

SPECIAL REPORT: HEALTH CARE AND LONGEVITY P. 24

Financial Planning

INVESTED IN ADVISORS | FEBRUARY 2019

FINANCIAL-PLANNING.COM / @FINPLAN



Joe Duran is seeking new investors for United Capital.

REDEFINITION

Will they value the firm as a fintech innovator
— or an aging RIA aggregator?



FRANKLIN
TEMPLETON

REACH FOR BETTER®

THE POWER OF INCOME

Retirement should be a time for new-found freedom. The type of freedom that comes from knowing that while you've stopped working, your portfolio hasn't—it's still working hard, aiming to deliver regular income each and every month.

See how Franklin Income Fund has generated regular income through 70 years of up and down markets: franklintempleton.com/retirementincome.

FRANKLIN INCOME FUND

Overall Morningstar Rating™ 12/31/2018—Advisor Class¹



Out of 463 Allocation—30% to 50% Equity funds
(Based on Risk-Adjusted Returns)



Investors should carefully consider a fund's investment goals, risks, charges and expenses before investing. To obtain a fund summary prospectus and/or prospectus that contains this and other information, call Franklin Templeton at 1-800-342-5236. Investors should read the prospectus carefully before investing.

All investments involve risks, including possible loss of principal. The fund's share price and yield will be affected by interest rate movements. Bond prices generally move in the opposite direction of interest rates. Thus, as the prices of bonds in the fund adjust to a rise in interest rates, the fund's share price may decline. Changes in the financial strength of a bond issuer or in a bond's credit rating may affect its value. The fund's portfolio includes a substantial portion of higher-yielding, lower-rated corporate bonds because of the relatively higher yields they offer. Floating-rate loans are lower-rated, higher-yielding instruments, which are subject to increased risk of default and can potentially result in loss of principal. These securities carry a greater degree of credit risk relative to investment-grade securities. Stock prices fluctuate, sometimes rapidly and dramatically, due to factors affecting individual companies, particular industries or sectors, or general market conditions. These and other risk considerations are discussed in the fund's prospectus.

1. Source: Morningstar®, 12/31/18. Morningstar Ratings measure risk-adjusted returns. The Overall Morningstar Rating™ for a fund is derived from a weighted average of the performance figures associated with its 3-, 5- and 10-year (if applicable) rating metrics. For each mutual fund and ETF with at least a 3-year history, Morningstar calculates a Morningstar Rating™ based on how a fund ranks on a Morningstar Risk-Adjusted Return measure against other funds in the same category. This measure takes into account variations in a fund's monthly performance, and does not take into account the effects of sales charges, placing more emphasis on downward variations and rewarding consistent performance. The top 10% of funds in each category receive 5 stars, the next 22.5% receive 4 stars, the next 35% receive 3 stars, the next 22.5% receive 2 stars and the bottom 10% receive 1 star. The Fund's Advisor Class was rated against 463, 367 and 261 Allocation—30% to 50% Equity funds and received a Morningstar Rating of 5, 3 and 5 star(s) for the 3-, 5- and 10-year periods, respectively. Morningstar Rating™ is for the named share class only; other classes may have different performance characteristics. **Past performance is not an indicator or a guarantee of future performance.** © 2018 Morningstar, Inc. All rights reserved. The information contained herein is proprietary to Morningstar and/or its content providers; may not be copied or distributed; and is not warranted to be accurate, complete or timely. Neither Morningstar nor its content providers are responsible for any damages or losses arising from any use of this information.

© 2019 Franklin Templeton Distributors, Inc. All rights reserved.

18

REDEFINITION

As United Capital CEO Joe Duran seeks new investors for his firm, will investors value the company as a fintech innovator — or an aging RIA aggregator?

BY CHARLES PAIKERT

Special Report: Longevity and Health Care

24

Should I Recommend Genetic Testing?

When trying to predict and plan for genetic diseases, certain tests seem attractive. Are they worth the time and money?

BY CAROLYN MCCLANAHAN

27

Elder Fraud vs Privacy Rights

A niece thought her aunt's caretaker was stealing. Can an advisor help?

BY ALAN J. FOXMAN

28

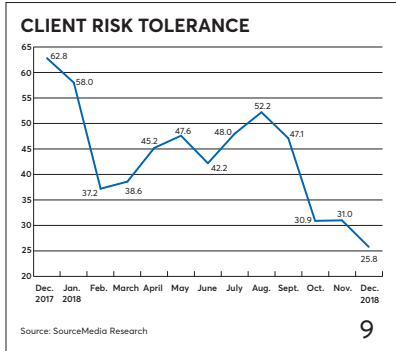
Planning For Family Care

Caregivers can live rent-free, and maybe even inherit the house for their work. But make sure to keep siblings in the loop.

BY MARGARIDA CORREIA



PHOTO FROM UNITED CAPITAL



24

Financial Planning

Financial-Planning.com

1 STATE STREET PLAZA, 27TH FLOOR
NEW YORK, NY 10004-1505 • (212) 803-8200

EDITOR-IN-CHIEF

Chelsea Emery

SENIOR EDITORS

Lee Conrad, Ann Marsh (West Coast Bureau Chief),
Charles Paikert, Andrew Welsch

TECHNOLOGY EDITOR

Suleman Din

ASSISTANT MANAGING EDITOR

Maddy Perkins

ASSOCIATE EDITORS

Sean Allocca, Jessica Mathews, Tobias Salinger,
Amanda Schiavo, Andrew Shilling

COLUMNISTS

Allan Boomer, John J. Bowen Jr., Brent Brodeski, Kelli Cruz,
Kimberly Foss, Dave Grant, Bob Veres

CONTRIBUTING WRITERS

Ingrid Case, Kenneth Corbin, Alan J. Foxman, Craig L. Israelsen,
Michael Kitces, Donald Jay Korn, Joseph Lisanti,
Carolyn McClanahan, Allan S. Roth,
Martin M. Shenkman, Ed Slott, Harry Terris

COPY EDITORS

Fred Eliason, Daniel Martinez, Rebecca Stropoli

GROUP EDITORIAL DIRECTOR,

INVESTMENT ADVISOR AND EMPLOYEE BENEFITS GROUPS
Scott Wenger

**EXECUTIVE DIRECTOR, CONTENT OPERATIONS
AND CREATIVE SERVICES**

Michael Chu

SENIOR ART DIRECTOR

Nick Perkins

PUBLISHER

Michael Schott (212) 803-8567

WEST COAST/SOUTHEAST SALES MANAGER

Frank Rose (212) 803-8872

NORTHEAST SALES MANAGER

Hilary Whidden (212) 803-8643

MIDWEST SALES MANAGER

Victoria Hamilton (312) 833-7613

CLIENT SERVICES MANAGER

Cassidy Ebert (212) 803-8826

SENIOR MARKETING MANAGER

Susan Zeqiri



CHIEF EXECUTIVE OFFICER.....Gemma Postlethwaite

CHIEF FINANCIAL OFFICER.....Sean Kron

EVP & CHIEF CONTENT OFFICER.....David Longobardi

CHIEF STRATEGY OFFICER.....Jeff Mancini

CHIEF DATA OFFICER.....Christian Ward

SVP, CONFERENCES & EVENTS.....John DelMauro

Columns

11 Lost in the Investing Circus

In the wealth management fun house, how can average investors find somebody who will really work on their behalf?

BY BOB VERES

14 Managing Teams Amid Volatility

By explaining the firm's sources of revenue and expenses, a team can better understand how they impact profitability.

BY KELLI CRUZ

Practice

30 Required CFP Certification?

If only the regulatory path were clear, the title might become mandatory — not simply the gold standard.

BY MICHAEL KITCES

Client

34 A Checkup on IRA Trusts

Planners don't have to be attorneys to help clients avoid problems in their trust documents that can cost them dearly.

BY ED SLOTT

Portfolio

37 Countering a 'Sell Everything' Call

Stock market declines may trigger recency bias and loss aversion. In a worst case scenario, they can wreak havoc if long-term plans are abandoned abruptly.

BY CRAIG L. ISRAELSEN

Selfie

41 Prank Call or SEC Audit?

When faced with a regulatory challenge, advisors can't be afraid to question authorities.

BY SHERRY DELANEY

Upfront & More

4 Financial-Planning.com

6 Editor's View

9 Retirement Advisor Confidence Index

40 CE Quiz

REPRINTS AND LICENSING CONTENT

For more information about reprints and licensing content from financial planning, please visit sourcemediareprints.com or contact PARS International at (212) 221-9595.

CUSTOMER SERVICE

help@sourcemedia.com or (212) 803-8500

Financial Planning Vol. 49/No. 2 (ISSN 0746-7915) is published monthly (12 times a year) by SourceMedia, One State Street Plaza, 27th Floor, New York, NY 10004-1505. Subscription price: \$109 for one year in the U.S.; \$129 for one year in all other countries. Periodical postage paid at New York, NY and U.S. additional mailing offices. POSTMASTER: Send address changes to Financial Planning, SourceMedia, One State Street Plaza, New York, NY 10004. For subscriptions, renewals, address changes and delivery service issues contact our Customer Service department at (212) 803-8500 or email: help@sourcemedia.com. Financial Planning is a trademark used herein under license. Copying for other than personal use or internal use is prohibited without express written permission of the publisher. ©2019 Financial Planning and SourceMedia, Inc. All rights reserved.



START A CONVERSATION THAT WILL HELP HER PLAN A LIFETIME OF PERFECT SUNDAY MORNINGS.

The Lifetime Check by Jackson can help explain income planning using terms your clients already understand. The Lifetime CheckSM comes every month, so your clients can have income every month for the rest of their lives. It's a straightforward way to show your clients how their accumulated assets can translate into monthly income.

The Lifetime Check is just one of the ways Jackson is making retirement simpler to understand.

Learn more about The Lifetime CheckSM at Jackson.com



Annuities are long-term, tax-deferred investments designed for retirement. Earnings are taxable as ordinary income when distributed and may be subject to a 10% additional tax if withdrawn before age 59½.

Annuities are issued by Jackson National Life Insurance Company (Home Office: Lansing, Michigan) and in New York by Jackson National Life Insurance Company of New York (Home Office: Purchase, New York). Variable annuities are distributed by Jackson National Life Distributors LLC. These products have limitations and restrictions. Contact the Company for more information. Jackson is the marketing name for Jackson National Life Insurance Company and Jackson National Life Insurance Company of New York.

Not FDIC/NCUA insured • May lose value • Not bank/CU guaranteed
Not a deposit • Not insured by any federal agency

CNC21435 11/18

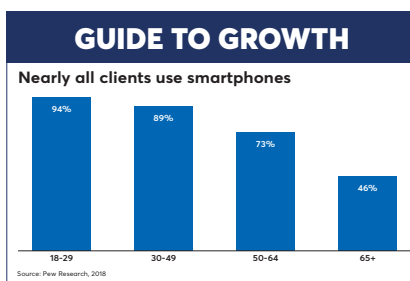
What's going on @financial-planning.com



WEB SPECIAL

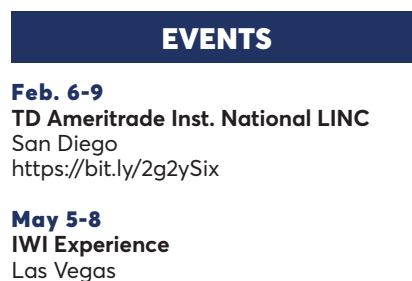
What We Owe Jack Bogle

No one has done more to give millions of people financial freedom than the late Jack Bogle, says *Financial Planning* contributing writer and friend of Bogle, Allan Roth. The founder of Vanguard transformed investing — and many lives— in a relentless pursuit to benefit the shareholder. <https://bit.ly/2RtH4NL>



Older Advisors Spark Innovation

Millennials aren't the only ones constantly on their phones. Baby boomer and Generation X advisors are adopting new technologies — especially on phones and tablets — more than their younger counterparts, according to new data. Read more here: <https://bit.ly/2AnXjRJ>



EVENTS

Feb. 6-9
TD Ameritrade Inst. National LINC
 San Diego
<https://bit.ly/2g2ySix>

May 5-8
IWI Experience
 Las Vegas
<https://bit.ly/2CVM8Cs>

May 6-9
FPA Retreat
 La Jolla, California
<https://bit.ly/2s68vOy>

May 8-10
Morningstar Investment Conference
 Chicago
<https://bit.ly/2xGWfXZ>



ESSENTIAL FIXED INCOMESM

CAN YOUR FIXED INCOME STAND THE TEST OF TIME?

Markets change, but the role fixed income plays shouldn't. It should aim to provide the essentials of income, diversification, and risk management for your clients. That's why, for more than 40 years, MFS has held an unwavering belief in our traditional approach. We call it Essential Fixed Income.

See why we focus on rigorously researched credit at [mfs.com/fixedincome](https://www.mfs.com/fixedincome)



FOLLOW THE LEADER

STAY CONNECTED. STAY ENGAGED.

From short gems of wit and insight to valuable observations, our Twitter feed provides a real-time connection to an influential community of independent financial advisors.

