withdrawal rate to fail after 50 years. This means any increase in spending, initially or in subsequent years, must be accompanied by some means to adapt in case a disastrous scenario appears to be playing out.

In other words, the longer the retirement time horizon, the more conducive it is to rules-based spending strategies that change over time.

Ratcheting Rules

The first option is to consider adopting a ratcheting rule, where a relatively impermeable spending floor is set — e.g., a baseline 3.5% initial withdrawal rate for a 50-year time horizon — but with a concrete target for how spending will be increased if a disastrous scenario does not unfold.

In other words, like a ratchet itself, spending is meant to turn in only one direction, but is locked in the other direction, in acknowledgment that most people find it distressful to rein in their lifestyle once accustomed to it.

One approach to implementing the ratcheting rule is to simply track wealth, increase spending by 10% if the portfolio has accumulated at least 50% over its original value, and recheck every three years. Another

Terminal Portfolio Values

	4% rule for 30 years		3.5% rule for 50 years		3.5% rule for 50 years @80%	
Sequence	Unfavorable	Favorable	Unfavorable	Favorable	Unfavorable	Favorable
Best/worst	$290,231	$9,122,407	Depleted in 48th year	$71,744,613	Depleted in 47th year	$133,981,702
5th/95th percentiles	$788,278	$6,701,389	$2,286,815	$43,966,111	$3,509,947	$89,280,234
10th/90th percentiles	$1,031,391	$5,998,023	$3,019,991	$35,649,836	$5,390,162	$70,126,881
25th/75th percentiles	$1,941,839	$4,514,476	$5,363,486	$18,609,817	$7,905,217	$39,548,082
Median (all)	$2,823,354		$8,357,109		$14,384,255	
	Equally likely outcomes		Equally likely outcomes		Equally likely outcomes	

Assumption:
Initial Portfolio Value = $1,000,000
Portfolio Annually Rebalanced = 60/40
Source: Michael Kitces

option is to recalculate a 3.5% initial withdrawal rate any year the portfolio grows above its high water mark.

Implementing Guardrails

A second approach would be a guardrail strategy, such as the spending approach delineated by Jon Guyton. The idea of a guardrail plan is to set thresholds on either side of the intended withdrawal rate and make spending adjustments any time withdrawals deviate outside that range.

For instance, rather than setting a fixed 3.5% initial withdrawal rate and adjusting only for subsequent inflation, the retiree might start spending at 4% instead but set guardrails at 3% and 5%. In each subsequent year, inflation-adjusted spending is compared with the value of the portfolio. As long as the then-current withdrawal rate remains in the 3% to 5% range, spending is on track. If the portfolio rises more quickly and outpaces spending — so the withdrawal rate falls below 3% — then the retiree gets a 10% raise to real-dollar spending.

Conversely, if the portfolio falls or simply lags spending increases and the withdrawal rate drifts above 5%, the retiree must take a 10% real-dollar cut. Notably, in Guyton's original methodology, an additional prescription is not to take the annual inflation increase any year that the portfolio's returns aren't positive — a small but permanent cut to baseline spending, which also helps portfolio spending to adapt to unexpected adverse market sequences.

In essence, the goal of the guardrail approach is to get spending in a protected channel — at least for the next 20 to 30 years, until the time horizon is shorter and withdrawal rates can naturally drift higher.

Segmenting Spending

A third approach to manage the FIRE path more dynamically is to segment the spending itself, effectively combining a ratcheting strategy for a spending floor with more dynamic guardrails for the more adaptive components of spending along the way.

For instance, a prospective FIRE saver might decide to retire when a 3.5% spending rate against their assets is enough to cover the pure essentials — food, clothing and shelter that you cannot afford to outlive, along with the basic luxuries of life like some form of transportation, simple entertainment and travel expenses — and then allow any portfolio upside, plus any post-retirement work and the income it generates, to cover and enrich the lifestyle along the way.

