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Financial Planning

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CLASS OF '68

Amid the war in Vietnam and turmoil at home, seven companies planted the seeds of what became the nation's leading independent broker-dealers. Fifty years later, has their success actually compromised their future?

Financial Planning

Vol. 48/No.11

SourceMedia

The Importance of with Service that Puts RIAs and Fee-Based Advisors First

AT A TIME WHEN competition is accelerating in the RIA and fee-based advisor market, and fee-compression is forcing more specialization, you need a partner who understands the way you work and is built from the ground up to align with your fiduciary standard. Now backed by the superior rating and financial strength of their new Fortune-100 parent, how does Nationwide Advisory Solutions put RIAs and fee-based advisors first?

On the Front Lines with RIAs and Fee-Based Advisors

Change is a constant in our fast-moving industry. Innovation continues to surge at an unprecedented rate, driven by the power of consumer demand, the rapidly expanding digital economy and the push of regulatory reform. The race is on—and there is no turning back. How do RIAs and fee based advisors keep pace?

For over a decade, Nationwide Advisory Solutions has been working side by side on the front lines with RIAs and fee-based advisors, providing the innovative solutions that can help them build their practice by helping their clients build more wealth. Starting as Jefferson National, they built a company from the ground up, created a new category of products, and continued to lead the way in an industry ripe for disruption.

"It's all part of our mission to help independent RIAs and fee-based advisors succeed by taking their seat on the client's side of the table," said Craig Hawley, Head of Nationwide Advisory Solutions.

Service that Puts You First

"Studies show that the most successful RIAs and fee-based advisors are always looking ahead and continually evolving their practice," Hawley continued. Nationwide Advisory Solutions has a proven track record of staying a step ahead of the trends to provide the products and solutions that RIAs and fee-based advisors need to stay ahead of their competition.

But for many advisors, incorporating new solutions can be like navigating uncharted territory. Nationwide Advisory Solutions knows that developing a new category of products—simple and transparent, with more choice and greater value—is only one part of meeting the unique needs of RIAs, fee-based advisors and their clients. That's why every aspect of the company's award-winning advisor experience has been designed to serve independent advisors the way they want to be served—using the channels they want to use.

Dedicated Team of In-House Experts

And when working with RIAs and fee-based advisors, service that puts advisors first begins from day one. Nationwide Advisory Solutions has ensured that its onboarding process is as easy to manage as the products

they provide. Nationwide Advisory Solutions' dedicated team of in-house experts help RIAs and fee-based advisors understand how to incorporate fee-based products and solutions as part of a holistic approach to financial planning, to meet clients' needs across every stage of the financial life cycle.

This team of highly trained experts can help advisors gain greater perspective, looking at the needs of each client they serve, to identify the right opportunities—from maximizing accumulation with low-cost tax deferral, to meeting today's urgent need for guaranteed income in retirement, to creating a lasting legacy for future generations of their families and favorite charities. By providing everything from client-approved analysis and individual reports, to a concierge service that can complete all the paperwork and eliminate administrative burdens, these in-house experts support RIAs and fee-based advisors so they can make the decisions that are right for their clients—and right for their practice.

"Our advisors tell us that this level of personalized service is real game changer for managing their practice and serving their clients," Hawley added. In a recent third party study, advisor satisfaction with Nationwide Advisory Solutions reached 97% overall—with more than 8 in 10 saying they are "Very Satisfied."

> *"Our advisors tell us that this level of personalized service is real game changer for managing their practice and serving their clients."*

Award-Winning Advisor Experience

When it comes to creating an end-to-end advisor experience that truly sets it apart from the rest of the industry, Nationwide Advisory Solutions has done the research—and has the boots on the ground experience—to know what RIAs and fee-based advisors need. By truly integrating every aspect of the advisor's journey—from sales, service and education, to its website, portal and account management platform—Nationwide Advisory Solutions can provide real-time personalization that is hyper-targeted to each individual advisor.

By using intelligent technology, Nationwide Advisory Solutions can ensure that RIAs and fee-based advisors have products and solutions that are directly embedded into their work stations and on platforms they're already using. The company's technology platform integrates seamlessly with custodians, portfolio management systems, aggregation platforms and data services that are already in use by more than 95% of RIAs and fee-based advisors. And Nationwide Advisory Solutions takes it one step further, by "building the pipes" for direct data feeds to manage taxable accounts alongside tax-deferred vehicles. Its highly rated account management and trading platform provides capabilities for everything from custom model portfolios to efficient mass transactions, to help advisors scale their practice while still providing customized service for a growing number of clients.

A Bull Market for Fee-Based Advice

Successful RIAs and fee-based advisors know that putting clients first is fundamental for the growth, health and profitability of their practice. By understanding clients' needs and aligning with their best interest, successful advisors earn their clients' trust, deepen the relationship—and ultimately bring more assets under management. In fact, a recent survey of RIAs and fee-based advisors shows that it's a bull market for fee-based advice. Nearly three-fourths of RIAs and fee-based advisors say that investors today are more likely to work with a financial advisor. And the vast majority of RIAs and fee-based advisors say their own clients today are more likely to follow their advice, more willing to make a financial plan—and more willing to stick with it. Year over year, investors who work with an advisor are more optimistic about their financial future than those who do not.

And Nationwide Advisory Solutions knows that putting RIAs and fee-based advisors first is at the core of its own success. "By partnering on the front lines with RIAs and fee-based advisors for more than a decade, we have built our business from the ground up to meet their unique needs," Hawley concluded. "We never stop innovating new ways to sit on the same side of the table of RIAs and fee-based advisors, so that they can sit on the same side of the table as their clients. When our advisors and their clients succeed, we succeed."

Nationwide Advisory Solutions: Serving the RIA & fee-based advisor

As an RIA or fee-based advisor, you're always on the lookout for ways to position your clients for success, and we at Nationwide Advisory Solutions share your commitment. Drawing on our legacy as Jefferson National, we seek to help you solve for tomorrow by re-imagining retirement investing.

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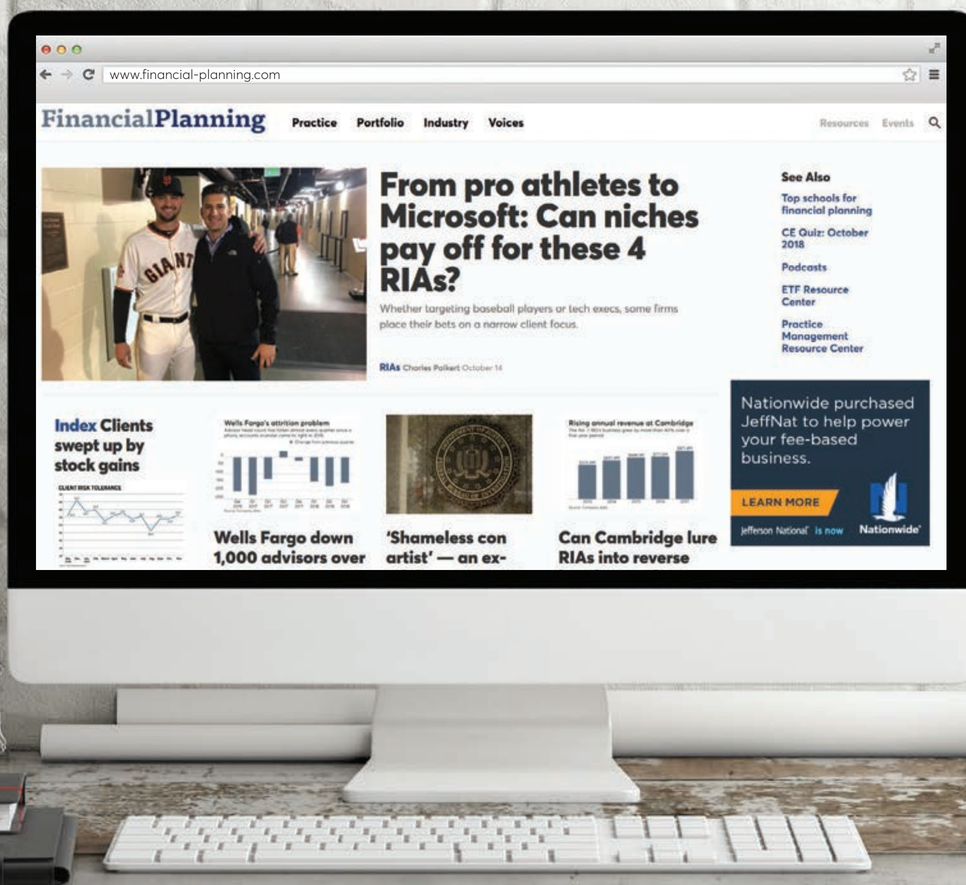
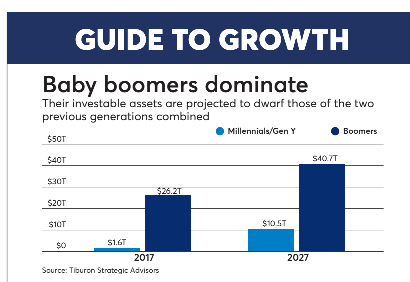


NEXT GEN

Food Trucks ... Financial Planning?

Members of next gen-focused XY Planning Network showed up to the firm's annual conference, some with babies in tow. Many advisors sported versions of XY T-shirts with snarky phrases, such as: "We're big fans of the F-word (Fiduciary)." Read more here: https://bit.ly/2P2JvkY

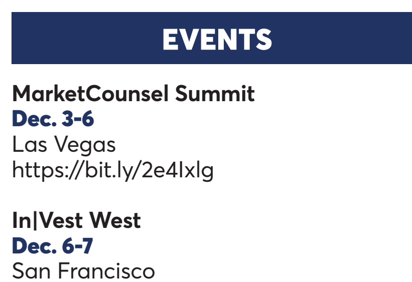
GUIDE TO GROWTH



Slow Generational Shift

While some planners are focus on Generation X and millennials, baby boomers still control about 82% of U.S. financial affairs, according to a new Tiburon study. This trend will likely continue for at least 10 years, if not longer. See the rest of the study's findings: https://bit.ly/2y5icPL

EVENTS



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Editor's View

Going the Way of the VCR

Seven IBDs turn 50 this year. Can they survive another half century?

Associate editor Tobias Salinger was intrigued. When researching *Financial Planning's FP*50 annual ranking of the country's top independent broker-dealers, he discovered seven IBDs launched in 1968 — the highest number of any year for *FP*50-ranked firms.

Somehow, this tumultuous period, defined in part by the Vietnam War, the assassination of Martin Luther King Jr. and the space race, had spawned more members of the *FP*50 than any other.

Why this year? Captured by images of social tumult, many forget that 1968 also brought stock market gains and the soaring popularity of mutual funds. Fledgling IBDs saw an opportunity to add investment offerings to traditional insurance businesses. In doing so, they led the way in creating a new sector of financial services, Salinger writes in "The Class of '68."

But can this class endure another half-century?

"The larger, well-capitalized ones will definitely survive and thrive," Salinger tells me. "They have the scale and service needed to hang on to advisors. However, we will certainly be seeing members of the Class of '68 and other years absorbing each other. There's a decent likelihood that most of these companies will go the way of the VCR and the tape deck by 2068."

Competition and fee pressure are the biggest challenges. "IBDs helped create the modern financial advisor, but now they find themselves very much needing to please the advisor and client to stay in the fold," Salinger notes.

Firms will also need sustainable, well-capitalized ownership and a strong advisory platform to persist until 2068, or even 2028. "Some have moved more quickly and seamlessly into fee-only services from their more transactional roots, but the RIA opportunity will quickly pass them by if they're still trying to catch up."

The advisors who entered the field in the late '70s and early '80s were "pioneers," Salinger says. It looks like BDs will need to fully embrace that pioneer spirit once again. **—Chelsea Emery**

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Retirement Advisor Confidence Index

Client Fear: Economy is Losing Steam

Retirees — and those with near-term cash needs — are behaving especially cautiously. New clients are afraid to enter the market.

By Harry Terris

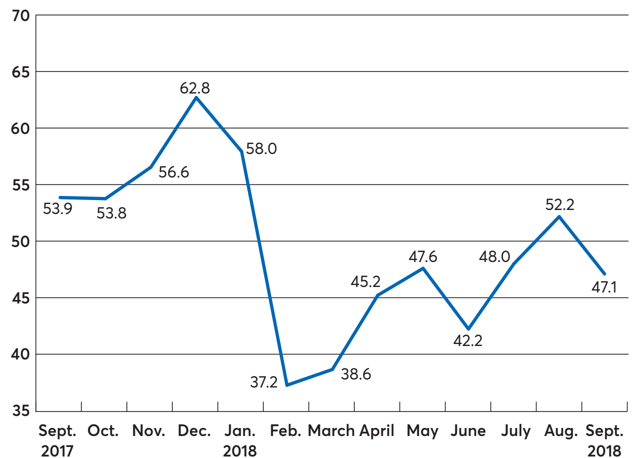
Clients are on edge as they reassess the growth outlook for the economy and a range of risk scenarios.

Client risk sentiment deteriorated for the seventh time in eight months, 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 dropped 5.1 points to 47.1. Readings below 50 indicate a decline, and readings above 50 indicate an increase. The latest index is based on advisors' assessment of conditions in September relative to August.

Advisors say clients are conflicted about securities valuations and fearful the economic expansion could run out of steam.

Retired clients and clients with large near-term cash needs are particularly cautious, moving into cash and bonds to insulate themselves from stock fluctuations. "New clients setting

CLIENT RISK TOLERANCE



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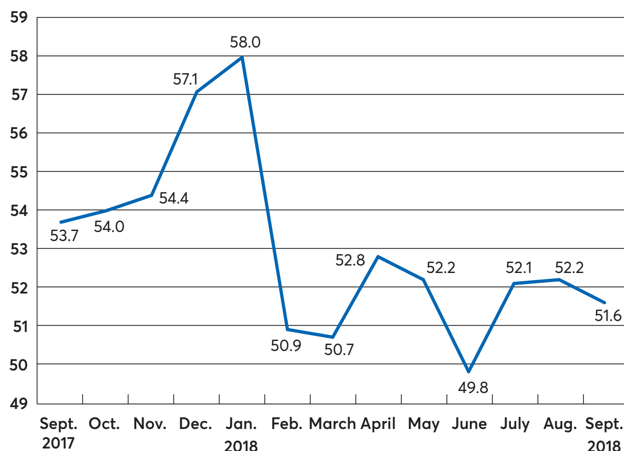

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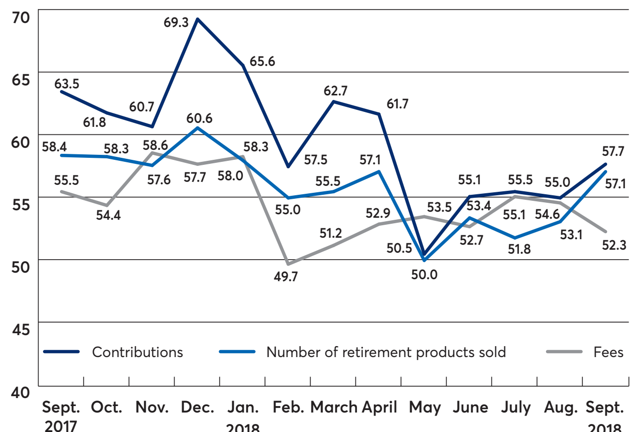

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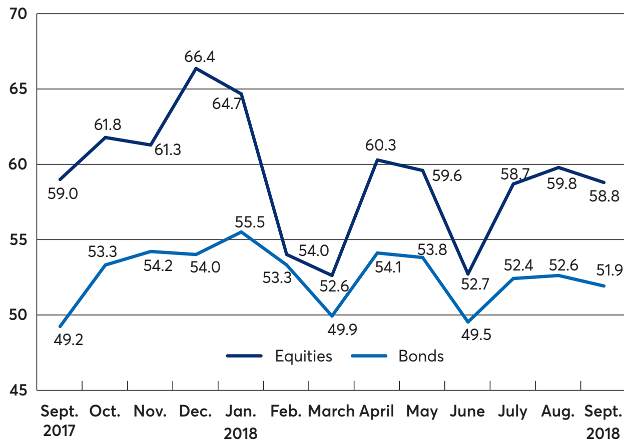
CLIENT ASSETS USED TO PURCHASE EQUITIES AND BONDS



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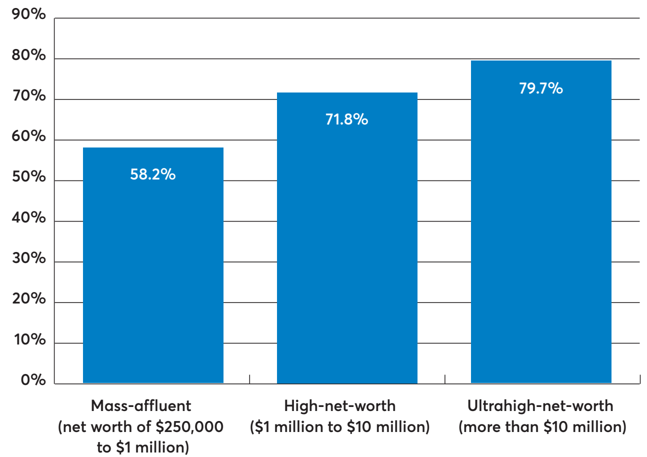
ABLE TO REPLACE INCOME AT RETIREMENT



Source: SourceMedia Research

up accounts are nervous to get into the market," one advisor says, making dollar-cost averaging popular.