JOIN THE
CONVERSATION
@FINPLAN



Editor's View

The Most Secure Jobs in Wealth Management

Firms are seeking these three specialties.



If you are lucky enough to have kids or family members who listen to advice, Bernie Clark has some for them — especially if they're looking for a job or deciding what to study.

"The hardest person to hire in today's world is the compliance and cybersecurity-type employee," Schwab's head of advisor services tells me. "They are in high, high demand."

Schwab isn't the only company seeking to hire specialists in these areas. Firms large and small are struggling to meet regulators' demands and protect themselves from cyberattacks. "Those are the biggest risks companies have right now," Clark says, adding that there's little chance these jobs will fall out of favor if stocks have sharp and sustained declines. They may be "even more important in down markets," he emphasizes.

No. 3 on Clark's list of occupations with job security: technologists. "It's a critical hire for us," he tells me. But not just Schwab, he adds. "If I ask an advisor what their two biggest challenges are, they will tell me that it is technology and talent."

Technology and talent are also the major themes of our cover feature, "Redefinition." By many accounts, United Capital CEO Joe Duran has the latter in spades and he has also upgraded the RIA aggregator's tech offerings aggressively by developing and improving its FinLife platform. But as Duran seeks new cash to boost the firm's growth, will investors value it as an up-and-coming fintech firm, or see it more as a legacy RIA aggregator?

Senior Editor Charles Paikert set out to find the answer.

"Duran is a brash industry icon with seemingly boundless energy and ambition," he tells me. But that combination has "generated great success as well as a healthy dose of skepticism within the industry." Read on to learn what key factors may determine whether the firm finds the cash infusion it's looking for. —Chelsea Emery



**ENJOY THE
LITTLE THINGS.
UNLESS THOSE
THINGS ARE
TEDIOUS BACK-
OFFICE TASKS.
THEN LEAVE
THEM TO US.**

Let E*TRADE Advisor Services take it from here. Our platform lets you rebalance thousands of accounts in minutes, streamlines the back office, and generates performance reports in an instant. You'll have more time to tend to your clients, while reducing your business costs. Let us show you how the little things can make a big difference.

Visit etrade.com/ria to learn more.

E*TRADE[®]
ADVISOR SERVICES

GO FROM

**Financial
Advisor**

TO

**Retirement
Hero**



You don't need superpowers to be your clients' **#RetirementHero**. With ADP's retirement solutions, you can give your clients access to our award-winning employee education program. Helping them take the guesswork out of saving for retirement.

Unleash your inner superhero with ADP's retirement solutions.

www.adp.com

844-ADP-ELITE

Unless otherwise agreed in writing with a client, ADP, LLC and its affiliates do not offer investment, financial, tax or legal advice or management services. For its retirement plan recordkeeping customers, ADP agrees to act as a nondiscretionary recordkeeper performing ministerial functions at the direction of the plan sponsor and/or plan administrator. Accordingly, ADP does not serve in a fiduciary capacity nor act as an investment advisor or manager to any of the retirement plans for which it provides recordkeeping services. Nothing in these materials is intended to be, nor should be construed as, advice or a recommendation for a particular situation or plan. Please consult with your own advisors for such advice.

ADP, the ADP logo and ADP A more human resource are registered trademarks of ADP, LLC.
99-4996-D15E-1118 Copyright © 2018 ADP, LLC.



A more human resource.®

Benchmark

DATA-BASED INSIGHT FROM FINANCIAL PLANNING AND SOURCEMEDIA RESEARCH

Retirement Advisor Confidence Index

Risk Tolerance Hits Record Low

"Shell-shocked" clients seek safety and review exposure with wealth managers.

By Harry Terris

Clients' risk tolerance is unraveling as market volatility gnaws at their nerves and new economic worries cloud the horizon, advisors say.

Indeed, the appetite for risk dropped sharply for the third month in a row, according to the latest Retirement Advisor Confidence Index — *Financial Planning's* monthly barometer of business conditions for wealth managers. The component tracking client risk tolerance slid 5.2 points to 25.8, its lowest level since the index was launched in mid-2012. Readings below 50 indicate a decline, and readings above 50 indicate an increase.

"Clients are shell-shocked," an advisor says, as worries about a global growth slowdown have contributed to volatility. Combined with signs that the U.S.-China trade conflict is starting to have a broad effect on economic activity, as well as the potential for a prolonged government shutdown, "market flux has everyone scared," another advisor says.

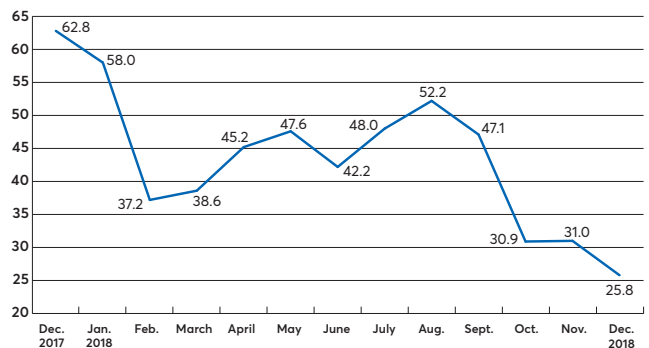
There has been "a noticeable uptick in clients who wish to retest their risk tolerance level," according to one advisor. The decline in the risk tolerance component helped the composite RACI reach a new all-time low of 45. That was a decline of 0.8 points from the previous low set the month before. In addition to risk tolerance, the composite tracks asset allocation, investment product selection and sales, planning fees, new retirement plan enrollees and client tax liability.

Advisors say they are counseling clients not to make emotional decisions in reaction to stock market declines, and to stick to contribution levels and asset allocations designed to reach long-term goals.

Some advisors also say rebalancing activity is generating flows into equities, and that meaningful stock price reductions are creating buying opportunities.

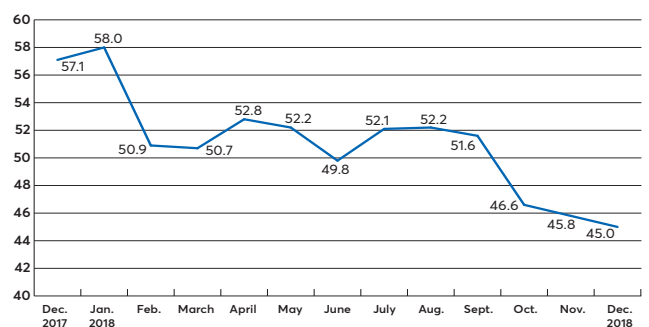
Overall, however, the index component tracking alloca-

CLIENT RISK TOLERANCE



Source: SourceMedia Research

RETIREMENT ADVISOR CONFIDENCE INDEX



Source: SourceMedia Research

tions to stocks fell 4.8 points to 40.6, an all-time low. The component tracking allocations to bonds remained in positive territory at 50.5.

One advisor says the shift to more-conservative portfolios is being driven in part by the use of "nondiscretionary, computer-driven risk management overlays from third-party money managers, which kicked in during December and reallocated those portions of their accounts from equities to bonds."

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

ADP and the ADP logo are registered trademarks of ADP, Inc. ADP does not provide tax, financial, investment or legal advice, or recommendations for any particular situation or type of retirement plan.



Benchmark

Despite all the unsettling market gyrations and economic news, the index component tracking the dollar amount of contributions for all retirement plans gained 4.1 points to 54.1. The component tracking the number of retirement products sold also edged up 0.8 points to 50.8.

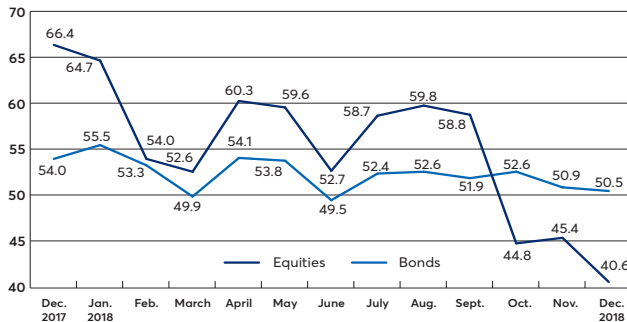
Advisors say clients continue to focus on the need to prepare for retirement. "Clients were certainly worried about

market volatility," one advisor says. "This impacted nonretirement business more than retirement business, though."

Some advisors say year-end contributions to tax-advantaged retirement accounts also bolstered flows.

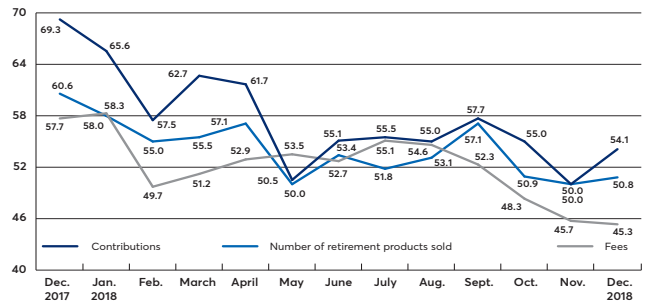
The index component tracking fees for retirement services dropped 0.4 points to 45.3, reflecting the impact of the drop in securities prices on assets under management. **FP**

CLIENT ASSETS USED TO PURCHASE EQUITIES AND BONDS



Source: SourceMedia Research

CONTRIBUTIONS TO RETIREMENT PLANS, PRODUCTS SOLD AND FEES FOR RETIREMENT SERVICES



Source: SourceMedia Research

Harry Terris is a Financial Planning contributing writer in New York. He is also a contributing writer and former data editor for American Banker. Follow him on Twitter at @harryterris.

Financial Planning RESOURCES

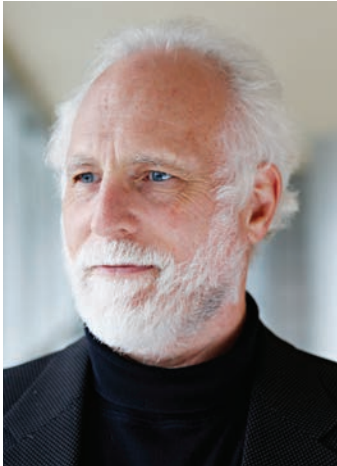
A CENTRALIZED HUB FOR ALL YOUR INFORMATION NEEDS:

- ✓ CE QUIZ
- ✓ RESEARCH
- ✓ DATA: RETIREMENT ADVISOR CONFIDENCE INDEX
- ✓ WEB SEMINARS
- ✓ WHITE PAPERS
- ✓ VIDEOS



FOR FREE ACCESS, VISIT: Financial-Planning.com/Resources

Veres



Lost in the Investing Circus

In the wealth management fun house, how can average investors find somebody who will really work on their behalf?

By Bob Veres

Welcome one and all to the investing carnival of fun! Today, our exciting attractions include, over here, a robot that sits behind a computer and chooses your portfolio for you. Actually, you choose the portfolio based on answering four or five questions, which is how the robot gets to know you on a very deep level.

If you have questions, they have a real person you can talk to — after spending an hour or two waiting on the phone. A living, breathing human being right out of college with almost as much real-world experience as that squirrel you can see in your backyard.

Should you do a partial Roth IRA conversion based on a tax situation that would take us way too long to explore over the phone? Who knows? But we'll give you an answer anyway.

Perhaps you'd prefer to visit our next fun

house attraction: a fee-based advisor, who might or might not be the top salesperson at his broker-dealer. Of course, he might be mostly fees and mostly a fiduciary who mostly works in your best interests, but he's affiliated with a company that earns a hefty majority of its revenues from various commissions, so, well, trust your luck!

Spin the dial, and check out this hot equity-indexed annuity that the company's due diligence department has approved despite sternly worded FINRA investor alerts about them.

They sure are complicated, but when nobody knows how to calculate the gain based on the return of the index that the annuity is linked to, it makes it easier to sell. And what else could possibly be more important about an investment opportunity?

Better yet, your fee-based advisor has a really swell nontraded REIT whose prospec-

tus clearly states that the tempting annual yield in the first year is coming directly out of your investment dollars — and who knows where that yield will come from in the future? Don't worry, the eagle-eyed due diligence department approves a lot of those deals, because the top sales reps demand it.

Any resemblance to a Ponzi scheme is purely coincidental! Are we having fun yet?

Just sign on with a discount broker, pull the handle on the slot machine and out comes money, all because you're so much smarter than the market!

Perhaps you would prefer to entrust your life savings to that indistinct form in a trench coat who is gesturing at you from the dark alleyway outside.

He's a real live broker! Just returned from a wonderful sales incentive trip to Tahiti! See his tan?

The sales incentives did not in any way impact his investment recommendations, so you needn't ask why they all happened to be either managed by his company with higher-than-average annual fees, or separate accounts that have revenue-sharing arrangements with the brokerage firm which are definitely not shelf space arrangements (are you listening, SEC?).

It's like choosing any card you want from a deck of

cards, except his deck is made up of only jacks and nines. Put your money down, and help him move up the grid!

Over to one of our main attractions, look at those zany clowns all climbing out of that impossibly small car and running around the ring squirting the crowd with seltzer bottles. Aren't they hilarious? No need to worry about a fiduciary standard here: These are insurance agents, who specialize in helping you reach your financial goals by selling you investments that never go down!