The key is to recognize that these more adaptive expenses are by definition flexible. They're the nice-to-haves that in all likelihood retirees will be able to afford in a vast majority of scenarios where there is not a catastrophic return sequence or there is non-trivial employment income in retirement. In the end, arguably the biggest challenge in the FIRE movement is that we haven't done enough to develop a framework for rules-based spending adjustments.

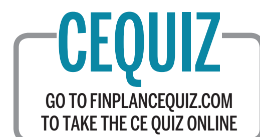
Yet even with a more accurate initial withdrawal rate, most FIRE retirees will not need to stick with that spending floor indefinitely. Indeed, most will experience some upside — and in many cases a lot. Those who are willing to be more flexible in their spending actually have the latitude to start with a higher withdrawal rate and spending amount in the first place.

Ironically, the definitive problem with FIRE isn't that the 4% rule is too aggressive, but that it's too conservative. A key lesson for planners is that as attitudes toward retirement shift, so too should our approaches toward preparing clients for it. **FP**

Annual Household Budget With Core Versus Adaptive Spending

	Core	Adaptive	Total
Housing	$25,000	$5,000	**$30,000**
Food	$4,800	$3,600	**$8,400**
Clothing	$2,000	$1,000	**$3,000**
Health Care	$12,000	$0	**$12,000**
Transportation	$2,000	$2,800	**$4,800**
Entertainment	$3,600	$2,400	**$6,000**
Travel	$2,000	$4,000	**$6,000**
Charity	$1,000	$2,000	**$3,000**
Other	$2,000	$4,000	**$6,000**
Total	**$54,400**	**$24,800**	**$79,200**

Source: Michael Kitces



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When Clients Wait a Year to Cash Distribution Checks

Advisors should know when these funds will be taxable, particularly around year-end when RMDs are often taken.

By Ed Slott

Who wouldn't cash a check? You'd be surprised.

Some distributions from retirement plans go uncashed, and some are cashed a year or more after the funds were distributed.

But when are these funds taxable? Apparently, this is a big enough issue for the IRS to have issued a revenue ruling.

This ruling (2019-19) was addressed primarily to the plan administrators for company retirement plans who wanted clarification on when uncashed checks should be considered distributions.

Advisors, too, will want to know how these rules work so they can counsel clients who may cash a retirement plan check in the year after the check was issued, or even later.

This can often happen near year-end when required minimum distributions are taken, or when any other plan withdrawals are made.

The IRS ruled that a payment from a 401(a) tax-qualified retirement plan was taxable in the year distributed — even though the recipient failed to cash the check. The ruling does not indicate whether the same holding would apply if the check were actually received in a subsequent year, as we will discuss below.

The IRS also did not say whether the ruling is limited to 401(a) plan distributions or whether it also applies to IRA distributions.

The IRS also ruled the plan administrator's obligations for withhlding and reporting arose in the year of distribution, and those obligations were not altered by the recipient's failure to cash the check during that same year.

What exactly happened in the hypothetical case provided by the IRS in the revenue ruling?

The IRS ruled that a payment from a 401(a) tax-qualified retirement plan was taxable in the year distributed.

This year, a participant in a 401(a) plan (let's call her Client A) was entitled to receive a $900 distribution from the plan. The plan administrator (in this case, her employer) withheld federal taxes on the distribution and mailed Client A the remaining amount in a check. The client received the check this year; although she was able to cash the check, she chose not to do so, according to the IRS' hypothetical case.

The Ruling

The revenue ruling addressed three issues:

1. Whether the distribution to Client A was taxable income to her in 2019, even though she did not cash the check;

BLOOMBERG NEWS

2. Whether the client's failure to cash the check in 2019 affected the plan administrator's federal tax withholding obligation; and
3. Whether the failure to cash the check affected the plan administrator's reporting obligation.