Despite a retreat in risk tolerance, the composite RACI stayed in positive territory at 51.6. The composite also tracks asset allocation, investment product selection and sales, planning fees, new retirement plan enrollees and client tax liability.

The composite was buoyed by strong performance in the component tracking sales of retirement products, which jumped 4 points to 57.1. The component tracking contributions to retirement plans also gained 2.7 points to 57.7. With sales and contributions up, the component for fees for retirement services also remained in growth territory at 52.3.

Planners note they are working to keep clients from making rash mistakes and instead concentrate on discipline in sticking to long-term plans. "Advisors coach clients to remain consistent and focus on long-term goals rather than market fluctuations," an advisor says.

Advisors also attribute healthy retirement account contributions to a strong employment environment.

Indeed, despite the unease evident in the risk tolerance component, flows into equities have been robust with the component tracking allocations to stocks remaining well into expansion territory for the third consecutive month at 58.8.

Allocations to bonds also stayed in expansion territory for the third consecutive month at 51.9, with advisors saying rising yields are drawing client attention. "For first time in many years clients are taking notice of bonds," an advisor says. "Some have even stated if the five-year gets into the 4% range, they would considering purchasing."

This RACI is accompanied by the quarterly Retirement Readiness Index, which tracks advisors' evaluations of their clients' income replacement ability, likely dependence on Social Security and exposure to big economic shifts.

The number of advisors reporting their mass-affluent clients would be extremely vulnerable to a significant increase in housing costs fell to 7.2%.

Health care costs continue to raise concern in planners. While advisors' assessment of clients' exposure to the potential for a significant increase in health care costs also improved, almost a third say their clients would be extremely vulnerable.

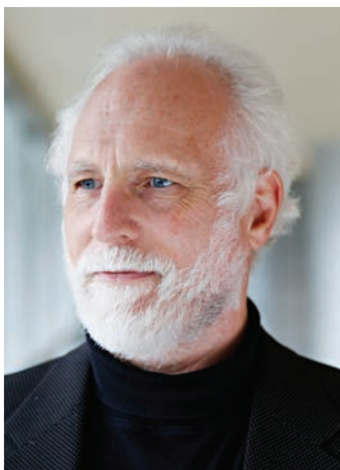
"Health care is the number one concern that I talk about with my clients," one advisor says. Many advisors cite the cost of long-term care, the need to provision for it and the risk of outliving one's savings.

Advisors are also concerned about intergenerational drains on financial plans. One advisor specializing on millennial clients says it is important to consider the likelihood that baby boomer parents will have to depend on children for medical and living expenses.

Another advisor says, "We see retired and near-retired clients preparing for fluctuations in the cost of health care and market fluctuations, but most are caught off-guard when adult children require significant financial assistance."

In another assessment of clients' retirement preparations, advisors say they believe that about 58% of mass-affluent clients will be able to replace their income for 30 years by the time they retire, compared with 72% of high-net-worth clients and 80% of ultrahigh-net-worth clients. **FP**

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.*



Girding for the Next Crisis

Prepare yourself for the next big market downturn, which may be exacerbated by highly leveraged derivatives.

By Bob Veres

I think most of us realize that the current bull market will not last forever. I'm especially worried that by adding tax stimulus to an overheated economy, not to mention increasing short-term interest rates and starting a global trade war, there is at least the possibility that investors everywhere will suddenly decide it's time to book their gains and retreat in a heated rush to the sidelines.

I also worry that in the absence of meaningful regulation, brokerage firms are quietly building a new death bomb for the global economy, involving highly leveraged derivatives where the wirehouses are betting far more than their total net worth on bond rate movements.

My prediction is that the markets are going to drop — possibly sharply — and that will pose a problem for many financial planning firms.

Why? The first and most basic reason is that most planning firms are still, according to my latest fee survey, following an AUM revenue model.

In doing so, they have made themselves quite unusual in the marketplace. In most cases, when there's a downturn, a normal company experiences lower revenue and can cut back on staffing and capacity to ride out the storm.

But a planning firm experiences that drop in revenue just when all hands need to be on deck, manning the phones and attending meetings with anxious clients who are understandably concerned that their net worth has dropped 30% over the previous eight days. *Should they stock up on cat food? What are you doing about this? When will the markets go back up again?*

You could argue that planning firms need *more* capacity during a significant drop in their revenue, which can put a squeeze on margins.

We've been through this before, back in fall 2008 through early spring 2009, and I think we might want to relearn some of the lessons from that traumatic period.

Back then, I began writing weekly messages to my Inside Information readers, asking them to share what they were doing with client investment portfolios, what messages they were sending to clients in the middle of the financial hurricane, and also what they were doing administratively to stay afloat.

It was a way for all of us to pool our collective wisdom and stay sane while the world seemed to have lost its mind. I also wrote columns for *Financial Planning*, focused on what advisors could do then to prepare for, well, right now.

None of us knows when the markets will drop and therefore we should always be expecting those unhappy days.

The most important thing I learned from this exercise 10 years ago is that financial planners are not immune to herd mentality. A very few of my readers said that they were having fun buying stocks at absurdly low prices. The majority of them said they were gritting their teeth and riding it out without selling their clients' stock positions. Upon further probing, more than a few admitted that they had

stopped rebalancing to their initial allocations, and thus were building up cash positions at a time when stocks were on a fire sale. In doing so, they were allowing their equity exposure to drift lower as the portfolios lost value.

The following year, in a follow-up survey, many advisors regretted this approach. In retrospect, they had a tremendous opportunity to build some extra return into their clients' financial lives by simply following their normal rebalancing processes.

And, of course, a handful of advisors shared their process for strategically "harvesting tax losses" (selling out of equities) as the markets declined, and I never did hear their strategy for strategically buying back in again. In fact, I never heard from them again, at all.

The messages that advisors were sending to their clients were interesting. Some of them went back into history, noting that downturns were a normal part of market behavior.

They reminded clients that history suggests that this one would be followed by another long and only fitfully interrupted bull run. There would be a return to a time when all the ideas we have held dear — diversify, buy-and-hold, etc. — would once again work marvelously in client portfolios.

Others addressed the valuation issue, saying that stocks were on sale, and you would only think that companies were less valuable now than they were six months ago if you truly believed that, during all that time, all the workers going to work every morning in all those companies, day after day, were somehow producing negative value for their corporations.

Others invited their clients to come into the office and, if they were thinking about abandoning their stock positions, asked them to revisit their goals and market expectations.

I was told that these meetings tended to end with clients saying that they really didn't want to change their long-term expectations, and therefore they were now willing to ride out the storm.

The most important lesson I learned from the traumatic period 10 years ago is that financial planners are not immune to herd mentality.

Some of the best letters shared the advisor's own trauma with the situation: that the fatigue associated with these unusual market conditions was not unlike passing the 23rd mile marker in a marathon, when runners sometimes feel like they can't force themselves to muster the stamina to go on.

Sharing vulnerability — and the pain that clients were experiencing — turned out to be a very effective way to keep clients calm.

I'm sharing this so that when the Big One hits, you'll have some tips on how to prepare.

But what about preparing your practice? A few advisors, back then, opined that they wished they had shifted out of the AUM revenue model — but of course it was too late now. Others wished that more of their staff salaries were variable — such as annual bonuses that were tied to the profitability of the firm.

More than a few founders of smaller advisory firms stopped taking personal compensation and put the money into a money market fund to ensure that they would be able to pay staff salaries as the downturn continued interminably. Of course, they also regretted not having set aside more cash reserves before Lehman went down.

Professional investors always live in a zone of uncertainty; none of us knows when the markets will drop, and therefore we should always be expecting those unhappy days.

My best advice, today, is to think about preparing your clients for the worst. What would they do (you can ask them now) if the markets were to fall 30% or 40% over a relatively short time period? It's happened before, and it may well happen again in their lifetime, perhaps in the near future.

You cannot guarantee that the markets will recover quickly; all you know for sure is the direction of the next 100% movement. That is, the markets will double their current level at some point, but they'll never fall to zero.

Perhaps, for some who are at that delicate stage just before or right after retirement, some retirement assets could be moved to an inexpensive deferred annuity.

Others, if the thought of a downturn makes them skittish, might want to rethink their goals and portfolio allocations.

Advisory firms, meanwhile, should stockpile cash and see how much of their fixed-cost structure can be made variable. And they should start composing reassuring messages that say a market downturn is not the end of the world. The positive will, in the end, outweigh the negative: You'll be able to buy stocks on the cheap, your communications and shared pain will deepen your relationships with clients, and maybe (fingers crossed) the next round of wirehouse malfeasances might see some executives finally get to know the inside of a prison cell. **FP**

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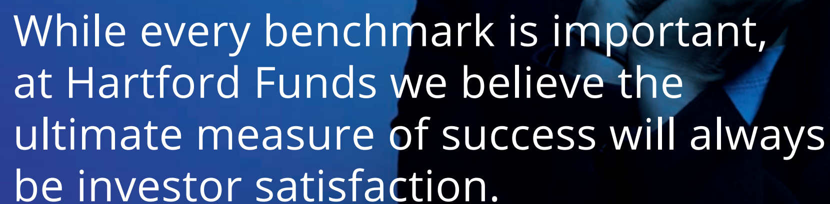

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Call to Action for Custodians

Although these firms provide the RIA industry a lot of support, they could be doing more.

By Allan Boomer

I started my RIA firm in 2012 in my parents' basement. I am proud to announce that we crossed the $100 million milestone in regulatory assets under management earlier this year. This is a number I could not fathom when I started and had to beg a certain RIA custodian to give my firm a shot on their platform.

I was leaving an RIA to start my own venture and my hope was to continue working with the same custodian, making the transition process as seamless as possible for my clients. But the custodian had a strict minimum for new RIAs, and I wasn't there yet. I was shown the door.

Dejected but undeterred, I interviewed each of the other major custodians and lobbied them for an opportunity. Time was of the essence. I already had quit my prior RIA and the more time I spent without a custodian, the more I risked losing clients.

Thankfully, I found a custodian who believed in my story and vision for the future. They provided the platform I needed to create my firm — trading, custody of accounts, web interface for clients, statements and a solid brand name to stand behind me. However, in hindsight, they provided very little else.

If you are like me, you like your custodian a lot, you just don't love them. You know they could be doing more for you and your clients. You also know that your practice has grown despite your custodian, not because of them.

Although these firms provide the RIA industry a lot of support, they can do more to help our firms grow and also serve our clients better. Here are a few.

Referrals: Give us some leads. I have placed assets with three different custodians over the past eight years. I have never received one lead from any of them. With all of the money these firms spend on marketing, wouldn't it be great if they spread the love around? I recall asking one bank about the referral program they advertise on their website and they quickly lowered my expectations on referrals — "Don't count on it."

If you're like me, you like your custodian a lot, you just don't love them. And you know your practice has grown despite your custodian, not because of them.

Administration: Help us with the paperwork. Many of the major custodians also have large brokerage businesses where they deal with the public through call centers. Wouldn't it be sweet if these same call centers could process our account opening paperwork (perhaps everything but our client agreements) for RIA clients?

When a client opens an account with us, it would be great to have an option to get the custodian on the line and have them handle the rest of the administrative process.

Not every firm would take advantage of this service, but this would be a great add-on for young firms who do not have the resources to hire their own administrative staffs.

Partnership "dating" opportunities: Help us network. Back when I was begging custodians for a

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seat at the table, I bet there was another advisor in the same shoes somewhere. Wouldn't it be great if custodians would take steps to introduce upstart advisors to each other for partnership opportunities?

My current business partners have been hugely instrumental in the growth of my firm; I just wish I had met them sooner.

Service teams: Make us look good. There is nothing more frustrating than dealing with a service team rep who provides misinformation. As the custodians grow, their service employees are becoming greener and greener. I'm a firm believer that clients don't fire advisors over account performance, however service issues can be deal-breakers. We spend so much time and effort courting clients and getting them to say yes to us that we cannot afford to be misinformed by a custodian's inexperienced service team. Many custodians think they are solving this problem by having dedicated service teams that cover specific firms, but this alone is not the solution.

Wouldn't it be great if custodians introduced upstart advisors to each other for partnership opportunities? My current business partners have been instrumental in the growth of my firm; I just wish I had met them sooner.

Don't compete with us: OK, who am I kidding? Most RIA custodians also deal with the public directly. We can live with that fact because we have a competitive advantage inside of our RIA firms that the custodians can't match — independence. However, there are times when our custodians offer the same products cheaper to the public than they do to RIA clients. This creates a channel-conflict for the smart client who is in-the-know.

More free conferences: RIAs are invited to free conferences and events on a regular basis, however, many of the big custodian conferences come with a sometimes four-figure price tag. This cost can be prohibitive for small but growing firms.

Technology: Every RIA custodian has invested heavily in their tech infrastructure, but this is still a huge area in need of improvement. At my RIA, technology is my biggest cost after human capital. Because of the gaps in the custodian's offerings, I own a patchwork of disconnected systems that I have bought on a one-off basis from a litany of vendors. I have to log into these systems separately and most don't talk to one another. This could be low-hanging fruit for custodians: CRM as well as software for financial planning, portfolio construction and performance.

Minimums: In many ways the custodian holds the keys to the front door of firm ownership for aspiring RIA entrepreneurs. Minimums, which at some custodians can reach nine-figures, provide a structural impediment — especially for young advisors, women and minorities.

To be sure, these relationships can be a two-way street. That is, there are steps RIAs can take to help facilitate a better relationship. For starters, if you've been assigned a relationship manager, don't just bring them all of your complaints, try to be their friend. Beyond that, take advantage of their technology. Some custodians offer a scorecard that shows how well each RIA has adapted to technology. There may be some cost savings or efficiency to be gained.

Here are just a few more ideas for RIAs to help this relationship:

- Attend the free stuff. Custodians often provide no-cost educational opportunities. Sign up and go!
- Stop asking for exceptions. Custodians have strict rules that govern how they conduct business. Accept their rules and abide by them. Don't wear out your welcome.
- Learn their platform. There could be things that you're not taking advantage of like discounts, or technology, or products simply because you didn't know about them.

There are over 12,000 RIAs in the U.S. collectively managing over $70 trillion in client assets, a 300% increase since 2001. And the business of custody for those assets is very lucrative.

The two sides — RIAs and custodians — exist in a symbiotic relationship. Neither can fully exist without the other. As RIAs grow, so do the custodians. So RIAs want to view our custodians as a true, albeit arms-length, partner who is a positive factor in our success and not a deterrent. **FP**

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Long Trek to Equality

Our business has evolved, but we still see the old stereotype that investing is a man's game dominated by Wall Street firms.