That means these wonderful life insurance contracts are technically not investments at all, which is a wonderful thing, because these agents also happen to not be licensed to sell you an actual investment product.

But their products do have an account value that grows mysteriously over time, and you can borrow your own money back from your own account for income!

Think about it, your own money becomes tax-free income! Is that not an exciting investment concept?

It's a mystery why nobody ever buys these products voluntarily, without one of the clowns explaining their many advantages.

Or, for that matter, why people don't just eliminate the middle person and earn income out of their own checking account.

Even more exciting, the company takes out a growing amount of money for insurance protection, so when you die, your heirs will be taken care of.

Of course, you can get this same protection from a term policy, and know exactly how much you're paying, but this is part of the excitement of these cash value life contracts: you have no idea how much you're paying

for coverage. And the company can raise this amount at any time! Check the fine print. Uh-oh, they've caught you using that magnifying glass. Watch out for the seltzer bottles!

And don't even think about looking for the commissions they're earning when you invest with them. You certainly won't find it anywhere in the contract without the help of a good attorney!

Who are those people sitting behind desks in the corner? Don't mind them. If you must know, they're called fiduciary planners, who charge fees instead of commissions for their advice. Borrring!

Over there, want to buy an island with all the bags of money you'll make when you day trade your account?

Just sign on with a discount broker, pull the handle on the slot machine and out comes money, all because you're so much smarter than the rest of the market!

You buy low, watch your stocks go up, sell higher, lock in the profits, lather, rinse and repeat until you're buying your first yacht!

Don't believe it? Just look at their advertisements. They're everywhere!

If you're impatient and don't want to wait a whole week before you buy your yacht, just open a margin account and make your bets with borrowed money. Remember, the trend is your friend!

A better friend is that investment guru on TV, who knows what the market is going to do.

Don't believe him? He'll tell you what a great track record he has. He called the last downturn, and the one before that. He calls downturns all the time. You can't lose if you follow his advice,

which is free if you watch the financial channels, but you probably want the expensive inside scoop, which might get you that yacht in hours instead of whole days.

Who are those people sitting behind desks in the corner? Don't mind them. If you must know, they're called fiduciary planners, who charge fees instead of commissions for their advice. Borrring!

They only make up a small percentage of all the people who give financial advice, and we don't let them participate in the fun house because they don't have millions of dollars to throw around at the TV airwaves, print media and social media. They don't buy Super Bowl advertisements.

And don't get us started about how boring they are when somebody makes the mistake of putting them on TV. (Mimicking voice) "We don't know what the markets will do in the future. We don't tout investment products until we understand the financial goals and objectives of our clients." I'm yawning already!

The average person's chances of finding drab birds like these, given all the exciting plumage on the other attractions in our fun house, is just about zero.

So why bother with them? Who wants to pay fees out of your own pocket when you can get investment advice for free, and have the product folks pick up the tab on your behalf?

Do I have to pull you away from those losers?

Come on over here, the tour continues in the exciting roller coaster fun house of hedge funds. Come on! You won't believe the kind of money these guys earn. For themselves, of course! **FP**

Deepen client relationships and set yourself apart.



Managing investments efficiently can give you more time to focus on solving your clients' needs. Fidelity offers a range of tools, research, and solutions to help you manage portfolios more effectively and create deeper client relationships—allowing you to differentiate yourself as an advisor.

Benefit from our expertise, backed by 70+ years of investment experience and our work with over 12,000 advisory firms.*

View our guide to deepening client relationships at go.fidelity.com/yourvalue

ORIGINAL INSIGHT / TAILORED ACCESS / DIVERSE INVESTMENT CAPABILITIES

FIDELITY INSTITUTIONAL ASSET MANAGEMENT®



Not FDIC Insured • May Lose Value • No Bank Guarantee

Not NCUA or NCUSIF insured. May lose value. No credit union guarantee.

Unless otherwise disclosed to you, in providing this information, Fidelity is not undertaking to provide impartial investment advice, act as an impartial adviser, or to give advice in a fiduciary capacity.

*Fidelity corporate statistics and recordkeeping data, as of 12/31/17.

Keep in mind that investing involves risk. The value of your investment will fluctuate over time, and you may gain or lose money.

The Fidelity Investments and pyramid design logo is a registered service mark of FMR LLC.

Before investing, consider the mutual fund's or exchange-traded product's investment objectives, risks, charges, and expenses. Contact Fidelity or visit institutional.fidelity.com for a prospectus or, if available, a summary prospectus containing this information. Read it carefully.



Managing Amid Volatility

When leaders explain expenses and revenue, team members can better understand how they impact profitability.

By Kelli Cruz

Most of the successful firms I have worked with over the years have a disciplined process in place to manage employees. This can range from setting initial job expectations to developing compensation plans and guiding overall career progression.

During volatile market conditions, these processes are especially important because they help reinforce that employees can trust that their jobs are secure. Trust is the operative word here because in volatile times employees need to feel that they're being paid fairly and, moreover, that they can trust the firm and its decisions.

In response to recent market volatility, I have received inquiries from firms that feel pressure to defend and explain compensation pay practices. I think this is largely due to the fact that most RIAs operate more like a family-owned business than a corporation, and there seems to be a feeling of entitle-

ment on the part of employees.

Since the RIA business model is fairly straightforward, most employees understand that the largest portion of the firm's overall revenue is based on charging fees for assets under management. Just by knowing the firm's fee structure, it is fairly easy for most employees to gauge how much revenue your firm is making even if you don't share any financial information with the team.

For this reason, I recommend sharing at least high-level financial data with your team. Everyone in the firm touches the client in some capacity and everyone in the firm benefits from the investments (compensation, technology) that the owners are making. When you explain the firm's sources of revenue and expenses, the team can better understand how they impact the firm's profitability.

In a market downturn, firm owners tend to

make employee payroll the top priority by not paying themselves a fair salary for the job they are doing for the firm. Far too many owners pay themselves from the profit that is left over. Compare this to the pay practices of corporations where the opposite strategy prevails. In down markets, corporate executives still get paid huge compensation packages, while employees' compensation remains flat or, even worse, their jobs get eliminated.

Without a well thought-out human capital plan and compensation philosophy, firms are hard-pressed to explain and defend their pay practices.

Too many owners try to manage every employee. But most lack the necessary people skills, as well as the management structure.

One key guiding principle in a human capital plan or compensation philosophy is to ensure that you tie compensation decisions to the overall performance of the firm. A compensation philosophy is simply a formal statement documenting the firm's position about employee compensation. It explains the "why" behind employee pay and creates a framework for consistency.

We have experienced a solid run-up in the markets over the past 10 years. So many of your employees may have entered the job



ALWAYS
YEAR AFTER YEAR
ORGANIC GROWTH.

NEVER
TAKEN OVER.
BOUGHT.
OR SOLD.

THE MORE YOU KNOW,
THE MORE WE MAKE SENSE.

Since 1922, Edward Jones has grown to become one of the largest wealth management firms in the country. And not via takeover or merger, but by putting clients first, pursuing state-of-the-art technology and resources, and making sure our financial advisors and our 7 million clients are deeply and well served. Maybe it's time you got to know Edward Jones.

Visit [edwardjones.com/knowmore](https://www.edwardjones.com/knowmore)

Jennifer Marcontell, CFP,[®] AAMS[®]
Financial Advisor
Houston, TX

Edward Jones[®]

market during the last decade and have never experienced an economic downturn. Therefore, creating this alignment between the firm's financial performance and how this impacts its ability to pay employees is crucial.

Another topic firm owners and employees ask me about are what factors determine compensation? The answer lies in utilizing industry benchmark data and then determining the most important drivers of performance for the firm.

I suggest the following components be considered when determining the right compensation for an employee: experience and time in the role; specialized skills set, credentials, designations; performance level or rating; geographical location and cost of wages; premium for certain roles (lead advisor); and value of the

position to the firm.

I feel that trust is the part of the employment equation that matters the most. I hear from employees that they place a high level of trust in the firm owners to do the right thing for clients and for them as employees. However, when specifically asked about their compensation and career track, their trust level declines and they definitely want more clarity and structure.

Unfortunately, trust starts to break down as firms grow in headcount. And without clearly articulated talent management programs in place, trust erodes quickly.

I have seen far too many firm owners try to manage every employee in the firm. Not only do most of them lack the necessary people management skills, but they also lack the management structure to provide clear communica-

tion. This can lead to a lack of confidence and trust that is needed to motivate employees.

For broader context, a recent global survey of Ernst & Young ("Trust in the Workplace") showed that less than half of the respondents have "a great deal of trust" in their current employers, boss, or team/colleagues. Respondents in the U.S., however, are less likely to place a "great deal of trust" in employers, bosses, or teams. Moreover, there was a notable percentage point difference in placing a "great deal of trust" in their boss (50%) compared with their employer (38%), the largest gap among all eight countries.

What causes a lack of trust? According to the study, the top five factors leading to respondents' lack of trust in their employers were: unfair employee compensation; unequal

opportunity for pay and promotion; lack of leadership; high employee turnover; and a work environment not conducive to collaboration.

Conversely, what factors promote trust? The leading aspects that were "very important" to a majority of global respondents in determining the level of trust to place in their employers were: delivers on promises (67%), provides job security (64%), provides fair compensation and good benefits (63%), and communicates openly/transparently (59%).

There was a tie for fifth place between "provides equal opportunity for pay and promotion for all people regardless of differences" and "operates ethically" (both 57%). Also noteworthy for the U.S., Gen Z values "equal

opportunity for pay and promotion," and "opportunities to learn and advance" as leading factors in trusting a future employer.

Workers who entered the job market during the last decade have never experienced an economic downturn.

When you work with people you trust, more can get done. Organizational trust is derived from alignment — having the organization's systems, structures and rewards aligned with one consistent objective. When everything is aligned correctly, trust grows. When these various elements are misaligned, trust is reduced or dissipated.

Trust is something that has always

been a huge motivator for me. As I look back on my career, it was the managers who took me under their wings and provided clear expectations and feedback that nurtured that trusting environment that allowed me to do my best work.

Now more than ever in these turbulent financial markets it's important to have a human capital program and clearly communicate it to your employees. Just like the best practice of increasing communication to your clients during market turmoil, the same policy holds true in communicating to your employees.

Remember, your business model is built on client retention, which in turn means it is built on employee retention as well. **FP**

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



Simple is good.

Monument Advisor
An Investment-Only
Variable Annuity
designed for how
you do business

Providing a comprehensive financial plan for your clients can be challenging and complex. In our past, as Jefferson National, we believed there was a need for simple, transparent, tax-deferred investing solutions like Monument Advisor. To date, it has earned the trust of nearly 5,000 advisors, helping them provide unlimited tax-deferral, fee savings and wealth transfer choices to clients who trust in them.

Nationwide Advisory Solutions LEARN MORE: nationwideadvisory.com | 1-866-667-0564

Variable annuities are subject to market fluctuation and risk. Principal value and investment returns will fluctuate and you may have a gain or loss when money is withdrawn. Variable annuities are long-term investments to help you meet retirement and other longrange goals. Withdrawals of tax-deferred accumulations are subject to ordinary income tax. Withdrawals made prior to age 59½ may incur a 10% IRS tax penalty. Variable Annuities are issued by Jefferson National Life Insurance Company, (Dallas, TX), or Jefferson National Life Insurance Company of New York (New York, NY) and distributed by Jefferson National Securities Corporation, FINRA member. Policy series JNL-2300-1, JNL-2300-2, JNL-2300-3, JNL-2300-1-NY, JNL-2300-2-NY. All companies are members of Nationwide.

Jefferson National Life Insurance Company | Jefferson National Life Insurance Company of New York
ASV-0103AO (8/18)

FOR FINANCIAL PROFESSIONAL USE ONLY. NOT FOR PUBLIC USE.



REDEFINITION

Joe Duran is seeking new investors for United Capital. Will they value the firm as a fintech innovator — or an aging RIA aggregator?

By Charles Paikert

Even in an industry dominated by strong personalities, United Capital CEO Joe Duran stands out. A ubiquitous presence in the media and at conferences, the wiry 51-year-old with close-cropped brown hair, an intense gaze and trademark black-rim glasses preaches a gospel of “financial life management” with messianic zeal.

While many consider Duran a master salesman and showman, others see him as hyperbolic egoist. He is seen as an industry pioneer, thought leader and charismatic corporate chief, but also as a polarizing figure who can turn people off as well as on.

As Duran seeks new financial backers, he faces the greatest sales pitch of his career: Persuading investors that his 14-year old company is not only an RIA powerhouse with assets under management of \$21 billion, but also a forward-looking fintech developer that has concocted a secret software sauce that will revolutionize financial planning and the way advisors interact with clients.

“It’s like they’re facing a midlife crisis or an identity crisis,” says Aite Group analyst Alois Pirker. “What does United want to be when it grows up?”

Duran’s own backstory is already the stuff of industry legend. He grew up in Zimbabwe, ran away from an abusive father and made his way to the United States. After college, he got a job with a firm that monitored asset management accounts for independent advisors.