With respect to the taxation issue, the IRS cited §402(a) of the tax code, which provides that, absent a rollover, any amount distributed from a 401(a) tax-qualified plan is "taxable to the distributee, in the taxable year of the distributee in which distributed."

According to the IRS, since the check was distributed in 2019, the distribution was taxable income to Client A in 2019, despite her failure to cash the check during that year.

Addressing the withholding issue, the IRS ruled that Client A's employer, as plan administrator, properly withheld federal taxes on the distribution in 2019 — and her failure to cash the check in 2019 did not change the withholding obligation.

Finally, turning to the reporting issue, the IRS noted that the Form 1099-R instructions require the employer (or other plan administrator) to file a form "for each person to whom you have made a designated distribution." Therefore, the client's employer was required to file a Form 1099-R for 2019 with respect to her distribution. This reporting obligation was not altered by her failure to cash the check in 2019.

What should happen if a distribution check is mailed on Dec. 31 and not received by the taxpayer until Jan. 2?

The IRS made clear that those obligations arise in the year of distribution and are not changed by the fact that the check is not cashed. There are no questions left to address regarding that aspect of the ruling.

It is instead the first part of the ruling — that the distribution is taxable in the year distributed — that raises a number of questions that require further clarification from the IRS. Here are the questions that should be addressed.

1. How far does the taxation ruling go?

The facts involved in this ruling made for an easy outcome on the tax issue. Because the check was distributed and received in the same year, Client A clearly had taxable income for that year — regardless of what she did with the check. (In a footnote, the IRS said: "For purposes of this revenue ruling, whether Individual A keeps the check, sends it back, destroys it or cashes it in a subsequent year is irrelevant.")

The only support the IRS cited for its ruling on the tax issue is the language of §402(a), which provides that plan distributions are taxable in the year distributed. However, strict application of this "distribution rule" in every situation appears unreasonable.

For example, if Client A's check had been mailed to her on Dec. 31, 2019, but not received by her until Jan. 2, 2020, it would seem unfair for that payment to be considered 2019 taxable income.

But the IRS gave no indication the ruling would not apply in such cross-year situations.

2. Why is there no mention of the receipt rule?

Notably missing from the IRS analysis is any mention of the long-standing "actual receipt rule," or its corollary, the "constructive receipt rule."

The actual receipt rule was first adopted by the U.S. Supreme Court in the 1934 case of Avery v. Commissioner, 292 U.S. 210 (1934). In that case, Sewell Avery owned stock in a corporation that declared dividends in (among other years) late 1924 and late 1929.

In both years, checks were mailed to him on Dec. 31, but not received until early the next year. The IRS assessed taxable income for 1924 and 1929 (the years of distribution), and Avery appealed to the Supreme Court, arguing the dividends should have

9898 ☐ VOID ☐ CORRECTED

PAYER'S name, street address, city or town, state or province, country, ZIP or foreign postal code, and phone no.

1 Gross distribution $

2a Taxable amount $

OMB No. 1545-0119

2019

Form 1099-R

Distributions From Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts, etc.

2b Taxable amount not determined ☐ Total distribution ☐

Copy A For Internal Revenue Service Center

File with Form 1096.

PAYER'S TIN | RECIPIENT'S TIN

3 Capital gain (included in box 2a) $

4 Federal income tax withheld $

RECIPIENT'S name

5 Employee contributions/ Designated Roth contributions or insurance premiums $

6 Net unrealized appreciation in employer's securities $

For Privacy Act and Paperwork Reduction Act Notice, see the 2019 General Instructions for Certain Information Returns.

Street address (including apt. no.)

7 Distribution code(s) | IRA/ SEP/ SIMPLE ☐

8 Other $ %

City or town, state or province, country, and ZIP or foreign postal code

9a Your percentage of total distribution %

9b Total employee contributions $

10 Amount allocable to IRR within 5 years $

11 1st year of desig. Roth contrib.