By Kimberly Foss

One of the major challenges facing our industry is rooting out sexual harassment and sexual discrimination.

Indeed, I've written about the need to ensure that the top ranks of management are open to the many qualified women who have already proven their leadership abilities.

But simply getting more women into positions of leadership and influence is not enough. We need to do more to encourage young women to enter the profession in the first place.

After all, these young planners are the best source for the energy, innovative ideas, and future thinking that our profession — or any profession — needs to survive and thrive.

The more young women we can encourage to enter the financial planning workforce — and nurture their growth once they are onboard — the better positioned our industry will be to meet the demands of the future.

There are some encouraging signs that more opportunities are opening for young women considering careers in financial planning. First, though only about 18% of Chartered Financial Analysts are women, according to a recent report by the CFA Institute, the organization is currently in the midst of a major recruitment push called the Women in Investment Management Initiative.

Similarly, the CFP Board is rolling out its own effort to raise the ratio of women CFPs from 23%, where it has stagnated for much of the past decade. Its WIN-to-WIN program aims to provide mentorship and support to women entering the profession and seeking CFP certification.

Such efforts are timely in several ways. First of all, women earned nearly 60% of all bachelor's degrees granted in 2016, including about half of all business degrees, according to data from the Department of Education and College Factual, a higher education research firm.

Young women coming out of college are not only seeking opportunities, they are highly qualified for them.

Meanwhile, the financial planning industry is positioning itself for visibility — an essential prerequisite for attracting the most promising candidates.

I have found deep fulfillment in providing a more nurturing environment than the one I encountered when I was started out several decades ago.

Second, research points to the day that women will surpass men as holders of wealth in the United States. This will happen sometime during this decade, according to reports by Nielsen and other organizations.

With more and more wealth being concentrated in the hands of women, it makes more sense than ever for our industry to focus on attracting the best and brightest young women who are both deeply grounded in professional acumen and acutely attuned to the needs of the women who will increasingly make up our clientele in the coming years.

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A 2013 study by the Insured Retirement Institute found that 70% of women seeking an advisor preferred to work with another woman. But as recently as 2017, only 16% of financial planners are female, according to a survey by Cerulli Associates.

That means that it is really tough for women investors — a growing demographic — to find a qualified financial planner who is a woman.

It seems evident that there is a big gap in our ranks that needs to be filled if we intend to remain relevant, competitive, and attractive to those who will most need our services.

Finally, many women tend to excel in the soft skills that will be increasingly important to our clientele: listening, empathy, and active engagement with clients to establish goals and priorities.

FIRST STEP IN LONG JOURNEY

We can't afford to allow our efforts to stop with recruitment, of course.

We need to provide mentoring, coaching, and above all, a clear and attractive career path for the young women entering our profession.

We need to help them see the long-term possibilities for enjoying careers that are uniquely suited to both their professional and personal aspirations.

Many women are looking for ways to build meaningful careers that do not require them to sacrifice other life goals that are equally important.

Our industry is well-positioned to provide such opportunities for young women with the talent, commitment, and vision to reach for them. For example, leading my own wealth management firm affords me the flexibility to go to my son's baseball

games, attend school events, and involve myself in other ways with my family and community without the necessity of compromising my commitment to my practice.

Other women report achieving similar satisfaction in work/life balance while contributing pivotally as asset managers, financial planners, or investment advisors.

The CFP Board is rolling out an effort to raise the ratio of women CFPs from 23%, where it has been for much of the past decade.

I can also say, from first-hand experience, that one of the most satisfying things for me over the past several years, as a seasoned financial planner and head of my own firm, has been to foster the growth and success of several outstanding young women in this profession that I have grown to love.

Given my background and my own experiences as a woman in the industry, I have found deep fulfillment in providing a more nurturing environment than the one that greeted me when I was starting out several decades ago.

I would strongly encourage my senior colleagues, both male and female, to commit to "paying it forward" for the financial planning industry by helping to create a better, more welcoming environment, especially for the young women who are so vital to our future.

The results will reach far beyond the immediate benefits for those young professionals entering the business.

Our profession will be much the stronger. Those of us who put in the time and effort in nurturing them will receive dividends — in giving back to the industry, in personal satisfaction, and, I believe, in the growth and success of our own firms — that far outweigh our investment.

THOSE NAGGING STEREOTYPES

It is essential for us to get the word out that our business isn't just about the big brokerage firms anymore. Over the last 10 years, we have seen tremendous growth in the variety of opportunities. For example, entire business models are being built around the rise of boutique investment firms (like mine).

Nevertheless, we are still suffering in our efforts to recruit women because of the long-established stereotype that investment is a men's game, dominated by the name-brand Wall Street firms.

The more that we can exemplify and model the success that is available to women in our industry, and the more we can point to the diverse ways women are achieving that success, the better our chances of not only recruiting but also retaining more young women as financial advisors and planners.

Our ability to do that is more than just a good idea; it's essential to maintaining the relevance of financial planning in the coming years. **FP**

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Capital Ideas

Aggregators, private equity firms and family offices are all investing in RIAs. You need to know the key differences.

By Brent Brodeski

Just a glance at industry headlines makes one thing clear: A lot of capital is chasing RIAs. Aggregators, traditional private equity firms, minority-interest private equity firms, family offices and various lenders are all in on the act.

There are major differences between them, however, and navigating the options is like running across a minefield.

The wrong deal can wreak havoc on your team by disrupting a healthy culture, not to mention creating a misalignment between your goals and those of the outside capital provider.

The right partner, however, can help you address succession and liquidity needs and grow your business to the next level.

I first became interested in this area 2½ years ago when Savant needed to recapitalize. My co-founder was ready to retire but he would only sell if he got all cash with no strings attached. My team and I were willing to commit many millions in new money, but even then, we came up short.

I needed to raise outside capital or sell the company. We wanted to stay independent, continue to grow organically and complement it with highly select, accretive acquisitions. I started talking to anyone who could provide capital.

The process killed many brain cells, but I feel I got an honorary Ph.D. in capital raising. I interviewed more than 70 capital sources, got proposals from 20-plus, speed-dated 10, whittled it down to three and finally went to the altar with new investors.

It has been a great marriage so far, but to spare you some of the headaches, I'll share a few insights I gained on RIA capital sources.

Aggregators: This category includes companies where the primary business is to use some form of financial engineering to acquire RIAs and place them under a common holding company.

Examples include Focus Financial, Fiduciary Network, United Capital and AMG.

The positives: They're real pros at doing deals and they offer turnkey templates and consistent deal structures. Their offers were reasonable but not great. The negatives: they typically will buy control, but not 100%, of your business. This may be OK if you only want partial liquidity and if you and your team are OK forgoing the ability to later sell the rest of your firm.

It's not just about the money. Cash is table stakes. Terms related to the cash are just as important, maybe more so.

The biggest issue is their deal structures shift most of the risk to you. Essentially, employee owners may give up part or all of their remaining profits to the aggregator in a market downturn since the aggregator generally gets the higher of either 100% of the equity return, or a guaranteed (preferred) return. Heads they win, tails you lose!

Traditional private equity: Private equity firms of all sizes have been acquiring RIAs. Examples include Parthenon, Hellman & Friedman, Lightyear Capital, Stone Point Capital, KKR and Lovell Minnick. These buyers tend to pursue larger firms

that are willing to sell control through a mix of cash and debt. As part of their endgame, they seek firms that are capable of becoming a platform for future acquisitions.

The positives: Sometimes they pay the most and you might get another bite of the apple when they re-sell your firm. They will want you to roll a piece of your equity to keep you around. The negatives: Their time frame is short and they use lots of leverage. Essentially, they will pump you full of steroids and auction you off to the highest bidder in three to six years. Their funds have time limits, so they sell even their best investments. A final warning: PE firms typically change the CEO so you also might find yourself unemployed.

The process killed many brain cells, but I feel I got an honorary Ph.D. in capital raising. Here are the lessons I learned.

Minority-interest private equity: These players are similar to traditional PE firms. Examples include Rosemont Investment Partners and Estancia Capital. The positive: They make smaller investments and leave you still in control. So they may be viable partners if you are not ready to exit. The negatives: Minority PE firms typically assure their liquidity within five years by requiring you to guarantee their exit.

If you do not sell the company, you have to buy back their investment at a much higher price. You have to pay them either 100% or more of your equity return or a full return of their investment plus an 8% to 12% preferred annual return.

Therefore, you get all the downside risk if things go awry. They also typically charge baby sitting (monitoring) fees, get paid board seats and demand minority protections and consent rights.

Family offices and UHNW investors: Well into our process I discovered a growing contingent of billionaire types who make direct "patient capital," or long-term, investments in RIAs. Some families are household names while others are lesser known.

They like RIAs because they distribute high current cash flow and can be great long-term investments. The biggest pluses: these investors have long time horizons (20 or more years) and can buy common equity with reasonable minority protections. In addition, the last thing they want to do is operate your business. That said, the right ones can make great board members and advisors.

The downside: Deals with multiple investors can be complex and are inevitably less turnkey. The price they offer may also be lower than traditional PE, but they do not want to heap on extreme debt and quickly flip your business. Therefore, you have more time for compounding.

Traditional and nonbank lenders: We interviewed four lender types: 1) large banks, 2) community banks, 3) SBA banks (i.e. Live Oak Bank) and 4) nontraditional lenders (i.e. Oak Street Funding). Traditional bank pluses: bank capital is the least expensive and you do not have to sell equity or lose control, unless you default. The downside: too much debt can sink your ship if the market gods get mad.

Large banks work with large RIAs. Community banks can work with large or small RIAs and are a great solution — with less red tape — if you know them. Rates vary depending on personal guarantees, loan terms and loan size. SBA loans work for small RIAs but always require personal guarantees and are laden with fees. Nonbank lenders include mezzanine and business development companies. The plus: they will lend you a lot with good terms (e.g. interest-only loans). The negative: rates are high and you often have to give up warrant coverage.

So where did Savant land? We took capital from four family offices and strategic high-net-worth investors and borrowed from our local community bank (without personal guarantees).

We retained control and now have patient capital partners, so they can never make us sell nor buy them out. And we got more than just cash — our investors offer lots of expertise and connections and pledged additional follow-on capital to support M&A.

Maybe the most important aspect of the transaction, though, was the fact that we increased the number of employee owners times three (we now have nearly 50 employee owners). I was not interested in Savant ending with the founders, so having a capital provider whose timeframe aligned with Savant's trajectory allowed us to make ownership steps that fostered succession and long-term viability.

What should you do? First, understand your goals. *Do you want to sell 100% soon or stay in business for 100 more years? Is control important? Do you have a one-time or ongoing need for capital? Do you want advice or just hard cash? Are you OK offering personal guarantees? Do you care how the transaction affects employees and clients?*

Once you are clear, it will become evident what capital provider is best aligned with your plan, preferences and unique needs.

Finally, remember, it is not just about the money. Cash is table stakes. Terms related to the cash are just as important, or maybe even more so. **FP**

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CFP Board CEO Kevin Keller (r.), with 2018 board chairman Richard Salmen and 2019 chairwoman Susan John, has said that advisors cannot specify that their dues be spent on some activities but not others.

False Advertising?

An advisor questions whether the CFP Board prioritizes growth over upholding a fiduciary standard.

By Allan S. Roth

How does a line of work become a profession? For financial advisors, its tied to enforcing a fiduciary standard.

The CFP Board says it wants to limit the CFP mark to professionals, but talk is cheap. Let's examine actions.

As a CFP certificant, I pay my annual dues just like everyone else. However, for the past several years I have timed my payment with a written communication to Kevin Keller, the CEO of the CFP Board.

I made two requests:

"Mr. Keller. I paid my dues today and again request that the portion of my dues that would go to the advertising campaign go instead to enforcing the fiduciary standard. Further, I again request that all CFP license holders be given this option."

While I am 100% in agreement with the stated mission of the CFP Board, which is to "benefit the public by granting the CFP certification and upholding it as the recognized standard of excellence for competent and ethical personal financial planning," I think it's far more important to enforce the higher standard than to advertise it.

First, let me explain with some background. Then I'll show why I am disappointed with the CFP Board. In short, I believe that it does not put its muscle where its mouth is when it comes to enforcement.

'Abused'

Many years ago, I helped a client who was abused by a CFP-holding advisor representing he had a fiduciary duty. You'd expect the certification would guarantee the advisor act as a fiduciary and put the client's interests ahead of his own. I don't believe that was the case.

For one, the advisor sold the client an annuity where he was taking both commissions and an annual, ongoing fee based on AUM. By my estimation, the client was paying 5.29% in fees, year after year. The facts were so ugly that the insurance company and broker-dealer paid the client a handsome settlement, without any legal action.

The client filed complaints with financial regulators and the CFP Board. One year later, none of the financial regulators found any wrongdoing. Ultimately, the CFP Board took no public actions against this CFP.

I wrote about this case in *AARP the Magazine*. When I later ran into Keller at a conference, he told me that standards were higher now

and invited me to be part of a CFP Board disciplinary panel — he said I could write about the experience. I accepted, and *The Wall Street Journal* assigned me the story, but I never wrote it. Just before the panel, the CFP Board sent me a confidentiality agreement that included the right to read and approve the entire article before publishing. Such agreements go against responsible media guidelines. I counter-offered that we change the agreement to allow the CFP Board to approve facts and names but not be permitted to approve my opinion on the disciplinary process. The CFP Board said no.

A Higher Standard?

This experience compelled me to take a closer look at how the CFP Board conducts enforcement of those who appear to break their fiduciary promises. If the CFP Board truly enforces a higher standard, I thought, we should expect that its public sanctions would come before other regulators or courts.

Well, I examined the public discipline announcement that came out on May 21 with actions taken against 10 current or former CFP certificants. That's 10 out of about 81,000. These certificants received either letters of admonition, suspensions or revocations.

I dug into to the backgrounds of the 10 certificants. Here's what I found:

- Eight had already been fined, suspended or banned by financial regulators such as FINRA, the SEC or state regulators.
- One had lost a civil lawsuit for misappropriating trade secrets from his firm.
- Only one had no prior regulatory action I could find, and this person received a letter of admonition because he listed his compensation as "fee-only" when he accepted commissions for insurance sales.

Thus, by my count, nine of the 10 had already been found to have broken the law, so this wasn't a higher standard. The tenth, who falsely advertised "fee-only" services, came only after a 2013 article in Financial Planning noting hundreds of certificants at wirehouses were listed as fee-only. That, and a very public lawsuit, led to more consistent enforcement. So it could be argued that this tenth case is only a result of both legal action and media stories on lack of enforcement. A brief review of the 10 certificants sanctioned in the Aug. 30 public discipline announcement showed similar results.

If the CFP Board truly enforces a higher standard, we should expect its public sanctions to come before other regulators. courts.

Looking to confirm whether they agreed with my analysis, I asked the CFP Board the following question. I received an answer that didn't seem to address my question:

Roth: "Do you concur with my analysis that in the most recent public disciplinary actions taken by the CFP Board that eight came after a regulator action, one after a court action, and only one came before a regulator or court — the misuse of 'fee-only?'"

CFP Board: "CFP Board conducts an investigation when it has information indicating that a CFP professional may have engaged in conduct that presents grounds for discipline. CFP Board receives that information from multiple sources. A CFP professional may self-disclose the information, a consumer may file a grievance with CFP Board, a regulator may have taken action, a third party (such as another CFP professional) may notify CFP Board of the alleged misconduct, or CFP Board independently may discover the alleged violation. No matter the source, CFP Board takes potential violations seriously, and enforces its standards through a transparent process pursuant to which CFP professionals are given notice of the potential violation and an opportunity to be heard by a panel of other professionals. CFP Board's enforcement of its standards is a feature that

The CFP Board's Code of Ethics

A CFP professional must:

1. Act with honesty, integrity, competence and diligence.
2. Act in the 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.
6. Act in a manner that reflects positively on the financial planning profession and CFP certification.