Within five years Duran became president, the company changed its name to Centurion Capital Management and Duran helped sell it for around \$100million by the time he was 34.

PHOTO FROM UNITED CAPITAL

“If you are trafficking in information and interacting with end consumers, you must be a tech company,” says United Capital CEO Joe Duran. “It’s not even a choice.”

Four years later, in 2005, he founded United Capital Financial Advisers, one of the industry's earliest aggregators. The firm now has over 600 employees in 92 offices across 29 states and generates, according to Duran, around \$230 million in revenue.

In 2016, United Capital launched its online platform FinLife. The core of the platform is based on behavioral finance principles that use a gamelike series of questions to tease out clients' goals, fears and aspirations. The product was the culmination of Duran's conviction that the future of the industry rests on connecting with clients who want "guidance and advice about their entire financial life, not just their money."

Now Duran finds himself at a crossroads — one that is emblematic of the rapidly changing financial advisory business overall. Should United and, indeed, all RIAs, redefine themselves as technology companies?

"If you are trafficking in information and interacting with end consumers, you must be a tech company," he says. "It's not even a choice. It's why J.C. Penney is a failure and Walmart is doing fine. They realized, 'We are not a brick-and-mortar store; we must be bionic.'"

But funding software development, upgrades, sales, service and training is expensive. United has spent nearly \$30 million on FinLife, Duran says.

In addition to paying for expensive technology, United also needs to fund its inorganic growth through mergers and acquisitions as valuations rise and deep-pocketed buyers snap up available properties.

Soliciting investors to fund FinLife and other initiatives is the logical next step, Duran says. He is seeking a large infusion to fund his template for United's expansion and metamorphosis.

If potential investors perform due



United is a "formidable competitor," says Mercer Advisors M&A head Dave Barton. But some sellers are turned off by the RIAs' "rigid" buying approach, he adds.

diligence and find themselves disappointed, the company could "break up from within," warns Mercer Advisors Vice Chairman Dave Barton.

United may command a robust valuation of 12 to 16 times EBITDA, industry sources say. But even if it does, a new majority shareholder may decide its assets and distribution channel are more valuable than Duran's vision for future fintech growth and curtail his autonomy or carry on without him.

The outcome — and the fate of United — will depend on how Duran himself, together with the fintech and RIA businesses, are evaluated.

To be sure, there is a wide consensus that Duran has been a dynamic executive who has not only created a successful enterprise, but been an industry innovator.

"United has been able to create a consistent client experience through very effective standardization across the company," says Mark Tibergien, CEO of BNY Mellon Pershing Advisor Solutions. "The idea behind FinLife resonates as a concept. I agree with Joe — the industry has evolved from investment centric to planning centric. And he's done a masterful job of proselytizing to the industry."

Potential buyers will be attracted by that kind of star power, Pirker says. "He's well-known and widely respected," he says. "When it comes to intellectual property, and how a large RIA model can work and be scaled, I can see buyers being interested in that."

But Duran's forceful nature may not be the right fit for every investor. "Private equity tends to like strong personalities," says Mark Casady, chairman of fintech financing firm Vestigo Ventures and a former CEO of LPL Financial. "They will have a leader in place who will be able to do things right away. But a strategic partner may have questions about whether that kind of a personality will fit in as part of a team."

Duran is often compared to other outsized and publicity-savvy industry executives like Ric Edelman, who last year merged his firm with Financial Engines to form a \$200 billion RIA. Another is Ron Carson, CEO of Carson Group Holdings. Carson, like United, sells a product — practice management training, in Carson's case — to advisors outside its own network.

"Joe is very similar to Ron Carson," says Eric Clarke, CEO of Orion Advisor Services, a tech company that partners with United on FinLife. "They are the same type of industry luminaries and role models. But to work with them, you have to drink the Kool-Aid."

One former United sales executive, who did not want to be identified, summed up the dichotomy succinctly: "Joe is both United's greatest asset and its biggest hindrance."

Duran is passionate about FinLife CX, the latest iteration of United's fintech platform. It "applies behavioral economics to the client interaction process," he notes, adding that it is the cornerstone of his vision of United as a company that "manages lives, not money."

FinLife CX also enables advisors to track clients and keep in touch with them, and includes practice management training and an investment management feature.

The first version of the product, FinLife OS, was built on top of Salesforce, but the CX version can be integrated into other CRMs, including Junxure and Redtail, as well as portfolio accounting systems.

FinLife is used by United advisors and is also licensed by other RIAs who join FinLife Partners and license the technology as a white label.

United Capital charges firms \$600 annually for each client who uses the software, plus installation and maintenance fees. Training is required and is done through videos and live coaches.

Over 6,300 clients use FinLife, working with more than 125 advisors at 38 RIAs firms that have signed on with FinLife Partners, Duran says.

Duran believes FinLife can function as an turnkey asset management platform in time, and leverage its scale and investment management platform to challenge such industry stalwarts as Loring Ward and AssetMark on price.

Fintech businesses generally command a higher valuation multiple than RIAs, and "fintech companies remain priced at a premium to the broader markets," according to the most recent Mercer Capital report on the industry.

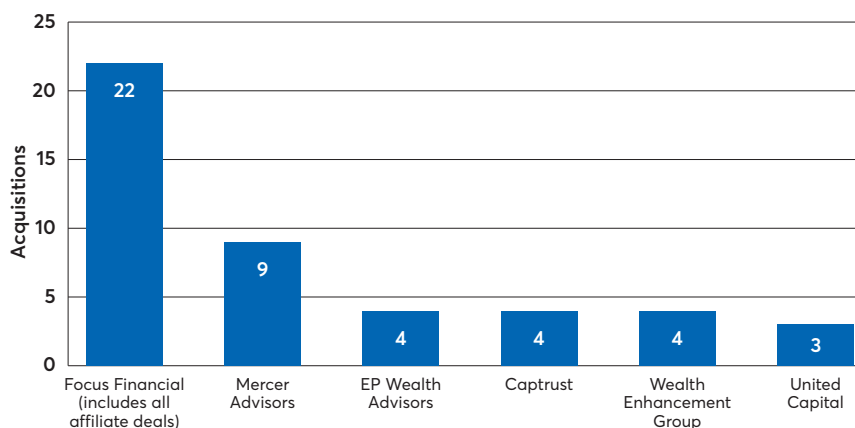
A start-up like FinLife could be valued at around six to seven times revenue, industry observers estimate.

"Everybody in the space would prefer to be looked at as a fintech," says Joel Bruckenstein, a tech consultant for advisory firms and the producer of the Technology Tools for Today conferences.

Rebutting critics, Duran denies that he's seeking a fintech valuation. "I hope people will be looking at this as

RIA M&A Leaders in 2018

United Capital, an aggregator since 2005, bought 11 firms in 2015. The firm's deal volume has slowed since then.



Source: DeVoe & Co.

two businesses," he says. "There's a core distribution business, which is easy to value and is growing geometrically, and a fintech side, which is growing exponentially."

So how will those businesses be evaluated?

"It's important to build a platform and FinLife has done a lot of cool stuff," says Brent Brodeski, CEO of Rockford, Illinois-based Savant Capital. "I'm just not sure I'd build a business around it."

Another Midwestern RIA owner, however, says FinLife is just what his firm needed. "United Capital can do [the software] better than we can," says John Lame, CEO of Lenox Wealth Management in Cincinnati. "We've had better discussion with clients using FinLife, and we haven't found anyone else as focused on the client experience."

While Lame was willing to change his way of doing things, many advisors are far more reluctant, industry observers say. "Joe has created a new category," says business partner Eric Clarke, CEO of Orion Advisor Services, "but he has to convince advisors to change their behavior and how they communicate with clients. That's not easy."

In addition, FinLife is hardly the only option for advisors looking at behavior-oriented planning tools, says technology consultant and CFP Bill Winterberg. "FinLife has good data collection, standardization and risk style," he says. "And I like its feature for identifying client motivations, its client portal and the investment management features. But is it unique? No."

The program may also be vulnerable to being replicated by a competitor, Bruckenstein says. "United was early to the game, but behavioral is a wide topic and there are different ways to gamify it," he says. "You could argue there will be competition if firms think there is enough demand for this kind of product."

If investors believe FinLife is "the next big thing," he adds, "United could raise a lot of money. But looking at the numbers, it's a small sample size so far."

Starting a new tech business is hard enough. Unfortunately for United, its core business model — mergers and acquisitions — hasn't exactly been a source of comfort recently.

The company's initial growth came by buying up 69 firms around the

country since 2005, usually with assets between \$200 million and \$1 billion.

But the firm's buying activity has slowed dramatically in the past few years, and United made only three acquisitions in 2018, in contrast with competitor Mercer Advisors, which bought nine firms last year.

Duran admits United was "outpriced" on a number of deals but insists United is not capital constrained, with \$35 million on hand in cash and \$30 million in debt. To become more competitive, he says, the firm will draw on a \$50 million line of credit from SunTrust Bank to make acquisitions this year.

Even with more capital, United faces challenges. While Mercer Capital's Barton, who heads the company's M&A division, calls United a "formidable competitor," he notes its drop-off in deal volume.

"The common refrain I hear from firms who don't go with United Capital is that they are very rigid in their approach," he says. "Joe is a strong leader, but doesn't deviate from his vision. It feels like a closed shop, and that rubs people the wrong way."

Lack of control over investment management is particularly hard for many advisors to accept, says Louis Diamond, executive vice president of Diamond Consultants, a financial advisory search firm.

"United's regimented process is too restrictive for advisors who like to do their own asset management," Diamond says. "Their tech, branding and scale can be attractive for some, but it's definitely not everyone's cup of tea."

But Duran makes no apologies. Benefiting from United's scale, expertise and technology, sellers' businesses have grown substantially, he asserts. "But the advisor has to be willing to

cede control," he affirms.

The firm's ultimate fate may rest on key business performance metrics. "One of the first things any investor will look at is an advisory firm's organic growth rate — the net new assets that are added," says Dennis Dolego, senior research director at Optima Group. "The problem is those growth rates are hard to determine, and you can't verify them."

According to the latest Fidelity RIA Benchmarking Study, the median AUM growth rate for advisory firms was 17.5% in 2017, including market appreciation and M&A activity. The mean net organic growth rate, excluding market performance, was 10.2%.

United's net new asset growth has been around 10% to 12%, for the last few years, including market appreciation, and about 5% to 6% without, a spokesman for the firm says.

The median revenue increase for RIAs with over \$2.5 billion in AUM from 2013 to 2017 was 9.5%, according to Charles Schwab's 2018 Benchmarking Study. Revenue growth for United has been "greater than 20% for the past several years," according to a spokesman.

With close to 100 locations, United has more offices around the country than almost any other RIA, but about half are outside the country's top 20 metropolitan areas.

"Somebody who is evaluating the firm will want to know where their resources are concentrated and if they have true dominance in key markets," say Pershing's Tiberghien. "Are they fighting an offensive war, or do they have a Maginot Line?"

Potential investors will also look at performance metrics like client and advisor demographics, cash flow, pricing, profit margin, decumulation, the number of small accounts and



Orion CEO Eric Clarke says Joe Duran is "very similar" to RIA exec Ron Carson. "They are the same type of industry luminaries and role models. But to work with them you have to drink the Kool-Aid."

average assets per client.

United has been profitable since 2010, according to Duran, and has a 25% profit margin "after everything" on its \$230 million in revenues.

The firm has been able to command premium pricing of 92 basis points in fees, he says, sometimes charging as much as 1.6% of a client's assets under management for extensive planning and portfolio services.

The average account size at United is \$328,251, according to the firm's latest SEC Form ADV. A United spokesman said the average account size per household was over \$1 million.

Considering the next steps, the question is whether an investor is satisfied with what's already in place or is betting on what is to come.

"The ideal buyer has to buy Joe's vision of the future," Brodeski says. "And I think his vision is the right one. But it's not where his company is now."

Wrong, says Duran.

"If I raised money under that premise, I would be toast," Duran says. "There's no one who will buy into my dreams. But the evidence is here today that you're not buying into this dream. You're buying into a good business." **FP**

“When I first started, we had about **\$20 million** under management.

We now have **more than half a billion** under management.



I have thirteen people in my office; I have my own radio show; wrote my own book. I can't really tell you that I would have done any of that had I not been around other people that were doing the same thing.

I come to every Elite workshop and always learn something new, whether that's something related to taxes, or could be a marketing idea, or just something from a best-practices standpoint from these outstanding advisors that are really the top-of-the-top in America.”

-David Hays*, Bloomington, IN

JOIN THE ELITE

- ▶ UNPARALLELED EDUCATION & RESOURCES
- ▶ EXCLUSIVE ACCESS TO LEADING EXPERTS
- ▶ AN INDUSTRY-LEADING NETWORK OF PEERS
- ▶ INSTANT CREDIBILITY
- ▶ ACTIONABLE BUSINESS IDEAS

TAKE THE FIRST STEP

The first step to qualifying for Ed Slott's Elite IRA Advisor GroupSM is to

1. attend our live 2-Day IRA Workshop or
2. complete the eSeminar series on demand.



Visit irahelp.com/elitegroup to learn more today!