FATCA filing requirement ☐

12 State tax withheld $ $

13 State/Payer's state no.

14 State distribution $ $

Account number (see instructions)

Date of payment

15 Local tax withheld $ $

16 Name of locality

17 Local distribution $ $

Form 1099-R Cat. No. 14436Q www.irs.gov/Form1099R Department of the Treasury - Internal Revenue Service

The client's employer was required to file a Form 1099-R for the distribution, even though the client didn't cash her check.

been taxed in 1925 and 1930 (the years of receipt). The court agreed with Avery, citing language in the then-current tax code providing that taxable items are included in gross income for the year received.

Under current IRS regulations, amounts payable to a taxpayer are generally taxable in the year received — unless constructively received in an earlier year. The constructive receipt rule has long been applied as a corollary to the actual receipt rule.

The regulations provide that an amount is constructively received by a taxpayer in the taxable year "during which it is credited to his account, set apart for him or otherwise made available so that he may draw upon it at any time."

Should there be different rules regarding distribution taxation when talking about an employer-sponsored plan versus an IRA?

The constructive receipt rule is designed to prevent taxpayers from deferring taxation by intentionally delaying actual receipt of taxable items that are made available to them.

The receipt rule was applied specifically to IRA distributions by the Tax Court in the case of Millard v. Comm., TC Memo 2005-192. In May of 2001, SouthTrust Bank issued Arthur F. Millard a check in the amount of $10,841.06 for an IRA distribution. He did not present the check for deposit until 2003, at which time SouthTrust Bank canceled the original check and presented him with a replacement check. The IRS issued a notice of deficiency for Millard's failure to include the distribution as taxable income for 2001. He appealed to the Tax Court.

The court agreed with the IRS, concluding that "taxpayers must include all items of gross income in the taxable year of actual or constructive receipt" and that Millard was in actual (and constructive) receipt of the check in 2001. As Client A's check was both distributed and received in 2019, application of either the distribution rule or the receipt rule would produce the same outcome — the payment is taxable to her in 2019.

But the rules would produce different outcomes in a cross-year situation.

3. Does Rev. Ruling 2019-19 apply to IRAs as well as to workplace plans?

The facts of Rev. Ruling 2019-19 specifically involved a distribution from a 401(a) tax-qualified plan, and the taxation ruling is solely based on a tax code section that applies only to 401(a) plans. The IRS gave no indication that the ruling also applies to distributions from IRAs. However, the IRS did not specifically say that the ruling is limited to 401(a) plans.

4. Is the IRS applying one taxation rule for plans and another for IRAs?

At first glance, it would seem illogical for the IRS to apply the distribution rule to 401(a) plan payments and the receipt rule to IRA payments. But there is a possible justification for dissimilar treatment. The tax code section governing taxation of 401(a) distributions specifically provides that such distributions are taxable in the year distributed. Perhaps the IRS was taking the position that the specific language of the ruling overrides the receipt rules codified in its own regulations.

By contrast, there is no similar provision in the tax code indicating the year in which IRA distributions are subject to tax. The lack of such a specific provision arguably lends support for applying the receipt rule to IRA distributions, as the Tax Court did in the Millard case.

5. What is the impact on advisors?

If the IRS really intends to apply the distribution rule to all company plan payouts, advisors will need to alert clients as to when a distribution from a retirement plan will be taxable, including RMDs.

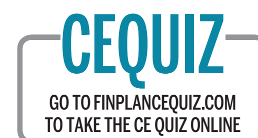
This would avoid any cross-year confusion, so the client will know the distribution applies to the prior year, even if cashed or received early the next year.

There will be times when a plan sends a distribution check to an ex-employee and the address on file is not correct.

Maybe the ex-employee moved and did not actually receive the check until a year later.

That employee will have a tax problem, as, under this ruling, that employee will have been deemed to have received the check and will owe tax for the year of distribution.