Source: CFP Board

distinguishes CFP Board from the more than 180 financial services certifications and designations in the marketplace. A violation of CFP Board's Standards may subject a CFP professional to discipline. When CFP Board determines that public discipline is warranted, CFP Board publishes the discipline in a press release and on CFP Board's website, in fulfillment of CFP Board's public service mission."

I've received more transparent answers on far tougher questions from wirehouses.

Can Anyone Hear Me?

What I have learned over the past few months has only hardened my belief that the CFP Board has a responsibility to spend more member dollars on enforcement, and less on marketing its mark as the definitive last word in advisor qualifications. I have hoped my requests would be heard by the board of directors, but it appears that has not been the case.

Last year, when I sent in my CFP dues along with my now-standard request that my dues go to enforcing the fiduciary standard, Keller responded. "It is not a procedural or operational issue, but a directive from our board," he wrote in an email.

I asked why in an email and the CFP Board's COO, Elizabeth Stewart, called me. I asked her my questions and she later responded in an email: "The board established a new annual certification fee amount, and dedicated $145 of that amount exclusively for funding the public awareness campaign. The amount earmarked for the campaign has been unchanged since its inception more than eight years ago, and it cannot, has not, and will not be used for operations such as our enforcement activities."

Last month, CFP Board spokesman Dan Drummond said in an email that my message "has not gone to the board because it is in conflict with the standing policy of the board."

While I wait and hope the board eventually sees my request to use more of my dues for enforcement (and less for advertising), I decided I needed a gut check. I believe my career needs strict enforcement of fiduciary standards to be considered a true profession. But am I asking too much? So I reached out to an expert.

"To become a profession, both advertising and enforcement of standards are needed," Deborah DeMott, the David F. Cavers professor

of law at Duke University and an expert in fiduciary obligations, told me. "To become a profession, there must be a robust debate on how to enforce standards," she added.

An Opposing Opinion

Michael Kitces, publisher of the Nerd's Eye View and a *Financial Planning* contributor, notes that, since the CFP Board is not a regulator, they can't just compel planners to turn over client information and related client communication in an investigation as that would violate firms' privacy policies. Their hands are somewhat tied, Kitces told me, though he pointed out an SEC "no-action" letter that allows advisors to hand over client information. He says that CFPs have a higher standard yet agrees that they are not fully held to that higher standard.

Kitces firmly disagreed with my request to allow CFPs to direct their $145 fee be applied to enforcement. He stated that accounting systems would have to be changed and contracts were likely signed with the marketing firms committing such funds, and that large organizations have to manage their resources holistically.

CFP Growth

Keller's bio notes he has increased membership by more than 30% to 72,000 certificants. As of August, the CFP Board's website said there were 82,260 certificants, so that would be about a 46% increase. By my math, at a $355 fee per certificant, that's an annual revenue stream of $29.2 million, with about $11.9 million going to advertising the mark. And, according to the CFP Board's 2016 IRS Form 990 disclosure, $681,000 was paid to Marketing General, whose trademarked tag line is, "We grow membership." Indeed, the CFP Board noted its milestone when it surpassed 80,000 certificants.

Kitces states that the number of CFPs has grown, now comprising between a quarter to a third of all financial planners, while the FPA has shown membership declines. And the board appears to have rewarded Keller with compensation of more than $900,000 in 2016, which is from the latest Form 990 that's available. That's more than twice the compensation he received only seven years earlier. While growth is clearly good for the CFP Board, I don't think a profession is about growing; rather it's about creating public good. Though Keller's compensation is correlated positively

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with growth, as in investing, correlation doesn't mean causation.

Advertising vs. Action

Are CFPs held to a higher standard? Clearly the mark is superior to most of the 200 so-called financial designations out there. I've written about some that can be obtained over a fun weekend in Las Vegas in that same *AARP the Magazine* article. But based on my examinations of announcements of disciplinary action and reviews of prior cases, I think the evidence demonstrates that the CFP Board typically takes disciplinary action after regulators or courts do so. The only exception I saw was the use of the term "fee-only," which arguably is in response to a prior scandal.

Is Kitces correct that the CFP Board's hands are tied in that they cannot compel firms to hand over client information? One solution could be that clients direct the planner to turn over their information to the CFP Board. And is it really such a systems nightmare to update systems to allow certificants to divert fees away from the advertisement campaign? As a former CFO of organizations many times the size of the CFP Board, I think it would be fairly easy to do. As far as contractual commitments for advertising and marketing, I'm not privy to those contracts, but good contracting would argue for flexibility.

My view is that advertising something that isn't true will backfire. Advertising a higher standard and then not holding certificants to that higher standard isn't all that different from TV ads from the big brokerage firms trying to create a warm and fuzzy feeling with potential clients and then selling high-fee products. But at least those firms aren't advertising fiduciary duty.

Advertising a fiduciary standard that isn't enforced dooms financial planning to that of a sales vocation.

Readers Respond

This story prompted vigorous discussion online. Excerpted comments below.

- Not really sure why this conversation has to be connected to promoting the marks in an advertising campaign. These are two separate issues and not connected in any way. There is no need to stop something in order to improve on something else that is totally unrelated.
- The CFB Board IS in the credential marketing business, not an organization representing a profession. It should be no surprise that big money goes to marketing the credential … as opposed to a vast financial literacy campaign like AICPA's. Mr. Keller is not a CFP. Professional organizations (AICPA, ABA) are led by members of the profession. Mr. Keller was hired for his ability to sell the CFP credential (not advance a profession) and it should be no surprise that he's rewarded for it.
- Maybe CFPs shouldn't be working at nonfiduciary firms at all?
- The SEC's proposed best interest standard is actually stronger!

However, change may be coming. In just over a year, the CFP Board implements new standards. Jack Brod, a former Vanguard executive, will become chairman shortly thereafter and has talked about sharpening the compliance focus. But talk is cheap and, to date, I've seen more talk than action. The board must embrace discussion and dissent on enforcement of standards if it wants the CFP mark to be the standard elevating financial planning as a profession.

The CFP Board has told me: "The board will consider the separability of the public awareness campaign fees when it approves the 2019 budget." I hope this is a sign that it is getting serious on enforcement.

In my view, advertising a fiduciary standard that isn't enforced dooms financial planning to that of a sales vocation. Not a profession. **FP**

Allan S. Roth, *a* Financial Planning *contributing writer, is founder of the planning firm Wealth Logic in Colorado Springs, Colorado. He also writes for* AARP the Magazine *and has taught investing at three universities. Follow him on Twitter at @Dull_Investing.*

Making small accounts profitable

Many advisors struggle with the challenge of how to manage small accounts, since they often require the same amount of time and resources as larger accounts, but may not deliver the profit margins advisors need or desire.

Nationwide, small accounts are underserved. According to a study by Cerulli Associates, even though more than 70% of all American households have less than $100,000 in investable assets, only 8% of advisors focus on serving these accounts.[1]

Why are so few advisors servicing small accounts? In addition to the time required to manage them, which can divert resources from more profitable accounts, small accounts may have operational inefficiencies that make them unprofitable.

However, there can be real downsides to turning away this business. For example, smaller accounts may encompass the assets of highly valued clients' friends and relatives, or could represent a source of future referrals. More important, small accounts may hold significant growth potential.

Even when advisors realize the long-term potential of smaller accounts, though, they may still struggle to manage them efficiently.

Potential opportunities with small accounts

Fortunately for advisors, new technology is making it possible to overcome the small-account challenge. Account management platforms designed specifically for advisors are automating routine administrative tasks while providing access to more efficient investment strategies.

Using this advisor-focused technology can have a number of benefits, including:

Simplified investment management. Few advisors have time to act as portfolio managers for each account they hold. By plugging smaller accounts into dedicated models overseen by third-party asset managers, advisors can leverage the expertise of trained investment professionals while using technology to automate time-consuming back-office tasks.

Model-based technology. Modern technology allows advisors to use model-based trading, which removes the behavioral biases and guess-work from investing. Model-based systems use pre-determined rules for buying, selling, and portfolio rebalancing. And because these decisions are made at the model level, they eliminate time spent performing the same tasks at the account level.

Fractional shares. In today's era of rich equity valuations, investing in whole shares of even a few growth stocks can require hundreds of dollars. This kind of financial commitment can quickly absorb a small account's assets and limit an advisor's efforts to diversify client portfolios. Using a platform that supports fractional-share technology enables investors to own pieces of stock and ETF shares, eliminating traditional financial barriers and allowing for broader portfolio diversification.

Asset-based pricing. Buying and selling either fractional or whole shares of securities can be expensive when a customer is charged on a per-trade basis. By contrast, asset-based custody fees are based on the total value of the assets in an account, which can reduce trading costs—particularly within actively traded portfolios.

The importance of selecting the right technology. Not all account management platforms are the same. Look for technology designed specifically for advisors, with sophisticated modeling, trading, rebalancing, reporting, and practice management capabilities. And consider the custodian behind the technology as well. Custodians can be an integral part of the advisor/client relationship and should be trusted to provide day-to-day custody of your client's assets, as well as technology service and support.

Small accounts may sometimes seem like a burden, but they can become profitable. Using the right technology can help advisors better manage the challenges of smaller accounts and unlock their long-term potential.

[1] Cerulli Associates, 2016 Managed Accounts Consumer Landscape, June 2016

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Making an agreement with a mortgage lender might still require disclosure with a regulator.

Amending FINRA Forms

How to report a transaction that should have been disclosed to regulators long ago, but wasn't.

By Alan J. Foxman

Q: Do you need to report something you never disclosed on a Form U4 if it took place over 10 years ago?

After the 2008 crash, my house went into foreclosure. I entered into an agreement with my mortgage lender, which allowed a short sale on the home to satisfy the mortgage in exchange for the mortgage company not seeking a judgment on the balance.

Since no judgment was entered on the foreclosure, I didn't think I had to disclose it on my U4. Recently, however, people I've spoken to said the short sale amounted to a compromise with creditors and should have been disclosed. I had always thought guidance referred to settlements involving credit cards and, to be honest, I never associated it with a short sale concerning a mortgage.

A: Yes, you should still report it (with a lawyer's help).

Question 14K of the Form U4 asks whether you have, within the past 10 years, made a compromise with creditors. While you could legitimately answer the question "no" if 10 years have passed, the problem is that you should have previously answered the question "yes." Had you done so, the Disclosure Reporting Page would have been completed with the relevant information. The disclosure would have appeared on your Central Registration Depository (or CRD) report.

Once the 10 years had elapsed, you could then have answered the question "no," and the information would have been archived and would no longer be visible to the public.

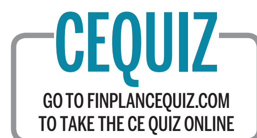
It's rare that your employer or FINRA wouldn't have picked up on it, but if you've been with the same firm since 2008, there may have been no reason to do a background search.

The problem now, however, is that, technically, the question would be answered "no," and there's no way to open the DRP to provide the details without answering the question "yes."

Technically, you should let your employer know. They would then file an amended U4 and answer 14K "yes" and complete the DRP information. They could then contact FINRA's disclosure department, which would open a case and manually archive the information.

However, because of the late filing, it's quite possible that FINRA's enforcement division could get involved and hit you with a failure-to-disclose disciplinary action, which could result in a fine and/or suspension.

Therefore, before you do anything, you should consult with legal counsel. You might be tempted to let sleeping dogs lie, but I would not recommend that without at least talking to a lawyer. It's possible that this could still come out eventually, and the ramifications could be worse the longer you let it go. **FP**



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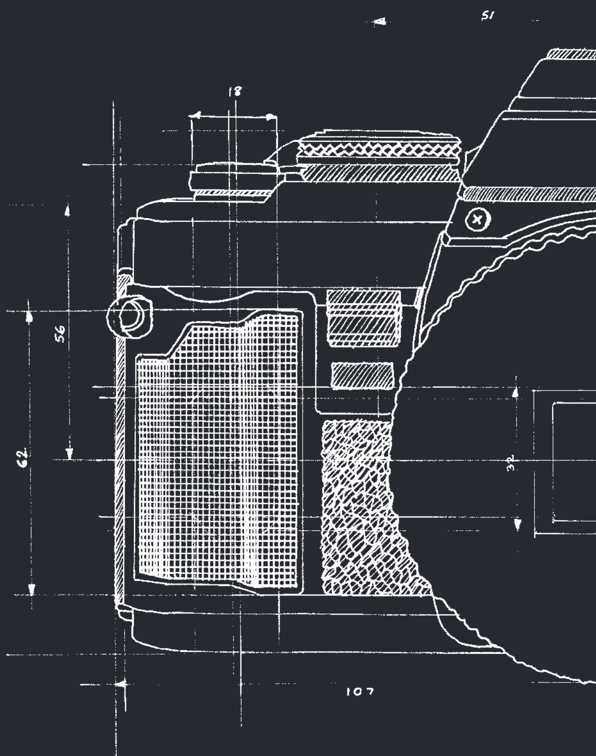

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There are a host of expenses that ome with owning a horse: riding lessons, vet bills and show costs, to name a few.

BLOOMBERG NEWS

Horse Sense

There are about 7.1 million people involved in the equestrian industry, and they have a unique set of financial needs.

By Amanda Schiavo

Picture a horse grazing on a sunny day when she suddenly senses her owner's bank account is perfectly balanced. This, the horse determines, is the opportune time to jam a leg through a fence and ring up a hefty vet bill.

Anyone who has ever owned a horse knows this feeling.

There are roughly 2 million horse owners in the U.S., and 7.1 million people involved in the industry when including service providers, employees and volunteers, according to horse transportation company Equo. That means a potential client population larger than that of Chicago, Houston and Philadelphia combined with a very specific set of financial needs.

For a hobby such as equestrianism, coming up with a proper plan can be challenging when considering taxes, estate planning and expensive regulations related to taking show horses across national borders. But equestrians will tell you that once they fall in love with a horse, there's no turning back.

The question becomes: How do you build a plan for a horse enthusiast without scrimping on the client's own long-term care, retirement, family and other needs?

"That has to be an honest conversation," says California-based advisor Brooke Salvini of Salvini Financial. An equestrian herself, she decided to dedicate a bulk of her practice to horse fans, some of whom are HNW individuals who invest thousands of dollars, as well as time and effort, into their passions.

Equestrianism is a hobby that both grows over time and is costly.

What to Expect

Horse-loving clients and their advisors must consider the expenses of riding lessons, purchasing a horse, boarding, vet bills, farrier bills, dentist bills and show costs, among many others.

Equestrians will tell you that once they fall in love with a horse, there's no turning back.

Salvini's clients spend between $6,000 and $25,000 per year, per horse depending on their ability to keep their horse(s) at home, training schedule, veterinary needs and number of shows. With other expenses such as feed, supplements, shoeing, miscellaneous supplies and regular vet care such as vaccinations and teeth, Salvini says it can be difficult to support a horse in California for less than $500 a month.

"You look for ways to

economize," Salvini says. "Horses can live 30 years, and, depending on the kind of owner, they could be making a longer financial commitment than to a child."

The estimated cost of raising a child in the U.S. from birth to age 17 is $233,610 or almost $14,000 per year, according to the Department of Agriculture. The total cost per year for a horse is about $3,876, according to a University of Maine study. Over 30 years, an equestrian can pay out more than $116,200. What's more, a client can't send their horse out job hunting.

Horses, like children, need regular trips to the dentist and new shoes to keep up with developing feet. Their hooves are constantly growing, and a general rule of thumb is that the farrier should pay a visit every four to six weeks for trimming and re-shoeing if needed.

Dental care is another importance facet — and ongoing expense — of responsible ownership. Horses can develop sharp enamel points in their mouth that need to be filed down — or floated — as much as once every six months.

Clients also need to consider their horses when they make out wills and estate plans, more so than other pets.

At least, they should identify a caretaker and consider opening a pet trust. Having an emergency vet fund and quick access to several thousand dollars of liquidity make sense, too.