Email: info@irahelp.com Phone: **800-663-1340**



Should I Recommend Genetic Testing?

When trying to predict and plan for Alzheimer's, diabetes and other genetic diseases, certain tests seem attractive. Are they worth the time and money?

By Carolyn McClanahan

Whether we like it or not, part of our job as financial planners is to try to predict the future. One particularly squishy number to predict is accurate life expectancy.

Most advisors use averages, but almost no one is really average in this respect. There are services that help calculate life expectancy through questionnaires and genetic testing — but should advisors really recommend genetic testing to their clients, or even look into it for themselves?

It's a question that is gaining urgency. With the sequencing of the human genome, the number of available tests has burgeoned significantly and some are now commercially available to the public. Financial advisors need to become familiar with

two types of genetic testing — polygenic disease and telomere length.

Don't Waste Your 'Worry Minutes'

Most diseases are polygenic. Diabetes, cancer, and heart disease fit handily in this category. Anywhere from a few to hundreds of genes influence the risk of developing one of these diseases, making their specific cause hard to pin down. For example, we know diabetes runs in many families, but is it due to genes or that family's sweet tooth?

Genome-testing company 23andMe is prohibited by the FDA from sharing the risk of polygenic diseases with customers who take its tests. (Before 2013, it was able to do so.)

Why did the FDA block this? The results were not analytically or clinically

validated. As a CFP who's also a medical doctor, I feel these unproven tests were useful only for scaring people at higher risk for disease, or giving them a false sense of security if they test as a low risk.

If a client tests positive for a gene that may increase the risk of a disease, especially a non-modifiable condition, what are they going to do about it? I joke that we only get so many "worry minutes" and then we die. So do we worry about something that may not happen, especially when the proverbial bus could run us over at any time?

As someone who has had a couple of close personal calls with death, I feel we should focus more on living in the present so we have no regrets at the end. And we should encourage clients



Consistency can pay dividends.

COLUMBIA DIVIDEND INCOME FUND

This fund focuses on high-quality, healthy companies built to generate returns not just in the best of times, but over time.

Find out how our approach can help cultivate risk-aware sustainable income to help you and your clients meet their long-term goals.



Your success. Our priority.

columbiathreadneedle.com

Investors should consider the investment objectives, risks, charges and expenses of a mutual fund carefully before investing. For a free prospectus or summary prospectus, which contains this and other important information about the funds, visit columbiathreadneedle.com/us. Read the prospectus carefully before investing. Columbia Dividend Income Fund seeks total return, consisting of current income and capital appreciation.

Market risk may affect a single issuer, sector of the economy, industry or the market as a whole. **Value** securities may be unprofitable if the market fails to recognize their intrinsic worth or the portfolio manager misgauged that worth. **Foreign** investments subject the fund to risks, including political, economic, market, social and others within a particular country, as well as to currency instabilities and less stringent financial and accounting standards generally applicable to U.S. issuers. **Dividend** payments are not guaranteed and the amount, if any, can vary over time. A rise in **interest rates** may result in a price decline of fixed-income instruments held by the fund, negatively impacting its performance and NAV. Falling rates may result in the fund investing in lower yielding debt instruments, lowering the fund's income and yield. These risks may be heightened for longer maturity and duration securities. The fund may invest significantly in issuers within a particular **sector**, which may be negatively affected by market, economic or other conditions, making the fund more vulnerable to unfavorable developments in the sector.

Columbia Management Investment Distributors, Inc., member FINRA. Columbia Threadneedle Investments is the global brand name of the Columbia and Threadneedle group of companies. Not FDIC insured/No bank guarantee/May lose value. © 2019 Columbia Management Investment Advisers, LLC. 2295470

Special Report: Longevity & Health Care

to do the same.

If a client has a boring genome (like most people do) and tests negative for any disease risk, are they going to live a healthy lifestyle or will they quit worrying about bad habits and start partying down? An article in the *Journal of Immunity and Aging* shared various studies of long-lived subjects and studies of twins and estimated that 25% of the variation in human longevity can be due to genetic factors. This means the other 75% is due to something else, most likely environment and lifestyle.

Estimates suggest that 25% of the variation in life spans can be due to genetic factors. This means the other 75% is due to something else, most likely environment and lifestyle.

What will life, disability, and long-term care insurers do with this information? State laws vary on insurance company access to results, although currently insurance companies are not requesting this information. What happens in the future is uncertain.

Either way, if your client shares test results with their doctor, that information will be in the medical record and easy for the insurance company to obtain. Before your client undergoes testing, make sure they are fully insured on all fronts.

23andMe now has clinically validated testing for a few illnesses, including late onset Alzheimer's disease, so these are now FDA approved.

Should we get excited? No. The testing for Alzheimer's has low predictive value, which means just because a person tests positive for the gene variant doesn't mean they will get Alzheimer's and likewise, just because

they test negative doesn't mean they won't get Alzheimer's. This test could either make them worry unnecessarily or provide a false sense of security. The low predictive value is one reason the Alzheimer's Association doesn't recommend this type of testing.

My conclusion for now? Testing for diseases that may have a partial genetic component is in its infancy and shouldn't be recommended by advisors.

Size Matters for DNA Caps

Telomere length offers another proxy for longevity, and tests are now available to consumers.

A telomere is a protective cap of DNA at the end of our chromosomes. Each time our cells divide, our telomeres shorten. Telomeres that are too short no longer protect the cell and the cell dies. Unhealthy habits take a bite out of our telomere length and increase our risk of developing chronic diseases.

There are rare diseases caused by telomere shortening and specific clinical tests are used for these cases. The publicly available telomere testing estimates biological age — for example, if a person is a chronological 32 years old but parties hard, their biological age may be 44 years old.

When weighed with other factors such as lifestyle habits and family history, telomere testing may provide the extra wake-up call they need to stop their partying ways if they want to increase their chance of living a long life.

What is the problem with the telomere testing approach? Telomere length varies between individuals, so the definition of normal is very broad. Telomere testing compares a person's telomere length with the median of the rest of the population. What if some-

one has genetically short or long telomeres?

Scientists think the most useful way to use this testing is to measure telomere length over many years. This way it can be determined if that meditation practice and increased kale intake is doing the job of protecting telomeres. The bad news: Telomere testing can vary as much as 20% lab to lab, and who knows whether the lab that measured a person's telomere today will be around tomorrow?

My conclusion: Telomere testing is a waste of money.

Just Live Life, Minimize Regrets

One argument for testing is that it could spur people to make healthy lifestyle changes. We should all strive for a healthy lifestyle since that is the stronger determinant of health. If we wait until something bad happens, or for a test to reveal a problem, it may be too late.

Instead of trying to more accurately pinpoint life expectancy, a better approach is to help clients build resiliency for whatever the world delivers. Have your client save for the day they can no longer work, encourage healthy lifestyle habits and help them complete their bucket list long before they have any hint of their bucket being kicked.

Encouraging clients to live fully without regret and to financially prepare for the unknowns provides much greater value than any sooth-sayer or genetic test could ever match.

And even given the chance that testing may prompt a lifestyle change, for the general population without risk factors for diseases for which specific genetic testing is available, I still do not recommend genetic testing. **FP**

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



Relatives with legitimate concerns can take steps to allow advisors to discuss an issue with them.

Elder Fraud vs. Privacy Rights

A niece thought her aunt's caretaker was stealing. How much can an advisor do?

By Alan J. Foxman

Q: The niece of one of my elderly clients called me recently to ask about her aunt's account. She was concerned the aunt's caretaker was stealing money from her.

Unfortunately, since she wasn't listed as someone I could give information to, I had to decline speaking with her about it. She went on a tirade and made a major fuss about it.

As it turned out, my elderly client later told me she didn't trust her niece and thought she had stolen from her in the past. Was there anything I could have done

differently to avoid the confrontation with the niece?

A: It sounds like you handled the situation properly. FINRA Rule 4512 (Customer Account Information) requires members to make reasonable efforts to obtain the name and contact information for a trusted person upon opening an account or when updating account information.

If the niece was not a joint account owner and not otherwise listed as a trusted contact, you were absolutely right to decline to give her any information. If this family

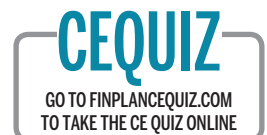
member was truly concerned for her aunt's finances, you could have perhaps suggested she contact FINRA's Senior Helpline.

Another option could have been to have her come in with her aunt and conduct a three-way conference call where you could have gotten the aunt's permission to speak with her niece.

But of course, someone who is taking advantage of an elderly person is not going to be amenable to any scenario that would allow you to verify their authorization and they may make a scene.

Elder fraud is a serious and growing problem and there are many relatives and friends rightly concerned about the well-being of loved ones.

Still, there is a delicate balance between protecting elderly customers and respecting their privacy rights. Someone with a legitimate concern should be willing to take the extra steps necessary to ensure their loved one approves of you speaking with them about their finances. **FP**



Alan J. Foxman is vice president at NCS Regulatory Compliance and a partner at the law firm of Dew Foxman & Haugh in Delray Beach, Florida.

Planning For Family Care

Caregivers can live rent free, and maybe even inherit the house for their work. But keep siblings in the loop.

By Margarida Correia

Marguerita Cheng wishes more people would think like her late client.

At 78, while still traveling to Europe and doing consulting projects, the client huddled with her daughters to plan for when she would get older and need care.

She and her daughters — a social worker and a nurse — decided to sell her condo so she could move into an assisted living facility where she would enjoy a high level of autonomy.

They also decided to sell her vacation home and put the funds into an account that the daughters could access to pay for her out-of-pocket medical expenses.

"She was a very forward-thinking

woman," Cheng says of the client who passed away 14 years later at 92. "She wanted to make provisions to ensure that her girls weren't stuck."

Not many clients are willing to face their own mortality or the prospect of one day relying on family members or professional caregivers for help with grooming, hygiene and other basic everyday activities. Most, in fact, avoid the subject altogether or delay making decisions until it's too late, according to many advisors.

"It's not talked about as much as we'd like," says Cheng, who runs Blue Ocean Global Wealth, based in Gaithersburg, Maryland.

However difficult, conversations

around caregiving in later life are critical, particularly if clients such as Cheng's don't want to have their children liquidate assets to pay for their care.

Family caregivers spend an average of \$7,000 annually on out-of-pocket expenses, according to a report from AARP. For caregivers assisting relatives with dementia or those needing help with bathing or other activities of daily living, the costs are even higher, averaging more than \$10,000 a year.

Keep family members informed of the types of services the caregiver will provide and the rate they'll be paid. This is especially important if the client qualifies for Medicaid.

Some people tackle the issue by making informal arrangements with family caregivers, often at the last minute and without informing other relatives. They might, on occasion, earmark money for caregiving or hire a family member to do chores like housecleaning or cooking.

They may also have family caregivers move in with them, but these arrangements are often not communicated or documented — a situation that can lead to family conflicts down the road.

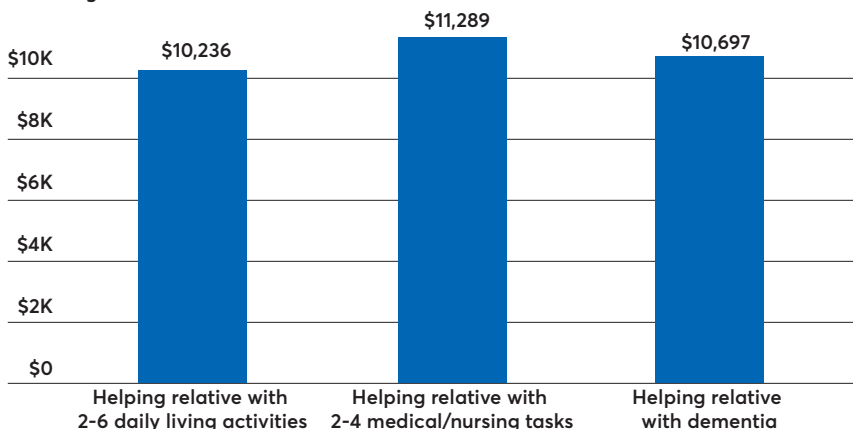
"I don't see people doing as much as you think they should," says Marcia Urban, an advisor with Wells Fargo's Abbott Downing ultrahigh-net-worth business in Minneapolis.

In recent years, Urban has seen some of her clients quit their jobs or work part time to care for loved ones, particularly if they're already close to retirement. One woman, 55, moved into her parent's home after her 89-year-old widower father became

Family caregivers

How much they spend on out-of-pocket expenses

● Average annual cost



Source: AARP

sick. She and her three siblings agreed that she would live with him until they either found a suitable care facility or hired in-home care.

During the three months she lived with her father, she cleaned the home, prepared meals, took him to the doctor and helped him with dressing and other daily activities.

She was not paid for her services—nor did she want to be—as she was retired and well-off financially, unlike her siblings.

Urban knows of other instances when family caregivers moved into a parent's or relative's home on a temporary basis either to provide or oversee care. "One third of family members provide care of some sort," Urban says, explaining that care is often provided on a rotational basis, with a child or grandchild taking turns providing help.