Advisors can help ensure that clients who leave companies and expect future distributions from that company's 401(k) immediately update the company with any change of address so they receive timely distributions. This will help them to avoid tax problems on checks that go uncashed until a later year, and the headaches that can come along trying to remedy the situation. **FP**



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

ADOBE STOCK

Calculating the Ideal Annual Withdrawal Rate

Advisors can use this analysis to help retired clients.

By Craig L. Israelsen

"How much can I safely withdraw from my retirement portfolio?" Most planners have heard this question from clients. There are so many personal variables to factor in for each client that it might seem impossible to approach a good answer.

Providing an Answer

But we actually can provide a good answer — premised on several assumptions. I'll show you how.

This analysis is based on a portfolio composed of four primary asset classes: large-cap U.S. stock, small-cap U.S. stock, U.S. aggregate bonds and U.S. cash. Large-cap stock is represented by the S&P 500, while small caps are represented by the Ibbotson Small Stock Index from 1961 to 1978 and the Russell 2000 Index from 1979 to 2018.

U.S. bonds are represented by the SBBI U.S. Intermediate Government Bond Index from 1961 to 1975 and the Barclays Aggregate Bond Index from 1976 to 2018. U.S. cash is represented by 90-day Treasury bills.

The Allocation

The portfolio asset allocation here is 40% large caps, 20% small caps, 30% bonds and 10% cash (this is also assuming annual rebalancing).

Studying the results of retirement portfolio survival during one 25-year period (representing a person retiring at 70 and surviving for the next 25 years until the age of 95) is inadequate given the variability of returns. Thus, multiple 25-year time periods must be analyzed.

Here, 34 rolling 25-year periods were examined between 1961 and 2018.

The first 25-year retirement period was from the start of 1961 to the end of 1985. The second 25-year period was from 1962 to 1986, and so on.

Clearly, a four-asset portfolio can handle a 1% withdrawal rate. But how much higher should it go?

A starting balance of $1 million was assumed, at age 70 for the retiree.

The four-asset retirement portfolio was tested using 15 different withdrawal rates ranging from 1% to 15% for each of the rolling periods. The results were compiled and averages computed.

No RMD Requirement

The impact of taxes was not accounted for. This analysis also assumes the retirement portfolio was not subject to RMD, which would be the case for a Roth IRA account.

As shown in the "Withdrawal Rate Matrix" chart, a 1% annual withdrawal rate produced an average annual withdrawal of $34,243.

The average ending

portfolio balance at age 95 (after 25 years of withdrawals) was $8.2 million.

Clearly, a four-asset portfolio can handle a 1% withdrawal rate, as the average ending balance was over eight times larger than the starting balance.

At a 1% withdrawal rate, the maximum ending balance was nearly $19 million and the smallest ending balance was just under $4 million.

Thus, it's safe to say that a 1% withdrawal rate on this portfolio is extremely conservative.

The 4% Withdrawal Tradition

Let's move to the long-touted 4% withdrawal rate. The average annual withdrawal was $88,826, and the average ending portfolio balance 25 years later was just over $4 million.

The maximum ending balance was $9.49 million and the smallest ending balance was $1.8 million.

It's important to note that at every withdrawal rate analyzed, the portfolio survived intact for all 25 years in all rolling periods.

The variance between the maximum and minimum ending balance clearly reveals the impact of what we refer to as sequence-of-returns risk.

If the sequence of portfolio returns was favorable (meaning high returns in the early years), the ending balance is much higher. And vice versa.

It's important to note that, at every withdrawal rate analyzed, the portfolio survived intact for all 25 years in all rolling periods.

Eroding Values

When only withdrawing a percentage of the portfolio's value at the end of each year, it's not possible to actually empty the portfolio.

But, practically speaking, the value of a portfolio can be seriously eroded at high rates of withdrawal (as shown by the minimum ending balance using a 15% withdrawal rate).