Making it Happen

The ultrawealthy can just write a check, of course, but the merely rich need help with this expensive past-time.

"Some [clients] can easily afford the activities, while others need to prioritize and plan to be able to meet their retirement goals while still enjoying the hobbies they're so passionate about," says California-based Wells Fargo advisor Sandra McPeak about a variety of interests enjoyed by her HNW clients.

For one, McPeak tries to make sure clients understand exactly what the costs will entail.

"I don't feel that it's my [place] to say what hobbies are worthy," McPeak says. "I use our software in our planning sessions to help my clients evaluate how much the hobby costs versus how much extra money they'd have if they gave up the hobby."

Planning gets even more complicated when clients take their horses to competitions, sometimes out of state or even out of the country. Tax implications must be considered, and advisors may even help alert clients to certain travel regulations.

Horses, like children, need regular trips to the dentist and new shoes to keep up with developing feet.

Certain states, countries and even public modes of transportation have specific requirements and restrictions when it comes to transporting horses, according to the American Veterinary Medical Association.

"When transporting horses or their hooved relatives across state, territory, or international borders, a certificate of veterinary inspection is generally required by the authorities at destination," according to the AVMA website. One vet clinic in Penn Valley charges $30 to prepare the certificate, and owners must also factor in costs for exams and possible lab work.

Shipping a horse from one place to another is an additional expense. It can cost around $1,000 or more depending on the length of the trip. Equo's website says it charges $1 per mile for trips up to 1,000 miles. That means a trip from Saratoga, New York's famed racetrack, to a show in Kentucky could cost about $800 one way.

Horse owners also need to be aware of changes resulting from recent tax shifts.

One thing to keep in mind is the new deduction for pass-through businesses, especially if a client makes their living from equine sports. The law changes how pass-through entities such as sole proprietorships, partnership, S corporations and LLCs are taxed, according to a blog by tax attorney John Cohen.

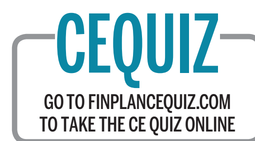
For the first time ever, Cohen writes, an owner's qualified business income from a pass-through is allowed a 20% deduction. Additionally, the modified estate tax will reduce the number of family businesses that are susceptible to it.

"The pass-through provisions are an incentive for employees to become independent contractors," Cohen writes.

The industry pays a total of $1.9 billion in taxes to state, federal, and local governments, according to Equo.

While the expenses related to horse ownership may make some planners scratch their heads, it's worthwhile to remember that many equine fans consider their horses family.

"There are other hobbies that are expensive — travel, wine, and photography — but horses are living creatures," Salvini says. "They're almost like children. … I think that is important for advisors to know. [Advisors] need to … be open to hearing and listening and understanding that it is important and a way of life more than some hobbies are." **FP**



Amanda Schiavo *is an associate editor at* Financial Planning. *Follow her on Twitter at @SchiavoAmanda.*

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Class of '68

The seven IBDs that launched a new business model during this tumultous year have thrived for five decades. But has their success actually compromised their future?

By Tobias Salinger

Amid the war in Vietnam and the discord at home in 1968, seven companies were planting seeds that would blossom into today's independent broker-dealers.

It was a tricky time to launch a new financial venture. Fighting in Southeast Asia, the assassinations of Martin Luther King Jr. and Robert F. Kennedy, and other violence at home preceded a period of economic turmoil marked by inflation and stagnant equity returns.

"You could not have started the firm at a more challenging time. It was a stunning accomplishment just to survive the first 15 years," says Lincoln Investment Planning CEO Ed Forst, the son of the IBD's founder, Nick Forst.

Yet the era also paved the way for a new form of financial services. A group of insurance firms based largely in the Midwest created a sector of wealth management that today produces more revenue than the gross domestic product of 85 countries.

The IBDs that form the Class of '68 have been major drivers of that growth. Lincoln and the firms now known as LPL Financial, Northwestern Mutual, Signator Investors, Principal Securities, Woodbury Financial Services

and O.N. Equity Sales racked up $6.6 billion in combined revenue in 2017. Compared with total revenue of the industry's top 50 IBDs, the Class of '68 brought in 26% of last year's $25.7 billion.

With prescient business strategies, smart mergers and some luck, these companies have survived to celebrate their 50th year. Compatriots that didn't evolve have disappeared.

"It's a business that's been changing since the moment I got in it, and I don't think it's ever going to stop changing," Forst says.

Can these firms survive another half-century?

In an unforeseen twist, they may have helped create the peril themselves with their major role in the emergence of two very recent inventions: the mass-affluent investor and the independent financial advisor. Already, the IBD landscape next year will include at least one fewer member of the Class of '68.

PHOTO FROM JEFFREY OWENS

John Hancock office in Portland, Oregon, in 1979. The insurance firm is selling its IBD, Signator Investors, to Advisor Group.

'SHATTERED AMERICA'

Smithsonian magazine called its retrospective on 1968, "The Year that Shattered America," citing events such as the Tet Offensive, the Democratic National Convention in Chicago and the murders of King and Kennedy. Few alive at the time would disagree.

The year of violent political upheaval, however, coincided with massive defense spending. This helped boost the Dow over 1,000 for the first time in January 1966 as strong equity returns from '62 to '68 attracted more Americans to mutual funds and other investments.

Even after subtracting pensions, U.S. households placed nearly 38% of their financial assets in equities by the fourth quarter of 1968, according to Ned Davis, senior investment strategist with Ned Davis Research.

Equities would not reach that level again until the dot-com boom.

"In 1968, despite a divided country, rising inflation and interest rates, people believed the business cycle was conquered," Davis says. "People began to believe that stocks always go up in the long run at some 9% to 10% per annum, so why would one not want to invest in mutual funds rather than cash or insurance? So by late 1968, households were in love with stocks."

Total net assets held in U.S. mutual funds soared by 180% during the 1960s to more than $47.6 billion by the end of the decade, with over $45 billion in long-term equity funds, according to ICI.

The number of available mutual fund products also more than doubled between 1965 and 1970 to 361 funds. Mutual fund assets would reach $18.7 trillion across nearly 8,000 funds by the end of 2017.

Seeing opportunity, insurance companies sought to tap into Americans' growing appetite for mutual funds. They set up distribution channels for their products in the form of brokers

From Near-Zero to Go-Go

Total net assets in U.S. mutual funds soared between 1940 and 1970.

1940	1945	1950	1955	1960	1965	1970
$450M	$1.3B	$2.5B	$7.8B	$17.0B	$35.2B	$47.6B

Source: ICI

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[1]Optional benefits are available for an extra charge in addition to the ongoing fees and expenses of the variable annuity. The long-term advantage of the optional benefits will vary with the terms of the benefit option, the investment performance of the variable investment options selected, and the length of time the annuity is owned. As a result, in some circumstances the cost of an option may exceed the actual benefit paid under that option. Death benefits terminate if the contract value falls to zero.

[2]Protected lifetime income of the optional lifetime benefits becomes effective at issue if the designated life/owner is age 59½ at issue, or upon the contract anniversary following designated life's/owner's 59½ birthday, provided the contract value is greater than zero and has not been annuitized.

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JACKSON®

Advisor Deborah Danielson in 1982, when she joined the San Diego-based LPL forerunner firm Private Ledger. She's been with the same IBD ever since.

who have evolved into today's advisors.

IBDs provided the means for advisors to run their own practices and take higher payouts. Independence has become "a much more mainstream option" due to pioneering advisors at IBDs and RIAs, says Kenton Shirk, director of wealth management research and consulting at Cerulli Associates.

The popularity of mutual funds and introduction of full-scale planning also fueled the ascent of IBDs, says Financial Services Institute CEO Dale Brown.

"You had financial advisors who came from either the wirehouse side or the insurance side of the business who really wanted to offer a more holistic financial planning relationship to their clients," Brown says. "It fueled an entrepreneurial nature that was present in a lot of financial advisors."

FOUNDING STORIES

Amid this backdrop, the modern IBD sprang up.

The year of 1968 produced more members of Financial Planning's *FP*50 ranking of the largest IBDs than any other single one. Only 1984 came close to matching '68 with five firms' launch.

Two of the companies began in Boston, including a brokerage created by seven insurance companies called Life Insurance Securities Corp., or Linsco. The venture merged with Private Ledger in 1989 and become longtime No. 1 IBD, LPL.

John Hancock's Signator Investors also traces its origins to Boston. The firm, the No. 16 IBD, was known as John Hancock Financial Network until it rebranded itself as Signator in 2013.

Overall, however, the seven firms

Lincoln Investment Planning traces its roots to a single family (l. to r.): Agnes Forst, Tom Forst, Harry Forst, Rosemarie Forst, Stanley Forst, Ed Forst and Nick Forst in 1984.

reflect the variety of the space. For example, Forst's father opened Lincoln Investment Planning, the No. 21 IBD, near Philadelphia to serve teachers and other middle-class clients.

A 1969 contract between the School District of Philadelphia and Lincoln is still in place. The firm offers annuities, mutual funds and advisory services, and has started working with high-net-worth clients. Lincoln remains family-owned and run.

"My dad was quite the innovator," Forst says. "He was very practical, but he was an innovator."

Four of the seven firms came out of the Midwest. In Des Moines, Iowa, Bankers Life Equity Services launched a BD now called Principal Securities to sell its mutual funds through independent agents. Ohio National Life Insurance set up O.N. Equity Sales, or Onesco, in Cincinnati for distribution of its variable annuities.

The BD that would later become Advisor Group's Woodbury Financial Services started by offering the St. Paul Cos.' variable life insurance, annuities and mutual funds out of the Twin Cities.

"Our story is the story of a firm that's been able to transform itself as client needs shifted and advisor preferences shifted in terms of how they run their practices," says CEO Rick Fergesen.

Woodbury and other Advisor Group firms now strive to be "leaders in the fiduciary era," Fergesen continues, noting his firm's original business model of selling insurance products. "That's a big change if you think about it — going from a life insurance distributor to a leader in the fiduciary era."

The seventh firm, Milwaukee-based Northwestern Mutual, noted that the insurance giant was founded in 1857. But after being presented with regulatory filings showing the firm's IBD, Northwestern Mutual Investment Services, launched in 1968, the firm issued a statement about the anniversary.

"Fifty years ago, we began empowering clients to plan for every stage of life by creating [NMIS]," said spokeswoman Betsy Hoylman. "It enables clients to integrate insurance and

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investments to build an achievable, flexible financial plan so they can enjoy life every single day."

CONSOLIDATION THEN & NOW

A common thread runs through the class of '68: Consolidation. Savvy, strategic deals have helped them survive and grow while, in some cases, morphing into new firms or vanishing into others.

LPL forerunner firm Linsco started as a brokerage for mutual funds.. Later, longtime CEO Todd Robinson merged Linsco with San Diego-based Private Ledger. Nearly 30 years later, LPL has developed into a 16,000-advisor firm with nearly $4.3 billion in annual revenue.

"At that time, there was no such thing as financial planning in the public mind," says LPL spokeswoman Rachel White. "It was uncommon to offer insurance and securities together, and wirehouses did not support insurance sales, meaning traditional stockbrokers were unable to offer a full suite of financial products."

While Woodbury's history stretches

Virginia Harriett with son Michael Harriett who later joined her Lincoln Investment Planning practice, Harriett Financial Group.

back more than a century, its genesis as a powerhouse IBD began in 1968. That year, St. Paul Cos. launched it out of a life insurance firm called Montana Life it had purchased 11 years earlier.

More big changes occurred in 1985 when Dutch insurer AMEV purchased Western Life and changed the IBD's name to Fortis Financial Group. Later, the firm took on its current name of Woodbury, after the suburban Twin Cities location of its then-headquarters, when the Hartford bought Fortis in 2001.

The firm has "transformed itself at least twice," says Woodbury CEO Fergesen, adding that the first phase came when it expanded its service offerings under the Hartford. The second phase occurred after then-Advisor Group parent AIG purchased Woodbury in 2012 and added it to the IBD network.

"When we became part of Advisor Group, that really gave us the scale to make us competitive," Fergesen says. "That gave us this huge jump forward in terms of what we could offer advisors in advisory and technology."

The firm's advisory assets under management have reached $5.8 billion this year from just $100 million in 2001. The 1,200-advisor firm's revenue topped $285 million in 2017, making Woodbury the No. 23 IBD with nearly triple its annual revenue of $97 million in 2001. LPL and Woodbury have both helped fuel the consolidation trend in recent years.

Woodbury completed the acquisition of Capital One Investing's in-branch, full-service investment advisory and brokerage unit in July, while LPL purchased the assets of the four National Planning Holdings IBDs in August 2017.

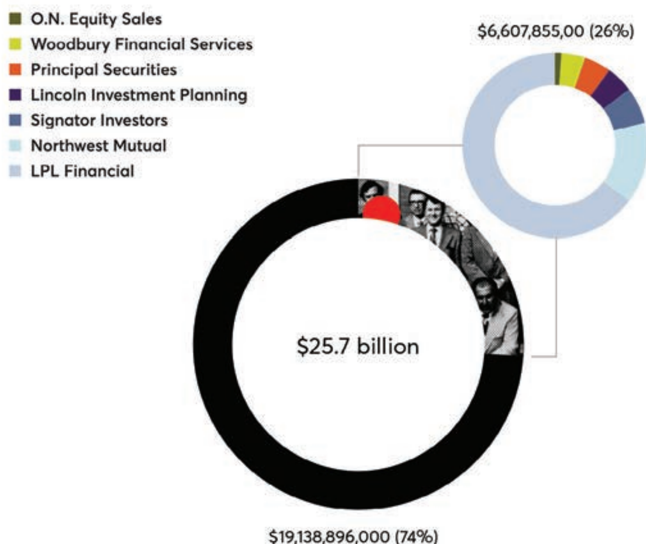
While smart deals have helped some IBDs thrive, the trend also cuts the number of legacy, 50-year old companies. Woodbury's parent, backed by its private equity owner Lightyear Capital, will itself be absorbing one of the seven firms founded in 1968. Advisor Group and Hancock agreed in June to a deal which would fold in some 1,800 advisors from Signator into Royal Alliance Associates upon closing in the fourth quarter.

The number of IBDs has fallen by more than a quarter over the past decade to 116 firms, according to Cerulli, which classifies IBDs separately from another group of around 750 boutique BDs.

"Consolidation pressure is real, and you do see fewer broker-dealers with a

A Representative Slice

The seven IBDs launched in 1968 generated $6.6 billion in combined revenue for 2017, 26% of the $25.7 billion generated by the top 50 firms last year



Source: Company data

greater share of advisors and share of overall assets," says Shirk, noting the importance of tech, multi-affiliation structures and support for planning in an era of margin and regulatory pressure. "All of those competitive factors really require a firm to have scale to deliver on them in any breadth or depth."

DIZZYING CHANGES

The paths of these 50-year-old firms display the extent of the industry's turnover, although most stayed with the same parent over that time. Lincoln, which has about 1,100 advisors and $309.7 million in annual revenue, acquired fellow IBDs Capital Analysts in 2012 and Legend Group last year.

Forst says it has merged the firms under one umbrella on the brokerage side but is working to place them under the same RIA in future years. The firm's middle-class base is broadening to

Former Ohio National Financial Services President Paul Martin served as an early chairman of the firm's independent broker-dealer, Onesco.

include HNW clients, though Forst sees regulation, tech and data security as challenges facing all financial services.

"Our biggest challenge is not so quantifiable as those three things. It's really growing in order to stay competitive," Forst says. "We can compete with anyone but be small enough that all voices can be heard."

In Iowa, Bankers Life changed the name of its IBD to Princor Financial Services in 1986, a year after the parent firm became Principal Financial Group. Two years ago, the IBD turned into Principal Securities, which has nearly 1,600 producing reps and $300 million in revenue as the No. 22 firm in the space.

Allowing career agents to sell the firm's mutual funds served as "the driving force" for its founding, says Mike Beer, who was president of Princor from 2005 to 2015 and now serves as the executive director of Principal Funds.