Often times, caregivers will move in on a permanent basis, according to Alex Chalekian, founder and CEO of investment advisory firm Lake Avenue Financial in Pasadena, California.

To be sure, moving in with frail relatives may seem like a big disruption. But this scenario can actually be beneficial to both sides if handled with care, he says.

While the elderly family member gets vital care, many caregivers save money by living rent free.

Some caregivers may carry a lot of debt or live in an area where rent prices are so high they're unable to save to buy a home.

"In a situation where the kids are struggling financially, this is a way for them to get out of the financial mess that they're in," says Chalekian. Two of his clients, a retired husband and wife in their 60s, for example, moved in with the wife's mother who did not

have enough assets to afford a professional caregiver.

The couple looked at this "as an opportunity to save on retirement because they didn't have a big nest egg," Chalekian says.

In some cases, caregivers move in knowing that they will inherit the property once their parents pass away. "The parent might say, 'Take care of me until I die and once I die you can have the house,'" Chalekian says.

If this is the arrangement that clients make with their caregivers, they should let other family members know to avoid surprises and resentment when their wills are read.

Family caregivers spend an average of \$7,000 a year on out-of-pocket expenses, according to AARP. For those helping relatives with dementia, it can reach \$10,000.

Often when family members are unaware that a childhood home is going to a family caregiver, they'll accuse the caregiver of being manipulative or taking advantage of the elder, advisors say.

"The family is ripped apart at the end because there wasn't transparency and openness," says Nancy Anderson, a senior financial planner at Key Private Bank in Salt Lake City. "I've seen it time and time again."

To avoid family rifts, parents need to explain their decision for leaving their home to a child who is caring for them. They should remind the other children of all the caregiver has given up so that the ailing parent can stay at home and be taken care of in the way they wish to, Urban says.

In addition to letting them know why the caregiver is getting the house, they need to communicate and document all the caregiving arrange-

ments they've made, including whether or not the caregiver is living in the house rent- and utility-free, and whether the car is at their disposal.

They should also inform family members of the types of services the caregiver will provide and the rate at which they'll get paid. This is especially important if the client qualifies for Medicaid, according to Urban.

"It's important to show that the caregiver earned that money," Urban says, explaining that Medicaid could argue that the money was given away.

Clients might pay their family caregivers an hourly or daily rate or flat rate for the year. Whatever they agree on, it should be documented in writing, Urban says.

Some clients earmark assets to pay their caregivers and other long-term care costs.

Others, like Cheng's client, open accounts with proceeds from a real estate sale. Some open lines of credit on their homes, or offer to pay for their grandchildren's college education. Still others repurpose old life insurance policies by adding long-term care riders.

If they repurpose an insurance policy for long-term care and name a family member as a caregiver, they should make sure that the caregiver can get paid under the policy even if he or she is not a professional, Anderson says.

"Some long-term care policies require that paid caregivers are certified," she says.

However they fund the caregiving, they should keep it simple, and keep everyone in the family informed.

"They should be open with their family members so that everybody knows what their plan is," Anderson says. **FP**

Margarida Correia is a former associate editor of Financial Planning.

Practice



Most professions are state-regulated. Governing bodies grant the license and oversee those who use it.

Required CFP Certification?

If only the regulatory path were clear, the title might become mandatory — not simply the gold standard.

By Michael Kitces

Historically, the competency standards to become a financial advisor have been low. All someone really needed to do was pass a three-hour regulatory exam requiring a week or so of preparation. This low barrier for entry meant that even licensed insurance salespeople, who technically can't be paid for dispensing advice, can call themselves advisors.

Not surprisingly, the disconnect sows confusion among consumers, which in turn degrades our skill set and knowledge. Given the SEC's lax enforcement of the Investment Advisers Act of 1940, there's not a strong

regulatory partner in this fight.

It may be time then to shift CFP certification from a trademark into an actual license — the advisor's equivalent of a CPA.

There would be substantial hurdles to clear, particularly on the regulatory front. Yet despite only being held by about 30% of all advisors, the marks may be the best tool we have to set a baseline competency for dispensing advice and ensure we're producing individuals who can represent our profession well.

To understand the potential path forward, we need to be clear that CFP certification,

whether from a legal or a regulatory perspective, is not the same as a CPA license. Simply put, you cannot perform certain functions as an accountant, particularly around auditing and attesting an audit, if you are not licensed to do so.

How do you know if a self-described accountant is licensed? Those three capital letters: CPA. They're awarded by state certifying bodies that affirm every CPA who is going to fulfill those accounting functions has met certain examination, education, experience and ethics requirements (the Four E's). And more important, if you don't have a CPA license, you legally cannot perform some of those key accounting functions and get compensated for it.

It may be time to shift CFP certification from a trademark into an actual license — the advisor's equivalent of a CPA.

In the case of CFP certification, there is in fact a similar requirement to the Four E's. But CFP marks are not granted by a sanctioned regulatory body, whereas CPAs' commitment to the four E's is enforced by a regulator. Instead, we as advisors voluntarily bind ourselves to the four E's as a private deal with the CFP Board in exchange for being

allowed to license and use its trademark.

In other words, the CFP marks aren't a license. The CFP Board just happens to be a 501(c)(3) charity that owns a trademark and has created an agreement with advisors that says we can license its trademark in exchange for annual payment of \$355 and agreement to honor the Terms and Conditions set forth to license their trademark — hence, CFP "marks."

That is the reason we have to market ourselves as "CFP professional" or "CFP practitioner," rather than simply "CFP."

Unfortunately, that means you can be an advisor without the CFP marks, because the only licensing requirement is the very basic industry exams: Series 65 to become an RIA or Series 6 and 63 to sell mutual funds and variable annuities for a broker-dealer, and Series 7 if you want to sell stocks as well.

None of those have much of anything to do with the four E's of education, exam, experience and ethics required of bona fide professionals who are paid to give advice, not just to sell products or manage portfolios.

So what does it take for CFP certification to become a license? It can go one of two routes: federal or state

regulation.

Most professions today are regulated at the state level, with professional certifying bodies such as state boards of accountancy and state bar associations endowed by the states with the power to grant the license, oversee the professionals who have the license and take action against those who practice without it.

The State-Line Challenge

The challenge is that more and more professions serve clients across state lines, especially in the domain of advisors, where most of the issues we help clients with are not really state-specific. Furthermore, advice is increasingly a domain where technology is used to serve clients virtually. This means there's a huge risk that we end up with different rules in different states, resulting in a patchwork of nightmares for those advisors serving clients across state lines.

Insurance agents have experienced at least a little of this today. Every time you acquire a client in a new state, you must get appointed with the insurance company in that state. And state-registered RIAs with clients across state lines

ought to become even more acutely aware of this challenge, especially because these days two regulators in two states may have two views about a single advisor's Form ADV, where State A says something is permitted that State B won't allow, and then State B requires a change that State A won't abide.

And while organizations such as the North American Securities Administrators Association try to facilitate coordination and create model rules to promote uniformity across state lines, state regulation is rarely uniform.

This is one of the primary reasons even the CFP Board came out recently against pursuing state regulation for financial planning, because it's so hard in the real world to get uniformity across state lines in a profession that entails many or even most practitioners having clients across state lines.

The alternative path is federal regulation. This typically means an organization would be designated by Congress to operate across state lines at the federal level and would set regulation from the top.

Examples here would be organizations such as the SEC or FINRA, which is technically a self-regulatory organization of broker-dealers that has federal authority to regulate the broker-dealer community.

The downside to this approach is that federal regulation battles are typically very public and very challenging. No regulator ever wants to cede any jurisdiction in the first place and make themselves smaller.

So when we talk about the potential for federal regulation of financial planning, the question becomes exactly what kind of regulator would we advocate for? FINRA was designed to be the self-regulatory organization for broker-dealers and doesn't actually have much knowledge around planning and the practice of

Code of Ethics and Standards of Conduct

A CFP must:

1. Act with honesty, integrity, competence and diligence.
2. Act in a client's best interests.
3. Exercise due care.
4. Avoid or disclose and manage conflicts of interest.
5. Maintain the confidentiality and protect the privacy of client information.

Source: CFP Board

Practice

financial advice. In fact, when brokers are sued for bad advice and go to FINRA arbitration, they typically make the case that they weren't even giving advice. Rather, they were operating solely as a brokerage salesperson.

The SEC could gain authority to regulate planning, but the SEC is already struggling to examine the RIAs it currently oversees, with an exam rate so low that the typical RIA isn't seen more often than once about every six to eight years. Adding a bunch of new planners to the SEC's purview, when the SEC can't even get a budget increase for what it currently oversees, is not very likely.

While it is difficult to get proper regulation of advice, planning itself and CFP certification are on the rise.

Creating a new standalone regulator is the ideal path in theory. This would be an organization that actually understands planning and would oversee all planners giving advice, regardless of what channel they're in, requiring them to have CFP marks to prove they have the training, education and experience to function as a planner.

But that would potentially mean moving those advisors from their current product-based regulators to a new federal planning regulator. It would give that regulator the opportunity to oversee insurance agents giving advice, brokers giving advice and RIAs giving advice, which would mean taking jurisdiction away from 50 state insurance regulators, FINRA and 50 state securities regulators, not to mention the SEC. None would necessarily want to see their own regulatory purviews shrink.

That is not to say we can't get there someday, but regulating advice one product channel at a time instead of



The CFP certification is now a standard part of the Merrill Lynch training program.

holistically may not be the way to do it.

Here we've stumbled on one of the reasons people who advocate for higher standards for planning prefer the state regulation route. You don't have to fight a million different regulators and lobbyists all at once. You just have to convince a few state legislators to pass a law in their state and then try to get that law duplicated in some other states. Then it's a matter of building a nationwide movement toward state regulation — except, again, not all 50 states necessarily enact the same law.

From a practical perspective, it's difficult for planners to organize a state-level, grassroots effort to move the needle in all 50 states at once. Not only is there the expense of marshalling the resources, but the product manufacturing and distribution side of the industry still contains more resources and more lobbyists to fight in each and every one of those 50 states.

That means ultimately opening the door to state regulation, and facing that much potential lobbying opposi-

tion could inadvertently push standards lower than they already are. Just look at how weak the SEC's proposed Regulation Best Interest and the new Form CRS would be. Imagine if the profession had to fight 50 versions of that dreadful rule in 50 different states, all at the same time.

So there are better odds of getting something done at the state level, but it probably won't be uniform, and we may not like what we get.

At the federal level, we could potentially achieve wide-reaching uniformity, but it's more likely to be a pitched battle that is not just against the product industry, but also against many of the regulators themselves, who may find their own turf threatened by the potential changes.

The S-Curve

All this being said, I don't think we should give up hope.

While it is difficult to get proper regulation of advice, planning itself and CFP certification are on the rise. The FP50 survey last year of the nation's top independent broker-deal-

ers showed that, among the top 50, the majority of revenue is fee-based. Even among commission-based B-Ds, revenue comes primarily from fees.

And even when we look at the CFP marks more broadly, CFP certification first launched in 1973 with the first class, and it took 27 years — until 2000 — for us to finally reach the point that CFP certificants were 10% of all advisors. But it only took another 11 years, until around 2011, for us to go from 10% to 20%.

And now, just seven years later, we're about to cross the 30% threshold.

So if we continue this rate of acceleration, a decade from now I suspect we will find more than 50% of all advisors are CFP certificants.

if we continue this rate of acceleration, a decade from now we will find more than 50% of all advisors are CFP certificants.

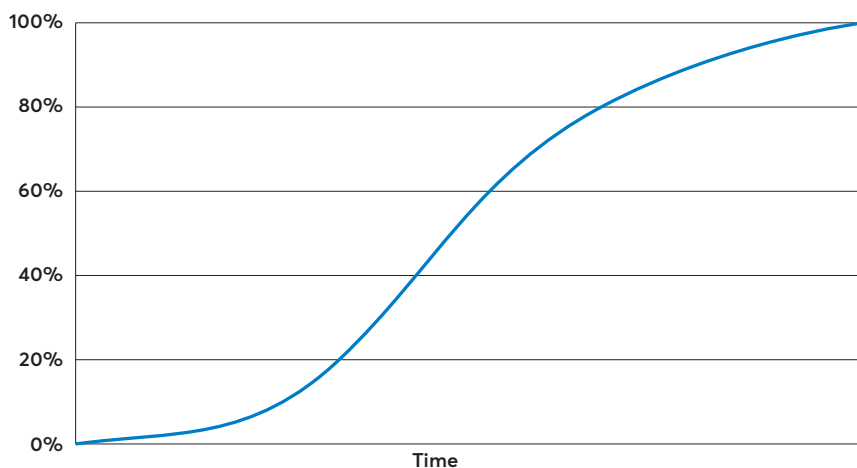
And this phenomenon of accelerating adoption isn't unique. It's actually known as the S-curve of adoption. The time it takes to go through that lower part of the S, to get from 0% to 20%, is often equal to the time it takes to get from 20% to 80% as adoption ramps up. Then things slow down getting the last 20% on board.