A 6% withdrawal rate is highlighted in yellow because it represents the highest withdrawal rate that never

Withdrawal Rate Matrix

Withdraw rate from portfolio balance at end of each year	Average annual withdrawal	Average ending portfolio balance 25 years later	Maximum ending balance 25 years later	Minimum ending balance 25 years later
1%	$34,243	$8,222,404	$18,706,896	$3,817,657
2%	$59,134	$6,523,678	$14,950,682	$3,004,852
3%	$76,771	$5,164,669	$11,924,313	$2,359,565
4%	$88,826	$4,079,724	$9,490,790	$1,848,430
5%	$96,622	$3,215,429	$7,537,913	$1,444,492
6%	$101,207	$2,528,412	$5,973,959	$1,126,022
7%	$103,400	$1,983,526	$4,724,087	$875,540
8%	$103,844	$1,552,348	$3,727,345	$679,014
9%	$103,034	$1,211,938	$2,934,192	$525,209
10%	$101,354	$943,823	$2,304,438	$405,146
11%	$99,095	$733,157	$1,805,548	$311,667
12%	$96,476	$568,039	$1,411,237	$239,081
13%	$93,662	$438,944	$1,100,314	$182,871
14%	$90,772	$338,272	$855,760	$139,465
15%	$87,894	$259,971	$663,800	$106,041

Results derived from the analysis of 34 rolling 25-year periods from 1961-2018
$1 million assumed starting balance in retirement account
Asset allocation: 40% large-cap U.S. stock, 20% small-cap U.S. stock, 30% bonds, 10% cash
100 bps annual portfolio cost
Source: Steele Mutual Fund Expert, calculations by author

produced an ending balance lower than the starting balance of $1 million. The withdrawal rate of 8% is highlighted in green because it represents the withdrawal rate that maximized the average annual withdrawal.

In this case, it was $103,844.

A Counterintuitive Reality

It may be counterintuitive, but once the withdrawal rate exceeded 8% in this analysis, the average annual withdrawal began to decline.

Using guidance from the analysis, when managing your clients' portfolios, you should not use a withdrawal rate higher than 8% if your retirement portfolio has an allocation similar to the one here, because it will not increase your average annual withdrawal.

Moreover, an annual withdrawal rate of 10% or higher caused the average ending balance of the retirement portfolio to be lower than the starting balance of $1 million, which is obviously not a positive scenario.

Employing a withdrawal rate higher than 8% did not increase retirement income.

The interplay between withdrawal rate, average annual withdrawal amount and ending portfolio balance after 25 years is depicted in the "Retirement Curves" chart.

'Safe' Withdrawal Rates

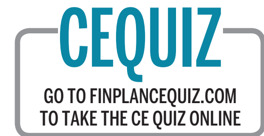
The curves cross at a 3.5% withdrawal rate, which may not have any deep meaning but does correlate closely to the long-standing general rule of 4% being a so-called safe withdrawal rate.

What's more interesting is the fact that, at higher withdrawal rates, the ending portfolio balance (in orange) declines in a very systematic fashion. The average annual withdrawal is another story.