The firm "has eventually evolved as a broker-dealer serving a full range of proprietary and nonproprietary investment products and has also added RIA services for agents and advisors who want to operate on a fee-basis versus commission-based," Beer says.

While its name has remained the same all this time, Onesco followed a similar path to becoming the No. 49 IBD with 650 advisors and $62.8 million in revenue last year. Its parent, Ohio National, made a major change in September by ceasing any new annuities or retirement plans to focus on life and disability insurance and grow its Latin American business. It remains to be seen how the pivot will affect the IBD.

Advisor-directed programs came into Onesco's corporate RIA around 2011; the firm had earlier expanded from annuities to mutual funds and a full-service brokerage platform by the mid-'90s, says Jay Bley, the firm's vice president of national sales.

"In the past, the majority of our efforts focused on improving how we processed transactions," Bley says. "Now they are focused on practice management in areas such as transitioning to a fee-based model, effectively deploying technology to enhance

Nick Forst (l.), founder of Lincoln Investment Planning, with Tom Watkins Sr., manager of the firm's Philadelphia office.

the client experience and developing an effective succession plan."

THREATS AND OPPORTUNITIES

Will the Class of '68 survive another 50 years? Already, one will disappear from the list in 2019, when Signator is absorbed into Royal Alliance Associates.

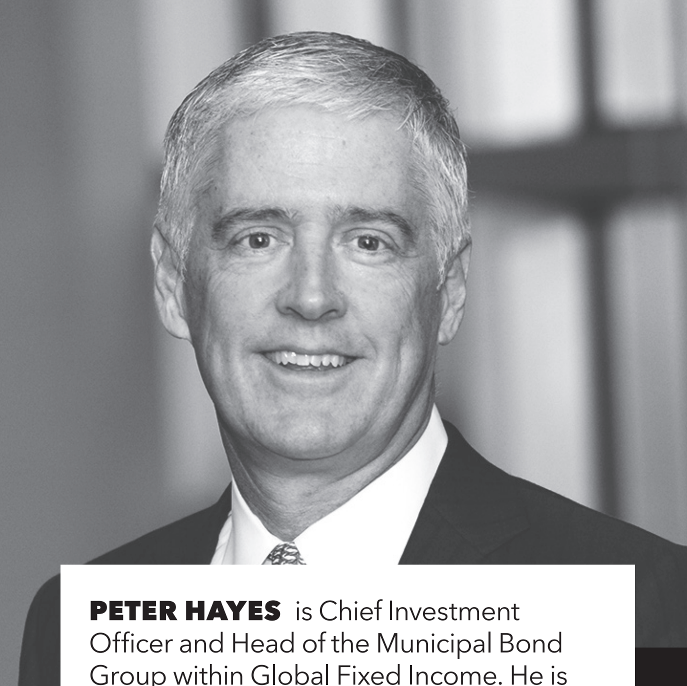
Now, RIAs — a sector that sprang up in the '80s and '90s and became intertwined with IBDs — are the main challenge, according to Shirk of Cerulli.

To stem "the risk of losing their largest and most productive advisors to the RIA channel," the firms must provide advisors with an "integrated comprehensive offering" to show the value of centralized support, he says.

The firms must also boost their technology to address the expectations of clients in the era of Amazon and shift to serving a much more diverse base of clients, according to FSI's Brown. A growing need for the firms' services is "a great problem to have" going forward, he says.

"The vast majority of investors need professional advice in order to sort through the myriad options and make sound financial decisions," he says. "The demand for advice, the need for advice is greater than ever. And therefore the business opportunity of providing advice is practically unlimited." **FP**

Tobias Salinger, *is an associate editor of* Financial Planning. *Follow him on Twitter at @TobySalFP.*



PETER HAYES is Chief Investment Officer and Head of the Municipal Bond Group within Global Fixed Income. He is a member of the Global Fixed Income Executive Committee and BlackRock's Global Operating Committee.

Q&A with Peter Hayes

BlackRock's Head of Municipal Bonds

ADVERTORIAL

With taxes top of mind, we sat down with BlackRock's Peter Hayes to understand how municipal investments can improve the tax-effiency of your portfolios.

Peter, what impact has tax reform had on municipal bonds?

Tax reform had the largest positive impact on corporations with their tax rate dropping from 35% to 21%. For individual investors, the top tax rate fell just 2.6% to 40.8%. Plus, with deductions on the previously unlimited state and location taxes (SALT) now capped, we are seeing increased appetite for tax shelters from individual investors in high-tax states. We believe municipal bonds still look attractive when considered on an after tax basis.

What is your outlook for municipal bonds?

We see potential for heightened volatility should uncertainty increase around Fed policymaking decisions, the midterm elections and geopolitical developments. Amid heightened volatility and higher valuations for equities, municipal bonds remain an attractive diversifier as the asset class is negatively correlated to equities. Longer-term effects on issuer fundamentals heightens the need for diligent credit research. We believe the US economy will remain strong into next year and interest rates will continue on a moderate upward progression. That said, higher interest rates have led to more demand for perceived 'safe' assets as fixed income yields look more attractive.

How can municipals help your portfolio if equity markets weaken?

Investors need to make sure their portfolios are diversified. One thing to consider is building ballast or shock absorbers into portfolios. Municipal bonds can help add ballast to equity risk because they have

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Fixed income risks include interest-rate and credit risk. Typically, when interest rates rise, there is a corresponding decline in bond values. Credit risk refers to the possibility that the bond issuer will not be able to make principal and interest payments. There may be less information on the financial condition of municipal issuers than for public corporations. The market for municipal bonds may be less liquid than for taxable bonds. Some investors may be subject to Alternative Minimum Tax (AMT). Capital gains distributions, if any, are taxable. Source for cost claim: BlackRock and Morningstar as of 9/30/18. Based on Morningstar's U.S. Category Group Municipal Bond. Total universe consists of 48 ETFs. iShares National Muni Bond ETF (MUB) and iShares Short-Term National Muni Bond (SUB) are the least expensive ETFs in this universe based on prospectus net expense ratio. Both funds have an expense ratio of 0.07%. Source for no capital gains claim: BlackRock as of 12/31/17. iShares Muni ETFs have never distributed a short- or long-term capital gain. Past distributions not indicative of future distributions.

[1]Source: Morningstar as of 9/30. Municipal bonds represented by the [Bloomberg Barclays Municipal Bond Index]. **Index performance is for illustrative purposes only. Index performance does not reflect any management fees, transaction costs or expenses**

a negative correlation to the S&P 500. Our analysis found that in the 12 months since 2010 in which the S&P 500 Index was down more than 2%, municipal bonds were up an average of +0.76% – which was more than taxable bonds[1].

How should investors use municipal products to build a portfolio?

It depends upon the investor's investment objective and what role the investment is playing in the portfolio. For instance, an investor that is more risk adverse or maybe has a shorter time frame may want to consider the iShares Short-Term National Muni Bond ETF (SUB) which provides intraday liquidity, precision exposure to short term muni bonds and has the lowest expenses of any municipal bond ETF in the industry at just 0.07%. Additionally, we offer the BlackRock Strategic Municipal Opportunities Fund (MAMTX), a flexible, municipal solution that seeks to provide investors attractive tax-advantage income and returns through diverse market environments.

What differentiates the BlackRock approach towards municipal investing?

Today access to inventory is critical. As one of the largest managers of municipal assets, BlackRock has both the resources to seek out bonds at favorable prices and the research to avoid ones that may be vulnerable to downgrades. Our scale, credit research and risk management capabilities have helped us deliver long term value to our clients.

BlackRock is one of the largest Muni managers with over $125B in assets and offers investors a wide range of solutions for clients to implement municipal bonds into their portfolio.

Mutual Funds: 7 of 8 BlackRock municipal bond mutual funds, accounting for 98% of our municipal assets, have consistently delivered 1st quartile performance over the past 10 years[2].

Actively Managed Municipal Funds			
MAMTX	MACMX	MANKX	MANLX

Exchange Traded Funds (ETFs): BlackRock's municipal bond ETFs can help you keep costs low, give transparency into what you own, and provide intraday liquidity. Access a wide range of municipal bonds in a cost-efficient, scalable way, manage portfolio duration and build bond ladders with iShares municipal ETFs:

MUB	SUB	MEAR	IBMJ
Expense Ratio: 0.07%	Expense Ratio: 0.07%	Expense Ratio: 0.25%	Expense Ratio: 0.18%

Separately Managed Accounts (SMAs): BlackRock is a top provider of SMAs (by AUM) in the industry. We provide investors the ability to create a customized approach to fit their specific needs. Additionally, partnering with BlackRock for our SMA solutions gives you access to the firm's scale, inventory, research and execution – so you can put more time into growing and building your practice.

Closed-End Funds (CEFs): CEFs are actively managed mutual funds that trade on an exchange like a stock. CEFs can play an important role in a diversified portfolio providing the potential for income and capital appreciation. The "closed" structure allows portfolio managers to employ leverage and access a broader opportunity set including less liquid investments that offer higher income and return potential.

For more visit BlackRock.com/KeepMore

Indexes are unmanaged and one cannot invest directly in an index. Past performance does not guarantee future results.

[2]Source: BlackRock and Morningstar as of 9/30/18. 7 of 8 funds accounts for 88% of our active municipal bond mutual funds. Over the 1, 3, 5 and 10 year periods, 6, 7, 7 and 7 of BlackRock municipal bond funds are in the first quartile of their respective Morningstar categories. Based on the institutional share classes of BlackRock open-end municipal fixed income funds. 98% statistic based on $23.6B out of $24.0B AUM of all share classes of the funds. Institutional shares may not be available to all retail investors. Performance for different share classes may vary.

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Differentiating yourself amid competition has never been easy, but it is hardest for advisors new to the field.

Name Your Niche

Because most advisors are generalists, up-and-coming planners have an opportunity to set themselves apart.

By Michael Kitces

Finding ways to differentiate yourself amid a sea of people who call themselves advisors has never been easy. For newer advisors trying to get noticed within their firms — and get opportunities for client face time — the problem feels particularly acute.

That's why, more than ever, niches and mini-specializations are effective differentiation tools. By going through a focusing process, new advisors can learn more about the things that matter most to their target clientele, making the work of acquiring new clients easier over time.

And because most advisors are generalists, you can pick nearly any topic, really focus in on it and become more knowledgeable than your peers, to say nothing of virtually every consumer. Once you begin to differentiate, you're well on your way to securing your own clients — and potentially a significant amount of recognition in your field.

Mini-specialization

In my second year as an advisor, I worked in a paraplanner role at an independent broker-dealer. This was back in the very early 2000s, the heyday of variable annuities with living benefit riders. Annuity companies would roll out new riders with new features every couple of months, making it really difficult to keep track of them all.

I decided to get copies of specimen contracts for all the popular major annuities, and read and catalogued every single one. Did the rider have a ratcheting high watermark benefit base or a guaranteed growth rate on the benefit base? Was that growth rate 5% or 6%? Were there investment restrictions? What was the cost of the contract, rider and all the underlying funds? All that information was captured and catalogued. I did my homework, and in doing so created a mini-specialization in variable annuities with living benefit riders.

Once you begin to differentiate, you're well on your way to securing your own clients.

Being a younger advisor trying to get more experience and facetime with clients, it was amazing to suddenly be the expert on a topic. Senior advisors would call on me because I knew the details better than they did, which gave me a ton of valuable client experience early in my career. It would eventually lead to a book

that's now in its fifth edition, "The Advisor's Guide to Annuities."

This is precisely why I'm such a huge advocate of advisors finding specializations and niches. The distinction between the two is important.

A specialization typically connotes some kind of subject matter expertise. Mine was variable annuities with living benefit riders. By contrast, a niche is about serving a particular group of clients exhibiting a particular need, and applying a service or solution to solve that need.

Your niche might be in serving airline pilots who need to navigate their airline pension system or executives at a corporation who need to know how to handle their firm's unique executive compensation package. Or maybe you're working with recent widows and widowers, or new retirees.

This matters because whether it's a specialization or a niche, you become more referable when you have one. If I meet someone I wouldn't have to say, "Hi, I'm Michael. I'm a financial advisor," which usually would prompt the person to take a couple of steps back. Instead, after exchanging the requisite pleasantries, I could say, "I advise recent widows and widowers on how to put their lives back together after a tragic loss," or, "I work with people who are charitably inclined and want to leave a bequest to charity after they pass but don't want to undermine their current retirement plan while they're still alive."

More than ever, niches and mini-specializations are becoming effective tools to differentiate yourself.

These are niches and specializations that define really specific needs or problems. And if you have that problem or you know someone with that problem, guess who's instantly going to come to mind?

Be Specific

The caveat for newer advisors is that building a niche often takes up to three years. That's partly why I also advocate for mini-specializations. Practice management guru Philip Palaveev wrote about this strategy in his recent book, "G2: Building the Next Generation." Among its insights: If you really want more credibility, especially as a young advisor, don't try to figure out how to play golf or socialize with your clients. Rather, start by simply being an absolute expert in something that matters to them.

When you shrink the domain of what you need to learn on a specific topic, you really can become an expert in a relatively short amount of time. Be awesome at it — both to establish yourself in your own advisory firm and get credibility with clients.

Go to Market

Just because you've formed some kind of mini-specialization doesn't mean you're suddenly the go-to authority. That takes applying an effective marketing strategy to your specialized skill set. Luckily, if you know exactly who it is you're trying to serve, you can make really targeted marketing plans to reach them.

As I wrote recently, when you have a niche in a particular profession — architecture, for example — you can immediately focus your marketing. Write articles for the architect trade publications. Get interviewed on an architect's podcast. Join the architect association and volunteer. Find opportunities to speak at architect conferences.

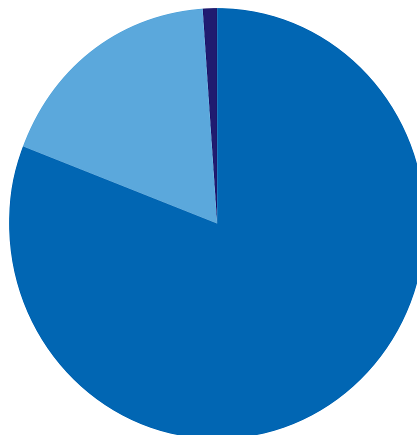
Now, one of the challenges with specializations is that there may actually be a number of advisors who could potentially serve your target clientele. That's why it's doubly important to get your name out there. Publish a website or a blog — a little virtual office on the internet that makes it possible for others to find their way to you and this specialized expertise that you have.

Say you're a budding expert in charitable remainder unitrusts, or CRUTs. Define for your reader what

The effect of specializing

The benefits extend even into how much financial advisors enjoy their work.

- Very positive, 81%
- Somewhat positive, 18%
- Somewhat negative, 1%



Source: CEG Wordwide

ANOTHER MOMENT IN HISTORY WHEN TWO GREAT THINGS HAVE COME TOGETHER TO MAKE SOMETHING GREATER

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CRUTs are, how they work, the history of CRUTs and why they should use CRUTs and not CRATs. Explore how new tax law changes impact CRUTs, and how CRUTs compare to alternatives like donor-advised funds. Simply put, your goal is to ensure that when someone googles a question around CRUTs, your website shows up. And if your website projects an air of quality and professionalism — the kind where a prospect might say, “Wow, this advisor really knows what he or she is talking about, this is really professional, I need more help, I think this is who I’m going to call” — then you’re well on your way.

Bear in mind that for most advisors starting out, your website isn’t going to become the definitive source overnight. Developing credibility and optimizing for search engine ranking takes time. But you have to build a foundation first — and populating your blog or website with meaningful content is that first step.