I think we're actually entering the second phase, where a slow ramp-up segues into sustained, significant growth. Not only do we see it growing in the independent RIA community, but CFP certification is now a standard part of the Merrill Lynch wirehouse training program. And it's also standard for Vanguard's Personal Advisor Services platform.

The reason this matters is that at some point in the future, the marks will

The S-Curve of Adoption

Adoption quickens after initial excitement, from 0% to 20%, then slows after hitting 80%.



Source: Michael Kitces

no longer be the gold standard of planning anymore — they'll be the minimum.

That's the point at which we can expect a new lobbying coalition to form that is composed of organizations such as the CFP Board itself, FPA and NAPFA, Vanguard, Merrill Lynch, Schwab, Commonwealth and Ameriprise. They'll all come together to lobby for a federal regulator for financial planning.

By today's standards, that's certainly a bizarre coalition. We're talking about a fee-only membership association, a wirehouse, two independent broker-dealers and an asset manager who right now have some very opposing views on certain regulatory proposals.

But while they may come for different product routes, they'll all be doing planning.

At that point, they'll have the motivation and internal alignment to

say, "We believe it's crucial to enshrine CFP certification and regulation to stamp out that rogue minority of advisors who are giving advice to the public without any education, training or experience to do so."

This is currently unimaginable. Statistically speaking, CFP certificants are still the rogues.

Even at almost 30% penetration, it's just not feasible for a vocal minority to convince a regulator to completely change the rules for the majority of the industry.

But with the continued growth and adoption of CFP certification, disparate industry players will eventually come together to protect their common interest.

Indeed, it is in their interest to lift the standards — if only to push out the rest who haven't stepped up.

And as adoption of the CFP marks continues, the closer we will move toward that end goal. **FP**

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



An IRS private letter ruling can be expensive and time consuming if an IRA trust has to be undone after a client's death.

A Checkup on IRA Trusts

Planners don't have to be attorneys to help clients avoid problems in trust documents that can cost them dearly.

By Ed Slott

Now that big financial institutions are advertising zero-fee services, financial advisors need to justify their charges more than ever. One of the best ways to do this is to offer advice and guidance that simply isn't available elsewhere. One of the biggest opportunities is in the area of IRA trusts.

Yes, I understand you are probably not an attorney and cannot give legal advice. Neither can I. But you are a planner who can identify big money areas where clients' assets are at risk. You may save clients a fortune in excessive and unnecessary taxes, IRS fees, court costs and pricey legal

disputes among family members.

While attorneys may draft IRA trusts, they often never follow up on them. These documents generally surface only after death, but by then many planning options or corrections are off the table.

Planners can step up and provide real value before it is too late. In 2018, we received reminders of how valuable such services are. In several recent cases, the courts ruled that inherited IRAs are not protected in bankruptcy. This worries clients who worked a lifetime accumulating these funds and don't want the money lost when

inherited by their children.

Advisors could suggest that a trust be named as the IRA beneficiary for children who may have financial problems, divorce issues or looming lawsuits. A key reason for naming a trust as IRA beneficiary is post-death protection and control.

An IRA trust is not a "set it and forget it" affair. Planners should review the trust to make sure everything still fits the client's situation. Future expensive tax and legal problems can be averted with quick and easy fixes.

An IRA trust is not a "set it and forget it" affair. Planners should review the trust to make sure everything still fits the client's situation.

In the last few months, the IRS released two private letter rulings where poor IRA trust planning needed to be undone after death.

Unfortunately, a PLR is an expensive and time-consuming way to fix an oversight. The cost of PLRs, including IRS and professional fees, can easily exceed \$20,000. The average wait is six to nine months.

PLR 201844004 was the latest of many rulings in which a trust was the IRA beneficiary, but this wasn't what the surviving spouse wanted. Here, the spouse wanted to do a spousal rollover. But since the trust

was the named beneficiary, the spouse couldn't do that without requesting a private letter ruling.

The IRS granted the PLR request (as it often does). Because the deceased IRA owner's surviving spouse was the sole trustee of the trust and had the sole right to amend or revoke the trust and to distribute all income, the IRA funds essentially belonged to her.

But a spousal rollover could have been easily done in advance by changing the beneficiary from the trust to the spouse. This would have taken a few minutes at little or no cost.

In addition, a contingent beneficiary should always be named on the IRA beneficiary form, even if the trust is the primary beneficiary. In this particular case, the trust could have been named as primary beneficiary and the spouse as contingent.

Then, if after death the spouse no longer wanted the trust, as sole trustee she could have disclaimed the trust as beneficiary and the funds would pass directly to her. This would remove the need for a PLR from the IRS.

Major Alteration Needed

In PLR 201840007, a poorly drafted trust required some major post-death altering. Here, the IRS approved the stretch payout to discretionary trust beneficiaries after they executed a release limiting their own ability to name successor beneficiaries.

The original taxpayer created an irrevocable discretionary living trust and named it as the beneficiary of his 401(k) account. When he died, he was survived by five children. Let's call them Chase, Danielle, Eric, Frank and Gina.

The trust itself was complicated. Upon the taxpayer's death, the trust split into six separate discretionary

trusts, two each for Chase, Danielle and Eric. (A discretionary trust is one whose trustee can determine access to funds.)

The trust also prohibited Chase, Danielle and Eric from naming their own beneficiaries until they reached age 30. Instead, the trust named Frank and Gina as the remainder beneficiaries for the discretionary trusts.

After reaching age 30, however, Chase, Danielle and Eric were free to name any beneficiary they wanted, including a charity, estate or even a creditor. That alone should have sent up a red flag. A trust is set up for the beneficiaries, not for creditors.

In many cases, a trust with ill-advised details can be fixed in a few minutes at little or no cost if the taxpayer is still alive.

In addition, the possibility of a charity or an estate being named as a trust beneficiary would mean the loss of the stretch IRA because these are not individuals and have no life expectancy. A knowledgeable advisor might have picked this up.

It appears that after death, someone did let these beneficiaries know that this trust would not work. It would not qualify for a stretch IRA through a "see-through trust" because there was no designated beneficiary.

In response, the three beneficiaries convened on or before Sept. 30 of the year after the original taxpayer died, thereby meeting an important deadline. At this meeting, each executed a release that limited their ability to name a successor beneficiary. Under this release, they could only name a successor beneficiary who was (A) a natural person and (B) younger than Chase. That's important because Chase was the oldest and thus had the

shortest life expectancy.

Even with the release, the beneficiaries still needed the blessing of the IRS. Fortunately, it issued a favorable ruling. First, the IRS explained that since the beneficiary trusts were discretionary, it was necessary to look at the life expectancies of any potential remainder beneficiaries. Under these instruments, there was no requirement that the 401(k) assets be paid out during the life of the primary beneficiary.

This is where the release becomes important. Under the Tax Code, a beneficiary group that can contract or expand is treated as identifiable (and therefore entitled to the stretch) if the class member with the shortest life expectancy is identified. The release executed in this case removed potential nondesignated beneficiaries (charity, estate or creditors) and solidified Chase as the oldest beneficiary.

The trust beneficiaries were also eligible to roll over the 401(k) assets to inherited IRAs. Therefore, the direct transfers into inherited IRAs controlled by the trust would not result in taxable income to the trust.

While the outcome was favorable, it was still expensive, time-consuming and, most likely, stressful for the family.

Cases like these show the value that can be provided by knowledgeable advisors. Planners should identify every client who has named a trust as IRA beneficiary and check that it is still the right choice and that it contains the right provisions for the client.

They should also ensure that the trust is named on the IRA beneficiary form and that a contingent beneficiary is named.

Yes, this means knowing the IRA trust rules, but that is where your enhanced value lies. **FP**

IN|VEST

Innovations in Investing, Saving & Advice
July 16-17, 2019 | NYC

**"In|Vest is the ONLY
place where you can
meet EVERYONE who is
ANYONE in digital wealth
management."**

—2018 In|Vest Attendee



Super Saver Rates End February 22, 2019

Invest.Events | 212-803-8456

Countering a 'Sell Everything' Call

Market declines can trigger recency bias and loss aversion. In a worst-case scenario, they can wreak havoc if long-term plans are abandoned abruptly.

By Craig L. Israelsen

Ask your clients this question: "What was the last movie you watched?" They probably won't have to think too hard to remember. Then try this one: "How about a movie you watched in 1985?"

No dice — right? Clients recall the performance of their investments similarly — that is, they remember recent performance with greater clarity. This trait, called recency bias, leads them to extrapolate into the future whatever they are experiencing in the present moment — good or bad. And that skews their expectations for better or worse and distorts their view.

But there's one notable exception to recency bias: the period in which your client's portfolio suffered a significant loss. Referred to as loss aversion, this sentiment is also quite real.

Investors simply don't like big losses. Case in point: Have your clients forgotten about 2008? So a recent decline in portfolio value can trigger both recency bias and loss aversion, and this can lead to "sell everything" phone calls. In the worst case, this type of fear cycle can wreak havoc if long-term plans are abandoned abruptly.

Even Infrequent Losses Test Resolve

In the "Big Picture" chart (next page), there is a summary of annual returns for seven core asset classes over the past 49 years, as measured by a single index for each class, as well as for two portfolios.

The first portfolio included all seven

indexes in equal allocations; the second was a 60/40 portfolio consisting of 60% U.S. large stocks and 40% U.S. bonds. Both portfolios were rebalanced annually over the 49-year period of analysis from 1970 to 2018.

The calendar year losses of the indexes and portfolios are shaded in pink. It's these pink boxes that test the resolve of investors. But, as can be seen, the losses are relatively infrequent.

Long-term results take a long time to replicate. The key to achieving them is to stay in the saddle for a long time.

In the 49-year period 1970-2018, large-cap U.S. stocks produced positive nominal returns in 80% of the calendar years and generated an average annualized return of 10.21%. If we consider the impact of inflation, the large-cap stock had positive real returns in 71% of the years and an after-inflation average annualized return of 6%.

By comparison, U.S. cash (measured by the 90-day Treasury bill) had a 49-year average annualized return of 4.8% and positive nominal returns 100% of the years. But after factoring out inflation (as measured by the CPI), the average real return was 0.8% and real annual returns were positive only 57% of the time.

More important, let's consider the performance of the two portfolios.

First, the seven-asset portfolio had positive nominal returns 86% of the

time and a 49-year average annualized return of 9.48%. After inflation is factored out, the average annualized real return as 5.3%, with positive real returns 73% of the time.

The 60/40 portfolio had positive nominal calendar year returns 80% of the time and a 49-year return that was 5 basis points lower, at 9.43%. After inflation, the 60/40 portfolio had positive returns 71% of the time and a real return of 5.25%. This information puts performance over nearly five decades into perspective.

For the record, the 49-year historical performance of large-cap U.S. equities was represented by the S&P 500. The performance of U.S. small caps was captured by using the Ibbotson Small Companies Index for 1970-1978 and the Russell 2000 Index for 1979-2018.

The performance of non-U.S. equities was represented by the Morgan Stanley Capital International EAFE Index (Europe, Australasia, Far East) Index. U.S. bonds were measured by the Ibbotson Intermediate Term Bond Index in 1970-75 and the Barclays Capital Aggregate Bond Index in 1976-2018. (In 2008, Lehman Brothers indexes were renamed Barclays Capital indexes.)

The historical performance of cash was represented by three-month Treasury bills.

The performance of real estate was measured by using the annual returns of the NAREIT Index from 1972-1977. (Annual returns for 1970 and 1971 were

based on research in the book "Real Estate Investment Trusts: Structure, Performance, and Investment Opportunities." In 1978-2018 the annual returns of the Dow Jones U.S. Select REIT Index were used. (Before April 2009, it was the Dow Jones Wilshire REIT Index).

Finally, the historical performance of commodities was measured by the Goldman Sachs Commodities Index. As of Feb. 6, 2007, the GSCI became known as the S&P GSCI.

There is a key observation that

should not be obscured by all this detail: Each asset class that we are evaluating had positive calendar year returns more than 68% of the time in terms of nominal returns and at least 57% of the time if using inflation-adjusted returns.

More important, the two portfolios we are evaluating had positive calendar year real returns at least 71% of the time.

Having a clear understanding of long-term asset class performance can

minimize the potentially negative impact of recency bias during and after periods of market volatility — particularly when the volatility results in portfolio losses.

The reality is that a broadly diversified portfolio will generate positive nominal returns nearly 90% of the time when you measure time in decades, not months.