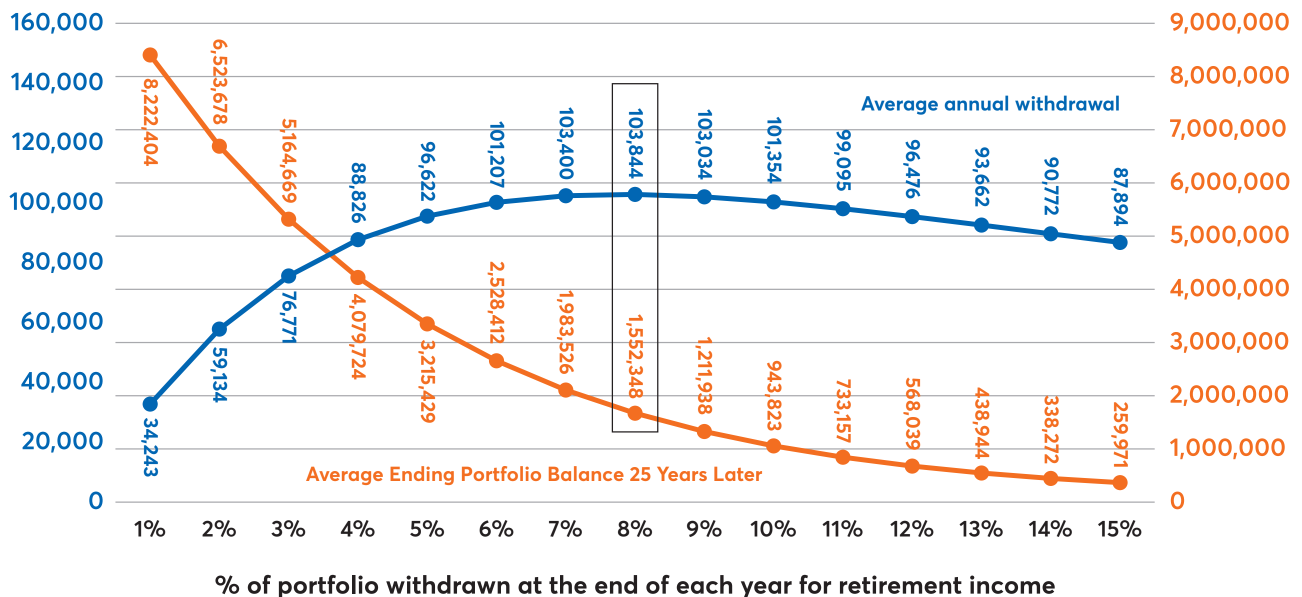
It increases as the withdrawal rate increases, but then after 8%, it begins to decrease.

Thus, as already noted, an 8% withdrawal rate is a boundary you should not let your clients cross.

Intuition may have already told you what this analysis proves — but now you have the numbers to back it up. **FP**



Retirement Curves



Analysis of 34 rolling 25-year periods from 1961-2018
Starting balance of $1 million
40% large-cap stock, 20% small-cap stock, 30% bonds, 10% cash
100 basis points assumed portfolio cost
Source: Steele Mutual Fund Expert, calculations by author

Craig L. Israelsen, *Ph.D., a* Financial Planning *contributing writer in Springville, Utah, is an executive in residence in the personal financial planning program at the Woodbury School of Business at Utah Valley University. He is also the developer of the 7Twelve portfolio.*

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From: Save Your Client From the Late 60-Day Rollover Quagmire (online only)

1. If a client takes a distribution from her employer-sponsored retirement plan and does not do a direct transfer of the funds, how much must the plan withhold for federal income taxes?
1. 10% of the distribution
2. 20% of the distribution
3. 15% of the distribution
4. 5% of the distribution

2. Which of these is a potential recourse for clients if they miss the deadline for a 60-day IRA rollover?
1. An automatic hardship waiver
2. A PLR
3. Self-certification
4. All of the above

From: When Clients Wait a Year to Cash a Distribution Check

3. Which IRS ruling holds that employer retirement plan administrators must withhold and report employee distributions in the year they are distributed, even if the employee does not cash the check until the following year?
1. Revenue Rule 2019-19
2. Revenue Rule 2018-08
3. Revenue Rule 2017-09
4. Revenue Rule 2015-16

From: Calculating the Ideal Annual Withdrawal Rate

4. In the analysis presented, at which annual withdrawal rate did the portfolio's average ending balance first drop below the starting balance of $1 million?
1. 8%
2. 13%
3. 10%
4. 11%

5. At which withdrawal rate will the actual annual withdrawal amount start decreasing?
1. 8%
2. 9%
3. 6%
4. 12%

From: Tax Benefits of Hiring Your Kids (online only)