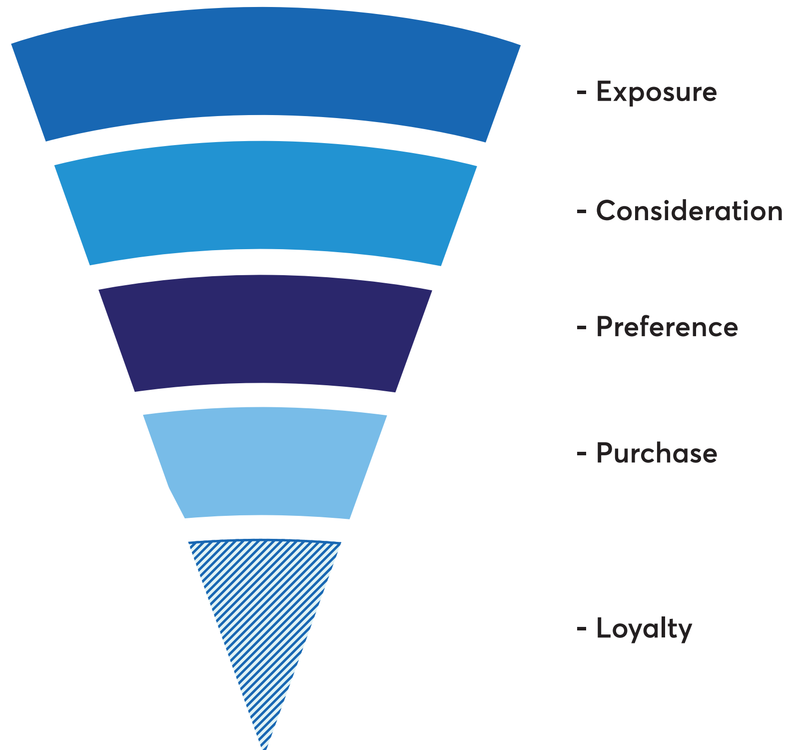
Even if someone hears about your specialization or sees your presentation, they’ve not going to hand over their life savings.

From there, you need to get the word out. I’d encourage you to check out Michael Hyatt’s book, “Platform,” which is all about how to begin what he calls “narrowcasting” your specialization to get noticed in a crowded, noisy world. Few of us will ever be on television reaching millions of people, but any of us can create our own platform that narrowcasts our expertise to our target market.

This usually means building an email list using software like MailChimp; creating social media accounts on places like Twitter, LinkedIn and Facebook where you share out your content and expertise; writing relevant articles in trade journals; and becoming a go-to source. You may even start connecting media to your blog posts about angles they may have missed in any reporting related to your specialization.

The Client Funnel

Marketing yourself and developing credibility takes time.



These are important foundational steps for several reasons.

Even if someone hears about your specialization or sees your presentation and is duly impressed, they’re probably not going to hand over their life savings or make a massive irrevocable gift to a charitable trust based on one interaction or one recommendation. They’re going to check you out. They’re going to vet your expertise. They’re going to see if you’re credible. And in that critical moment, your website has to be ready for them.

From there, you can get more targeted. Take all that information you’ve written on your website about CRUTs, for example, and turn it into a presentation that you can offer to local CPA societies and estate planning councils. You might then even publish an e-book or a physical book on CRUTs — in far less time than you may think and at a fairly modest cost. Now you’re a recognized author and a proven authority in your area of specialization.

Bottom line: The deeper you go with the mini-specialization or niche, the easier it will become to market your expertise to people who might do business with you. **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.*

ALSO IN CLIENT: P.63: CASHING OUT A LIFE INSURANCE POLICY

Advisors should do a beneficiary form review whenever a big life event occurs, including a birth or death in the family.

The No. 1 IRA mistake

Avoiding this oversight can save clients from costly and painful legal battles after a loved one has passed away.

By Ed Slott

When advising clients on inherited IRAs, the first thing you should locate is the beneficiary form. It sounds basic, but it's surprising how many advisors don't follow through.

Checking this form is one of the most valuable services you can provide. It enhances client relationships and leads to other, more in-depth planning conversations.

Clients understand what you are doing for them and their family, and they are more likely to tell others about you. The beneficiary-form review is also your bridge to the next generation of clients. The bottom line is that reviewing them will increase your business.

It's also relatively easy.

Missing or incorrect beneficiary forms are still an epidemic and costly both in lost tax benefits and family harmony. It's a mistake that generally cannot be fixed since it is most often discovered after the IRA owner or plan participant has died.

Beneficiaries are then forced to involve tax, legal and financial advisors to figure out how to distribute the funds when there are no clear instructions and more legal obstacles. That can lead to long and expensive legal and family disputes that often don't end well. The worst part is that these mistakes are so easy to avoid simply by checking beneficiary forms — while the client is still breathing!

As a financial advisor, the last thing you want is for the next generation of clients to wait for their money, or be disinherited altogether, due to negligence. You'll both lose in that case even if it wasn't your fault.

Problems can arise when clients erroneously think that a trust takes care of naming a beneficiary. It does not.

My standard advice is for advisors to do a beneficiary form review whenever there is a big life event. That is, a birth, a death, a marriage, a divorce, a remarriage, a new grandchild, a change in the tax law or a change in any of the factors that were relied on in making the beneficiary selection in the first place.

It could be that the client has changed her mind and wishes to eliminate or add a beneficiary. And advisors should have the kind of relationship with their clients that they'll know when there have been major events in the clients' lives.

I feel like I've written about this a hundred times, but the neglect in this area is rampant and the cases keeping coming.

By "cases," I mean court cases or IRS rulings where an

BLOOMBERG NEWS

advisor is on the hot seat or where family members are pitted against each other because this simple form was overlooked.

Then everything becomes more expensive and the blame falls on anyone who had a fingerprint on the IRA, 401(k) or insurance policy involved. Advisors have often been roped into frightening litigation over beneficiary-form errors. I know because I get the desperate calls.

With IRAs and other retirement accounts, there are two areas that are most prone to beneficiary-form problems: divorce and IRA trusts. Both of these are usually big-ticket battles.

Divorce: Take the U.S. Supreme Court case, Sveen v. Melin.

This was a seven-year court battle because a life insurance beneficiary form wasn't updated after a divorce. And this was just the latest in the long line of cases where a beneficiary form was not updated after a divorce. This case could have also applied to an IRA or 401(k), as many others have.

For example, in the landmark U.S. Supreme Court case Kennedy vs. Plan Administrator for DuPont Savings and Investment Plan, the justices ruled unanimously that a retirement account should be paid to the ex-wife because she was never removed as the beneficiary after a divorce, even though she waived her rights to the account as part of the divorce settlement. The daughter was supposed to be the beneficiary but instead lost the $402,000 401(k) her father had intended for her to inherit. This was an eight-year court battle between the daughter and the plan administrator — all because the beneficiary form was not updated after the divorce.

IRA trusts: When a client names a trust as his IRA beneficiary it is generally because it's a large IRA and the client wants to make sure it is not lost or squandered after death.

A seven-year legal battle went to the Supreme Court when a beneficiary wasn't updated after a divorce.

BLOOMBERG NEWS

However, those benefits can easily be lost when the beneficiary form is either neglected or not in accordance with the client's wishes.

For example, in one case outlined in an IRS private letter ruling, a client was updating his estate plan with his attorney, which was a good thing.

His prior plan (which he still wanted intact) named a trust under his will as the beneficiary of his IRA. This detail, however, was left out when he was revising his estate plan. His attorney prepared a new will — with no trust.

However, the first thing most wills do is to revoke all previous ones. That's what happened here, so the trust under the first will was no longer in existence, leaving no beneficiary named.

There would have been a simple fix if the omission had been addressed while the IRA owner was still alive.

In another IRA trust case, two multimillion-dollar IRAs had to be paid out more quickly after death when the beneficiary form was not updated. Here, the financial advisor had everything set up correctly naming three trusts (one for each beneficiary) as the beneficiaries of the two IRAs.

The advisor later changed custodians but the new custodian for some reason changed the beneficiary of each IRA to the estate. No one noticed or checked this detail until, of course, after death when the entire estate plan unraveled.

The IRS said that the estate was the beneficiary at death but the estate is not a designated beneficiary, meaning an individual. Moreover, the IRS noted that a court cannot create a designated beneficiary.

The trustees paid $30,000 in IRS private letter ruling fees alone ($10,000 for each private letter ruling) in addition to legal fees and state court fees.

And in the end, the case was lost anyway. The tax benefits lost here were

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in the millions, not to mention the damage done to the advisor's reputation. All of this could have been avoided by ... guess what? Checking the beneficiary forms. (Do I sound like a broken record yet?)

In other cases where a trust was created to inherit an IRA, the trust was never named on the IRA beneficiary form. This is sometimes overlooked because the thinking often is that the trust takes care of naming the beneficiary. It does not. In order for the IRA to get to the trust, the trust must still be named on the IRA beneficiary form.

Name contingent beneficiaries: To avoid beneficiary form problems, it is also important to have your clients name a contingent beneficiary in case the primary beneficiary predeceases the IRA owner, or if the primary beneficiary wishes to disclaim his or her interest after the owner's death. The contingent beneficiary allows post-death flexibility to change a beneficiary if desired.

In addition to these oversights, other misunderstandings can also lead to errors with beneficiary forms.

The will does not replace the IRA beneficiary form: Clients often assume that the IRA beneficiary is covered in their will. We've seen this several times where a client names one of three children on the IRA beneficiary form (because that is the child that is taking care of all the paperwork), but the real intention is to have that IRA split evenly among the three children.

The client will includes that equal split in his will, but after death the IRA beneficiary form overrides his will and the entire IRA goes to the one child who is named.

In one case, the daughter who was named on the IRA beneficiary form could have legally taken the entire IRA, but did not want to because she knew her father's intent was to have the account split evenly. She ended up having to disclaim other assets to even things up. It was a bit messy and all avoidable if the IRA beneficiary form listed all of the intended beneficiaries correctly.

Make sure each beneficiary form not only names the beneficiaries desired by the client, but also contingent beneficiaries.

Loss of the stretch IRA: IRA beneficiaries can easily extend required minimum distributions out over their lifetimes with a stretch IRA.

The IRA beneficiary must be an individual who is named on the IRA beneficiary form. That's it. But the stretch is often lost when there is no IRA beneficiary named or the beneficiary form cannot be found.

If the beneficiary is a child, grandchild or someone else, the stretch IRA can be lost.

That's the case even if that same child inherits the IRA through the estate. The child does receive the IRA, but since the IRA was received through the estate, the stretch IRA is lost since the estate in not a designated beneficiary.

When there is no designated beneficiary, the post-death payout rules can accelerate RMDs and lead to higher taxes for beneficiaries.

All these problems are getting worse as more people are inheriting IRAs. In these ultracompetitive times, an annual beneficiary form review is a high-value service you can provide to your clients.

Even the largest companies are not actively checking these essential documents. Let clients know that you are on the case.

Advisor Action Plan

Advisors should take these steps to make sure all clients' beneficiary forms are up to date:

- Take an inventory of all retirement accounts and locate beneficiary forms for each one. You never know what you might find, and it could lead to bringing in a new account from another advisor who was not as proactive and thorough.
- Follow up with a beneficiary form review after any major event in a client's life (birth, death, marriage, divorce, etc.). In the absence of major events, address this issue at least once every year.
- Make sure each beneficiary form not only names the beneficiaries desired by the client, but also names contingent beneficiaries.
- Make sure that the beneficiary is a designated beneficiary (an individual or qualifying trust). Not all beneficiaries are. Check that the estate is not named as the beneficiary.
- If a trust is the named beneficiary, make sure that still is still accurate. Maybe things have changed. Check with the estate attorney too. Also, make sure the trust is named on the beneficiary form.
- Finally, and perhaps most importantly, determine whether you have a copy of the most current IRA or plan beneficiary form. Don't count on the IRA custodian or the plan administrator for this important document. They may have nothing on file or an old version that lists incorrect beneficiaries, especially after major life events like death or divorce.
- Make sure family members know where to locate all the beneficiary forms. You can help them by having copies on file. **FP**

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

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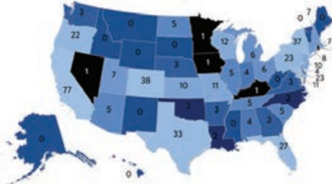

Source: SourceMedia research

150 calls in 48 hours: What it takes to transition $600M wirehouse advisors

The day advisor Beth Sweeney switched firms, she bid a tearful goodbye to Wells Fargo colleagues she had known for a decade or more.

Practice mangagment Andrew Welsch 4h ago

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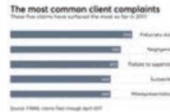

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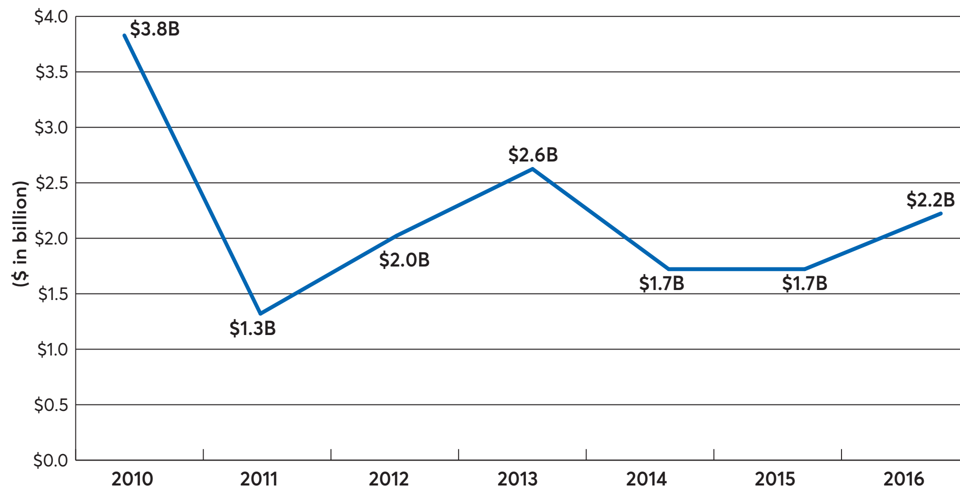
Life Settlements Annual Volume

Investment in this asset class has fallen sharply in the last decade but is now experiencing a modest rebound.



Note: 2017 data not yet available.
Source: Conning

Cashing Out

For clients concerned about financial shortfalls in old age, advisors may want to suggest they sell their life insurance.

By Donald Jay Korn

Sometimes when an elderly client needs funds, it can make sense to help them cash out of an unnecessary life insurance policy.

The secondary market for existing life insurance policies, in which sales are known as life settlements, has been around for several decades. In this market, individuals and companies purchase existing insurance contracts from policyholders at a discount to face value, hoping they'll turn a profit when the insured dies and they collect the death benefit.

While policyholders end up selling the policies at discounts, these transactions can still make sense for some clients who no longer need them. Occasions this might be appropriate include: when a spouse has passed away; when a client can no longer afford to pay premiums or when clients are suffering from terminal illnesses and their life expectancy has suddenly narrowed.

Recent tax laws and improving life-expectancy estimates may make selling a life insurance policy an even more attractive option for some clients in these situations.

Clients with whole life policies could profit from life settlements similar to clients with other forms of permanent life insurance, such as universal and variable life policies. Clients with term life policies that are not convertible to a permanent plan may not find buyers willing to pay an appealing price, since the buyer risks not being able to collect a death benefit if the insured outlives the term of the policy.

Whereas "concerns over the accuracy of life expectancy estimates" had led to a lower volume of life settlements in recent years, life expectancy providers have since improved their methods, reports Scott Hawkins, director of insurance research at Conning, an investment management firm in Hartford, Connecticut. The market bounced a bit in 2016 and Hawkins expects to find a further increase for 2017 when Conning publishes those figures later this year.

Recent tax laws and improving life-expectancy estimates may make selling a life insurance policy even more attractive.

An additional boost to the market may come from the tax overhaul. Among its many provisions, the new tax law overrode IRS revenue ruling. 2009-13, making the life settlement process simpler and less expensive, tax-wise, for sellers.

Under the tax code, selling a life insurance policy when the insured individual has a life expectancy under two years is considered a viatical settlement, a tax-free advance of the death benefit. Sellers with longer life expectancy — possibly anxious about running short of money over

a long retirement — don't qualify for this tax exemption. Instead, a nonviatical life settlement can be taxed as a capital gain if the proceeds exceed the seller's basis in the policy.