Of course, a person who invests in a diversified portfolio for only two years should not expect positive returns in

Big Picture

Nominal Annual Returns for 7 Core Asset Classes and 2 Diversified Portfolios

Year	Large U.S. Equity	Small U.S. Equity	Non-U.S. Equity	U.S. Bonds	Cash	Real Estate	Commodities	7-Asset Portfolio (equally weighted)	60/40 Portfolio
1970	3.94	-17.43	-11.66	16.86	6.58	17.55	15.10	4.42	9.11
1971	14.30	16.50	29.59	8.72	4.42	17.41	21.08	16.00	12.07
1972	18.99	4.43	36.35	5.16	4.15	8.01	42.43	17.07	13.46
1973	-14.69	-30.90	-14.92	4.61	7.26	-15.52	74.96	1.54	-6.97
1974	-26.47	-19.95	-23.16	5.69	8.12	-21.40	39.51	-5.38	-13.60
1975	37.23	52.82	35.39	7.83	5.93	19.30	-17.22	20.18	25.47
1976	23.93	57.38	2.54	15.60	5.09	47.59	-11.92	20.03	20.60
1977	-7.16	25.38	18.06	3.04	5.40	22.42	10.37	11.07	-3.08
1978	6.57	23.46	32.62	1.39	7.43	10.98	31.61	16.29	4.50
1979	18.61	43.07	4.75	1.93	10.55	48.99	33.81	23.10	11.94
1980	32.50	38.60	22.58	2.71	12.05	33.12	11.08	21.81	20.58
1981	-4.92	2.03	-2.28	6.25	14.96	17.88	-23.01	1.56	-0.45
1982	21.55	24.95	-1.86	32.62	11.07	20.91	11.56	17.26	25.98
1983	22.56	29.13	23.69	8.36	8.94	32.17	16.26	20.16	16.88
1984	6.27	-7.30	7.38	15.15	9.90	21.89	1.05	7.76	9.82
1985	31.73	31.05	56.16	22.10	7.73	6.50	10.01	23.61	27.88
1986	18.67	5.68	69.44	15.26	6.15	19.75	2.04	19.57	17.31
1987	5.25	-8.80	24.63	2.76	5.96	-6.59	23.77	6.71	4.25
1988	16.61	25.02	28.27	7.89	6.88	17.48	27.93	18.58	13.12
1989	31.69	16.26	10.54	14.53	8.39	2.72	38.28	17.49	24.82
1990	-3.10	-19.48	-23.45	8.96	7.74	-23.44	29.08	-3.38	1.72
1991	30.47	46.04	12.13	16.00	5.54	23.84	-6.13	18.27	24.68
1992	7.62	18.41	-12.17	7.40	3.52	15.13	4.42	6.33	7.53
1993	10.08	18.88	32.56	9.75	3.07	15.14	-12.33	11.02	9.95
1994	1.32	-1.82	7.78	-2.92	4.36	2.66	5.29	2.38	-0.37
1995	37.58	28.45	11.21	18.47	5.66	12.24	20.33	19.13	29.94
1996	22.96	16.49	6.05	3.63	5.14	37.05	33.92	17.89	15.23
1997	33.36	22.36	1.78	9.65	5.20	19.66	-14.07	11.13	23.88

Portfolio

90% of the 24 months. Even a diversified portfolio can experience two consecutive negative calendar year returns, such as in 2001 and 2002.

In summary, the impressive performances of the asset classes and portfolios in this study are over a 49-year period.

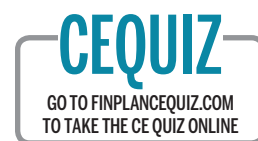
In other words, long-term results take a long time to replicate. The key to

achieving long-term results is to stay in the saddle for a long time.

The challenge is that humans have a natural instinct is to be governed by loss aversion and recency bias. The solution to countering recency bias is accurate information and proper perspective.

This study provides nearly five decades of information. With that

information, work to help clients develop a proper perspective about the impressive performance demonstrated by a diversified investment portfolio over the past 49 years. **FP**



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.

Big Picture (continued)

Nominal Annual Returns for 7 Core Asset Classes and 2 Diversified Portfolios

Year	Large U.S. Equity	Small U.S. Equity	Non-U.S. Equity	U.S. Bonds	Cash	Real Estate	Commodities	7-Asset Portfolio (equally weighted)	60/40 Portfolio
1998	28.58	-2.55	20.00	8.69	4.91	-17.01	-35.75	0.98	20.62
1999	21.04	21.26	26.96	-0.82	4.78	-2.58	40.92	15.94	12.30
2000	-9.10	-3.02	-14.17	11.63	5.98	31.04	49.74	10.30	-0.81
2001	-11.89	2.49	-21.44	8.44	3.34	12.35	-31.93	-5.52	-3.75
2002	-22.10	-20.48	-15.94	10.25	1.63	3.58	32.07	-1.57	-9.16
2003	28.68	47.25	38.59	4.10	1.03	36.18	20.72	25.22	18.85
2004	10.88	18.33	20.25	4.34	1.44	33.16	17.28	15.10	8.26
2005	4.91	4.55	13.54	2.43	3.25	13.82	25.55	9.72	3.92
2006	15.79	18.37	26.34	4.33	4.85	35.97	-15.09	12.94	11.21
2007	5.49	-1.57	11.17	6.97	4.44	-17.55	32.67	5.95	6.08
2008	-37.00	-33.79	-43.38	5.24	1.39	-39.20	-46.49	-27.60	-20.10
2009	26.46	27.17	31.78	5.93	0.16	28.46	13.48	19.06	18.25
2010	15.06	26.85	7.75	6.54	0.15	28.07	9.03	13.35	11.65
2011	2.11	-4.18	-12.14	7.84	0.06	9.37	-1.18	0.27	4.40
2012	16.00	16.35	17.32	4.21	0.08	17.12	0.08	10.17	11.29
2013	32.39	38.82	22.78	-2.02	0.06	1.22	-1.22	13.15	18.62
2014	13.69	4.89	-4.90	5.97	0.03	32.00	-33.06	2.66	10.60
2015	1.38	-4.41	-0.81	0.55	0.05	4.48	-32.86	-4.52	1.05
2016	11.96	21.31	1.00	2.65	0.32	6.68	11.37	7.90	8.23
2017	21.83	14.65	25.03	3.54	0.93	3.76	5.77	10.79	14.52
2018	-4.38	-11.01	-13.79	0.01	1.96	-4.22	-13.82	-6.47	-2.63
49-Year Nominal Return (1970-2018)	10.21	10.60	8.42	7.37	4.80	11.41	6.51	9.48	9.43
% Positive Returns (Nominal)	80%	69%	69%	94%	100%	82%	69%	86%	80%
49-Year Real Return (1970-2018)	6.00	6.38	4.28	3.27	0.80	7.16	2.45	5.30	5.25
% Positive Returns (Real)	71%	67%	63%	71%	57%	76%	63%	73%	71%

Source: Data from Steele Mutual Fund Expert, analysis by author

CE Quiz

VISIT FINPLANCEQUIZ.COM TO TAKE FINANCIAL PLANNING'S CE QUIZ.

From: Bogle's Dour View on Stocks, Bonds. What if He Was Right? (online only)

1. Pensions ended fiscal year 2017 with how much in unfunded liabilities, according to Moody's?
1. \$2.2 trillion
 2. \$1.6 trillion
 3. \$998 billion
 4. \$1 trillion
2. Since 1990, stocks have outpaced bonds by how many percentage points annually?
1. 3.3
 2. 5.2
 3. 4.2
 4. 1.8

From: Elder Fraud vs. Privacy Rights

3. Which FINRA rule requires members to make reasonable efforts to obtain the name of and contact information for a trusted contact person upon the opening of an account?
1. FINRA Rule 4512
 2. FINRA Rule 2080
 3. FINRA Rule 4220
 4. FINRA Rule 1335

From: Millennials Show Increasing Interest in Impact Muni Bonds (online only)

4. The global impact investing market totaled how much over the past year, according to a survey by the Global Impact Investing Network?
1. \$114 billion
 2. \$58 billion
 3. \$228 billion
 4. \$300 billion
5. As of last year, what percentage of millennial investors have portfolios with impact investments, per the same survey?
1. 55%
 2. 68%
 3. 77%
 4. 85%

From: Countering a 'Sell Everything' Call

6. From 1970 to 2018, what percentage of the time did large-cap U.S. stocks produce positive, real calendar year returns?
1. 71%
 2. 80%
 3. 92%
 4. 65%
7. During the same time period, real annual returns for cash were positive what percentage of the time?
1. 100%
 2. 85%
 3. 57%
 4. 75%

From: What Happens When the Paychecks Stop for Retirees? (online only)

8. Which of these retirement payment strategies would dictate that dividends and interest in a balanced stock and bond portfolio be paid in cash?
1. Income-focused
 2. Capital gains top-up
 3. Fully invested total return
 4. None of the above

From: Tax Traps for Divorcing Clients (online only)

9. Which of these is NOT a community property state?
1. New Mexico
 2. Texas
 3. Idaho
 4. New York
10. Households in which of these income brackets have the lowest divorce rate, according to the U.S. Census Bureau?
1. \$50,000-\$75,000
 2. \$100,000-plus
 3. \$75,000-\$100,000
 4. \$25,000-\$50,000

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

To earn one hour of continuing education credit from the CFP Board of Standards, please visit our website and answer the questions above. Planners must answer eight out of 10 questions correctly to pass. Credit will count under CFP Board subject A: financial planning process/general principles. The deadline for participation is Feb. 28, 2021.

In addition, the Investments & Wealth Institute, formerly the Investment Management Consultants Association, has accepted this quiz for CIMA, CIMC and CPWA CE credit. Advisors must answer eight out of 10 questions correctly to pass. The deadline is Feb. 28, 2021.

If you need assistance, please contact SourceMedia customer service at help@sourcemedia.com or (212) 803-8500.

Financial Planning

Prank Call or SEC Audit?

When faced with a regulatory challenge, advisors can't be afraid to question authorities.

By Sherry Delaney

Getting through a crisis situation can be a real test for a new business. This past summer my firm faced the biggest challenge in our four-year history: an SEC audit.

At first, I couldn't believe it. I actually thought it was a prank.

When we got the phone call, the firm was without a chief compliance officer. Our former CCO, one of four founding partners, had left two weeks prior and we hadn't started looking for a replacement.

To make matters worse, my husband (also a partner) and I were about to go on a long-planned trip to Europe.

We were relieved to find out that the audit was part of a new effort by the SEC to take a closer look at newer firms, not because of any red flags. They gave us two weeks to gather everything for the audit list, which contained about 16 items — no small undertaking for a young company with only a few full-time employees.

We worked double duty, handling trading in the mornings and pulling paperwork in the afternoon. We submitted everything by the

deadline, took the trip of a lifetime and passed the audit. What's more, we emerged stronger as a company, and I learned what it takes to overcome a business challenge.

Lead by Example

Throughout this entire process, I was deep in the trenches with the rest of the employees. I was wearing a multitude of hats to ensure that we met the requirements of the audit, while continuing to provide our clients with the same outstanding customer service. No job was beneath me.

Most importantly, I know how to do every single job at this firm, from running reports, to managing daily operations to trading. I may not be responsible for these tasks on a daily basis, but I know how to do them, and that's essential to managing a crisis and getting your employees to

buy in. You have to create the culture you want by setting the right example.

Have Confidence

When you're in the thick of a crisis and

answering to people in authority, it may seem like the best thing to do is defer to their judgment without question. That's a mistake.

During the follow-up period of the audit, we found several places where the auditors got the facts wrong. We spoke up again and again to make sure everything was accurate. You can't be afraid to correct the record.

As an entrepreneur, not only do you have to know your business inside and out, you also need to stand firm when you're right, even when the person you're pushing back against is an SEC auditor.

Sense of Humor

When it comes to overcoming a challenge, I like to laugh instead of cry.

Throughout the audit, we went to great lengths to build a rapport with the auditors. When they told us we were in the clear and we'd be getting an official notification in the mail, I mused that I wanted them to send an "attagirl" letter.

It's easy to fall into the trap of seeing them as adversaries. But they're human, too, and you have to remember that. You're a firm of people trying to take care of other people. So are they. **FP**



Sherry Delaney is a managing partner and chief financial officer of New Market Wealth Management in Costa Mesa, California. To submit a Selfie commentary, email fpeditor@sourcemedia.com. Post your comments online at financial-planning.com.



Market volatility shouldn't be top of mind for your clients. Pursuing their passions should.

Market volatility can distract your clients from their ultimate financial goals. With a built-in level of protection, ShieldSM annuities can help clients stay invested for the long term – even through some volatile markets. All with no annual fees. So your clients can remain invested in their passions and their financial plan.

- **Protect a portion of retirement assets**
- **Participate in growth opportunities**
- **Pay no annual fees**

Learn more at brighthousefinancialpro.com



Brighthouse
FINANCIAL[®]

Build for what's ahead[™]

Brighthouse Shield Level SelectSM 6-Year Annuity, Brighthouse Shield Level SelectSM 6-Year Annuity v.3, Brighthouse Shield Level SelectSM 3-Year Annuity, Brighthouse Shield Level SelectSM Advisory Annuity, Brighthouse Shield Level 10SM Annuity, and Brighthouse Shield Level 10SM Advisory Annuity, collectively referred to as "ShieldSM annuities," are issued by, and product guarantees are solely the responsibility of, Brighthouse Life Insurance Company, Charlotte, NC 28277 and, for products available in New York only, by Brighthouse Life Insurance Company of NY, New York, NY 10017 ("Brighthouse Financial"). These products are distributed by Brighthouse Securities, LLC (member FINRA). All are Brighthouse Financial affiliated companies. **The contract prospectus and contract contain information about the contract's features, risks, charges, expenses, exclusions, limitations, termination provisions, and terms for keeping the contract in force.** 1812 BDVA585751