6. Under which of these situations would the so-called kiddie tax, which is levied against a minor child who earns income, NOT apply?
1. A distribution from an inherited IRA
2. Dividend income
3. Income generated by employment from a parent
4. All of the above

7. Sole proprietorships, single-member LLCs and partnerships in which both parents are the only partners of a business are not responsible for federal unemployment taxes for children under what age who are working for them?
1. 18
2. 25
3. 21
4. 30

From: The 50-Year Retirement

8. Bill Bengen, who popularized the 4% withdrawal rule over a 30-year retirement, found that the ideal safe withdrawal rate for someone with a 45-year time horizon should be how much?
1. 4%
2. 3.5%
3. 2.5%
4. 5%

From: Scrubbing Old Stains

9. Under current FINRA policy, when can a client complaint against an advisor be scrubbed from the advisor's Central Registration Depository report?
1. If the complaint is more than two years old and has not been settled or had a decision rendered in court
2. If complaints, litigations or arbitrations settled below $10,000
3. If the complaint settled for less than $15,000 after May 2009
4. None of the above

From: Do Diligence

10. By age 50, approximately what percentage of American workers will have to cope with a disability, according to the Social Security Administration?
1. 4%
2. 6%
3. 9%
4. 11%

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Financial Planning

When Work Gets Personal

Helping a couple prepare for every contingency became real when their unexpected deaths left behind two teenage sons.

By Kyle Brownlee

As a young man, I received a vivid demonstration of why readiness and preparation are so important for financial advisors. I was still in my mid-20s when I found myself thrust into a parental role for a pair of teenagers.

In 1999, I moved to a small town, Fairview, Oklahoma, to join a firm that was transitioning from focusing on taxes to an integrated service model that encompassed wealth management and financial and business planning.

The firm's founder introduced me to a self-employed couple with whom he had been working. I was only 25, but they were entrusting me with every aspect of their financial lives — managing their assets, helping set up wills and trusts, advising on life insurance — a huge responsibility.

While working on their comprehensive financial plan, we discussed a worst-case scenario: Who would care for their two sons in the event of a tragedy? The couple had no close relatives in the area so we settled eventually on a friend from their church and a neighbor who was a close friend. It wasn't a perfect solution, but it was definitely a practical one.

I was confident we had planned for every foreseeable contingency, but that didn't prepare me for the day two years later when I got a call that the wife passed away at age 51. Less than a year later, the father died from a heart attack. Their sons, 13 and 16, were left orphans.

I began to work on safeguarding their parents' financial legacy, interacting with various lawyers, bankers, insurers and guardians to see that the trusts we had set up began paying out and that the provisions of the estate plan were being executed.

I also found myself taking a much more active role in the kids' lives. The boys knew me from coming to the office with their parents. They trusted me because their parents did, and that familiarity laid the foundation for the deeper relationships I developed with them over the next few years.

It wasn't always about money. They came to me for advice and support on real life issues — spending habits, jobs, education, girlfriends, faith, family — all the things you'd normally turn to your parents for.

And, like a parent, sometimes I had to say no, as when the older son called to see if he could afford to travel overseas with his youth group. The unplanned trip just wasn't in the budget, so I suggested he start thinking about what he needed to do to afford it next year.

The boys came to the office with their parents, and this familiarity laid the foundation for a deeper relationship.

The boys are now grown men living their own lives. We're still in touch and I remain close with them.

When I first sat down with that couple years ago, none of us expected to be putting their plan into action as early as we did. This experience showed me that advisors need to have strong personal relationships with everyone in the family, including the children.

Unexpected events, especially ones that take a personal toll, can throw the best plans off course.

Although it may be difficult, the more advisors anticipate events they hope won't happen, the better their solutions will be. **FP**

__Kyle Brownlee__ is CEO and senior wealth advisor of Wymer Brownlee Financial Services, an Oklahoma-based HD Vest affiliate.

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