The old tax law, which was in place for nearly a decade, required life-policy sellers to reduce their basis (the cost for tax purposes) by the cost of acquiring insurance. That lower basis resulted in a higher taxable gain for the seller.

Now, under new tax law, the seller's basis is equal to the premiums paid, with no reduction for the cost of insurance.

Raising the basis reduces the taxable gain, providing more net dollars from a life settlement.

Easing the Burden

Pocketing more after-tax dollars, and perhaps reducing outlays for no-longer-needed insurance premiums, may ease clients' financial burden at the end of their life. Leo LaGrotte, CEO of Life Settlement Advisors, in Carmel, Indiana, tells of a 73-year-old man whose life was insured for $500,000.

Raising the basis reduces the taxable gain, providing more net dollars from a life settlement.

"His wife passed away a few years ago and he no longer needs his term life insurance policy," LaGrotte says. "He had planned to let the term policy lapse until his financial advisor told him he might be able to sell it. He sold his policy for $78,000 and made his retirement a little bit more comfortable."

LaGrotte notes that the term life policy was convertible to a permanent life policy, which is a requirement for such a sale. After a conversion, the buyer can pay ongoing premiums to keep the policy in force and eventually collect the death benefit.

When it comes to raising cash, Barry Flagg, managing principal at Triangulum Financial Partners in Tampa, Florida, says a planner's role can go well beyond soliciting offers that are greater than the policy's cash surrender value. One of his clients, for example, was offered $500,000 for a $4 million policy with $400,000 in cash surrender value. Even though the offer was 20% more than the cash surrender, he advised the client to reject it because it was considerably less than the independently calculated fair market value.

"By following a specific process, we eventually sold that policy to a different buyer for $1.25 million," he says.

Flagg adds that the fair market value of a life settlement can be estimated in the same way as the value of a zero-coupon bond is calculated. "It's the present value of the death benefit at life expectancy, less the present value of the premiums required to maintain the death benefit," he says. "In both cases, using the target yield the buyer is seeking as the present value discount rate."

The specific process Flagg mentions includes getting two or three life expectancy reports. "Different providers can produce dramatically different life-expectancy calculations," he says. "The shorter the life expectancy, the shorter the buyer expects to have to hold the policy before getting a return on investment, and thus the higher the purchase offer."

Some companies that provide these estimates include AVS Group, ITM TwentyFirst Services, Fasano Associates, Predictive Resources, Longevity Services and ISC Services.

It Pays to Look Back, Too

The new tax law not only reduces the tax burden on policyholders who decide to sell their life insurance contracts in the future — it also can deliver tax savings to some sellers, years after the fact, too.

Lee Slavutin, a principal of Stern Slavutin 2, a life insurance and estate planning firm in New York, points out

Providers can produce dramatically different calculations, says Barry Flagg of Triangulum Financial Partners.

that this provision is retroactive to 2009. "Clients who have sold policies and paid tax under the revenue ruling may be able to get a tax refund," he says.

The sellers could recalculate their taxable gain, without reducing basis for the cost of insurance. "People with open tax returns might consider reporting the gain with a higher basis, on an amended return," Slavutin says. "The difference could be thousands, even tens of thousands of dollars, depending on the size of the life settlement."

Regardless of whether a client has this refund opportunity, advisors might go over current life insurance with older clients, to discover if the coverage is still necessary. "A policy may have little surrender value but would bring more from a sale," Slavutin says.

Assuming that clients don't mind allowing an investor or group of investors to profit from their death, they could wind up with more cash for retirement. **FP**

Donald Jay Korn *is a contributing writer for* Financial Planning *in New York.*

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A traditional safety-minded strategy involved building a ladder of individual bonds with staggered maturities.

Hedging for Rising Rates

Forget bond ladders. Laddering defined-maturity ETFs may be a safer fixed-income strategy for clients.

By Donald Jay Korn

The threat of further interest rate hikes has many advisors and clients concerned about fixed-income positions. Higher rates probably would lower bond values and bond funds' share prices.

A traditional safety play has involved building a ladder of individual bonds with staggered maturities. Periodic redemption proceeds can be reinvested in new bonds, perhaps at higher yields. However, using individual bonds for a ladder has its perils, including credit risk.

"There probably are some investors with ladders of GE bonds," says Christian Magoon, CEO of Amplify ETFs. The perennially stellar GE bond issues have been among the worst fixed-income performers in 2018.

One response to this potential risk is to build ladders with ETFs instead of individual bonds. But not any ETF; rather, a specific type. "The defined-maturity ETF has found a place in an advisor's toolbox. They offer diversification and convenience," says Magoon, who helped develop defined-maturity ETFs while at a former firm.

There are two major players in defined-maturity ETFs: Invesco's BulletShares and iShares' iBonds, says Tom Lydon, editor and owner of ETFTrends.com. Both firms offer about 20 issues in this space, with corporate, high-yield and municipal bond options available to the public, according to ETF Trends.

The largest such ETF, with more than $1.2 billion in assets, is BulletShares 2020 Corporate Bond ETF. It includes over 300 issues, all of which will mature in 2020 when the fund will close.

As Invesco explains, "In the final six months leading up to final maturity, bonds held within the BulletShares ETFs will mature, and proceeds will be reinvested in cash and cash equivalents. … At termination, [Dec. 31 of the given year], each fund will make a cash distribution to the then-current shareholders of its net assets."

Clients can either reinvest in another target ETF that matures at a later date, or spend the money.

This format has advantages for advisors, especially when compared to the traditional alternative.

"With individual bond ladders, a great deal of capital might be needed to get adequate diversification," Magoon says. But with defined-maturity ETFs, share prices might be around $25, so even a client with a moderate-sized portfolio could put together a ladder, holding hundreds or thou-

sands of issues in multiple ETFs.

In contrast, a wealthy client with dozens of bonds in a ladder could have more exposure to individual credits.

The ongoing laddering process, from selecting individual bonds to acquiring them, can be time-consuming for advisors and expensive for clients. "Defined-maturity ETFs may be less costly," Magoon says. Annual expense ratios range from 0.1% for corporate versions and 0.18% for municipal iBonds, to 0.42% for high yield BulletShares, ETF Trends reports.

With dates now extending as far out as 2028, a ladder of defined-maturity ETFs could make up a client's entire fixed-income allocation.

Indeed, they can be particularly important in the current environment of rising interest rates, Mark Bova, senior managing director at Lenity Financial, an advisory firm in Geneva, Illinois.

However, advisors also can use them in combination with other types of bond market offerings. This is Bova's current strategy.

"We invest in defined-maturity ETFs as part of our overall fixed-income strategy. These ETFs form the core of that strategy. ... We combine short-term defined-maturity ETFs with actively managed ultrashort duration fixed-income and/or investment-grade floating rate ETFs. Currently, our uses of defined-maturity ETFs include short-term, barbell and goal-driven strategies." Generally, Bova's defined-maturity ETFs are those dated 2018, 2019, 2020 and 2021.

He says he would go longer if indicated by economic conditions.

Rules for Retirees

Defined-maturity ETFs typically are rules based, Magoon says, so there is some quality control. For instance, BulletShares ETFs invest only in bonds with a minimum $500 million issuance, and no issuer makes up more than 5% of a fund.

As another example of a goal-driven strategy, Bova explains that his clients include retirees taking required minimum distributions from retirement accounts. Such clients may hold defined-maturity ETFs for 2018, 2019, 2020, as examples, inside their IRAs. As these ETFs mature each year, clients withdraw the redemption payout, which satisfies the RMD.

Other clients include retirees with annual cash-flow needs before RMDs or in excess of RMDs.

In those cases, Bova uses defined-maturity ETFs that pay out the desired cash flow each year. "For such clients," he says, "we also use defined-maturity ETFs in taxable accounts for income needs. We find the annual maturities as well as the monthly income to be attractive."

Altogether, Bova says that the people at his firm are fans of these ETFs. "We can lock into an income-replacement strategy without worries of a repeat of 2008's Great Recession or higher interest rates," he adds. "Because of the diversification of the underlying holdings, default risk is of less concern. Defined-maturity ETFs have a reasonable yield relative to alternatives such as CDs or money market instruments."

Lydon, from ETFTrends.com, agrees that defined-maturity ETFs "absolutely" can play a valuable role for advisors and their clients today, noting that they can combine the best of two worlds.

"They could help insulate investors from the risk of rising interest rates," he says, "adding value by providing an alternative to the troublesome task of finding and trading individual bond securities. Defined-maturity ETFs combine the advantages of ETF investing with the benefits of individual debt exposure, including the potential ability to match income with future cash-flow needs." Lydon is also president of Global Trends Investments, an advisory firm in Irvine, California,

Given all of their advantages, Lydon adds that defined-maturity ETFs are meant to be buy-and-hold investments.

Rung by rung, the assured proceeds when the funds sunset can provide required distributions, desirable pocket money or dollars to reinvest at possibly higher yields in the future. **FP**

On Target

The largest BulletShares and iBonds defined-maturity ETFs

	Net Assets (as of 8/14/18)
Invesco BulletShares 2020 Corporate Bond ETF	$1,225,692,000
Invesco BulletShares 2019 Corporate Bond ETF	$1,156,194,000
Invesco BulletShares 2020 High Yield Corporate Bond ETF	$1,124,736,000
iBonds Dec 2021 Term Corporate ETF	$745,720,560
iBonds Dec 2020 Term Corporate ETF	$720,927,800
iBonds Dec 2019 Term Corporate ETF	$651,011,100

Source: ETF Trends, 2018

***Donald Jay Korn** is a contributing writer for* Financial Planning *in New York.*

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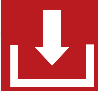

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- Critical updates for 2019 that can help lay the foundation for a financially successful year

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NOVEMBER 2018

CE Quiz

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

From: Cashing Out

1. Under the new tax law, the sale of a life insurance policy is considered a tax-free advance of the death benefit when the insured individual has a life expectancy less than this number of years.
1. Three years
2. Five years
3. Two years
4. Seven years

2. Clients who have sold a life insurance policy and paid taxes on the sale under IRS Revenue Rule 2009-13 may be able to get a refund retroactive to what year?
1. 2012
2. 2009
3. 2015
4. 2005

From: The Super-Rich Are Stockpiling Wealth in Black-Box Charities (online only)

3. If a client contributes to a donor-advised fund or private foundation, for how many years can the income tax deduction be carried forward?
1. Five years
2. Three years
3. Two years
4. Seven years

4. Donor-advised funds must pay out what minimum percentage of assets annually?
1. 5%
2. 3%
3. 7%
4. There is no legal requirement for minimum payouts.

From: Amending FINRA Forms

5. How many years must have passed before an advisor no longer has to report an agreement with creditors on question 14K of Form U4?
1. Five years
2. 15 years
3. 10 years
4. Seven years

From: Why the Tax Law Is a Bonanza for REIT Investors (online only)

6. Under the new tax law, clients who file individually may get a 20% deduction on REIT dividends as qualified income as long as they earn less than this amount annually.
1. $157,000
2. $185,000
3. $205,000
4. $100,000

7. Foreign investors are subject to what maximum percentage of withholding on their REIT distributions, per the new tax code?
1. 35%
2. 21%
3. 25%
4. 30%

From: What Are the Tax Implications of Initial Coin Offerings? (online only)

8. For income tax purposes, the money raised by an initial coin offering would generally be excluded from income, according to what section of the Internal Revenue Code?
1. 1445
2. 125
3. 529
4. 1032

From: Horse Sense

9. What is the qualified business income deduction allowed for a sole proprietorship, per the tax law?
1. 25%
2. 30%
3. 20%
4. 15%

From: Is the Small-Business 401(k) Fool's Gold? (online only)

10. What is the dollar limitation for defined contribution plans stipulated by Section 415 of the Internal Revenue Code?
1. $45,000
2. $65,000
3. $35,000
4. $55,000

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Advisor and Admiral

Life lessons: My biggest failures in the Navy taught me the most about success.

By Ted LeClair

I'm fortunate to be celebrating two professional milestones this year.

This summer, my wife Kristen and I opened a wealth management practice, 994 Group, in Austin, Texas. Last month I was promoted to rear admiral in the U.S. Navy.

People often ask me how I've been able to progress this far in both my civilian and military careers. The parallels are closer than you might think.

I have served as a reserve officer since finishing active duty in 1995. This service included lengthy deployments to the Persian Gulf and countless short-term missions — in addition to monthly weekend drills.

For the past 10 years, I also ran a consulting group for one of the world's largest asset managers.

The Navy has a clear vision, strategy, goals and mission, and that's where the parallels between my two careers begin.

These elements are key tenets of long-term success for any organization, including wealth management firms. The Navy's values support strong leaders who inspire others. As an advisor, I directly leverage my Navy leadership and management skills to maximize my team's engagement and impact.

The failures I experienced in the Navy are equally defining.

When I was younger, I was rejected for NROTC scholarships and did not get accepted into the U.S. Naval Academy. Only after three attempts did I finally receive a two-year scholarship. After graduating from Villanova, I entered Navy SEAL training — a program notorious for failing more sailors than passing. After six months and numerous setbacks, I too was dismissed from the program. Heartbroken and distraught, I transferred into the surface Navy with renewed determination.

STUBBORN PERSISTENCE

The stubborn persistence enabling me to prevail in my naval career culminated in a formula I've used to strive for success amidst failure.

- Who is your nightingale? It's said that a nightingale only sings if it hears another nightingale. We need mentor nightingales to help us sing in life. This is an important question to help determine whom you can count on for honest coaching and insight.
- What is your mission? This question can help you clarify what you are trying to accomplish and your goals to achieve it.
- Are you a Lincoln? President Lincoln's will preserved the Union. This question can help you determine your commitment and will to persist through difficulty.

In starting 994 Group, Kristen and I use this formula on an ongoing basis.

Building a business and gathering clients is hard, and failure is an ongoing theme.

Building a business and gathering clients is hard, and failure is an ongoing theme.

Throughout my military and civilian careers, I've gained tremendous respect for people who not only demonstrate perseverance, but also support and coach others to do the same. This perspective is one of the reasons Kristen and I decided we wanted to work directly with clients.

The Navy has transformed not only my life, but also Kristen's, and it is now our shared mission to transform the lives of the clients whom we are honored to serve. **FP**

Ted LeClair, *is co-owner of 994 Group, a wealth management practice in Austin, Texas, and a rear admiral in the U.S. Navy.*

To submit a Selfie commentary, email fpeditor@sourcemedia.com. Post your comments online at financial-planning.com.

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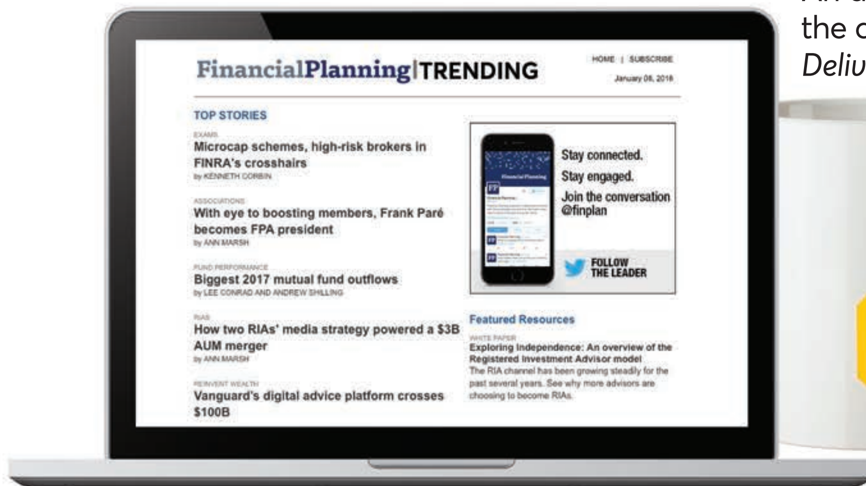

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