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No problem, says Ed Slott.
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Baird's John Taft jumps across the generation gap.
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EDITOR'S NOTE

Keeping our word

It was almost exactly one year ago, March 4, 2019, that *InvestmentNews* focused exclusively on the urgent topic of financial literacy and challenged our industry to up our game. I intend to keep that promise. The staff and I have started to prepare for Financial Literacy month, coming in April, and we want to make sure we are addressing current areas of concern.

GEORGE B. MORIARTY

For starters, I've reviewed our previous coverage, and the discussions in that issue stood out on every level — from the thoroughly reported cover story to the personal vignettes of individuals who have led efforts to improve financial literacy. But it was an infographic that showed the creative ways advisers support financial literacy initiatives that really leapt off the page.

You, our readers, are the folks on the ground; you know the work that's being done. As many of you are already engaged in this topic, please email me (gmoriarty@investmentnews.com) or DM me (@geomoriarty) those financial literacy topics that warrant attention next month. Our coverage will be all the better for it.

Finally, a moment to reflect on Mark Tibergien's decision to retire (see Page 5). I don't have a personal anecdote to share, but when someone who has left such an indelible mark on the industry gets ready for their next act, we must simply say, thank you and good luck!

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Coronavirus cripples travel plans, postpones events

BY JEFF BENJAMIN

AS THE NUMBER of confirmed cases of the coronavirus eclipses 100,000 and deaths caused by the virus exceed 3,200, the financial services community is responding with varying degrees of preemptive actions to limit the impact on employees.

While most companies, both large and small, are closely monitoring guidance from the Centers for Disease Control and Prevention and the World Health Organization, some firms are being more cautious than others in their efforts to avoid exposure.

Last Tuesday, The Institute of International Bankers announced it is postponing until July its annual conference that was scheduled for this week in Washington.

KEY POINTS

- Some firms taking more precautions than others to avoid exposure to coronavirus.
- IIB postponing its annual conference until July.

"In the interest of ensuring everyone's well-being and recognizing the significant demands on IIB members' time as they deal with contingency planning at their own institutions, we think it is best to look forward to July," an IIB spokesperson wrote in an email.

The highly contagious virus, which has spread to 90 countries in less than three months, has hit 13 U.S. states so far, infecting at least 200 people and causing 14 known deaths.

Global banks and wealth management shops, like Morgan Stanley, appear to be taking the coronavirus seriously, while some U.S.-focused firms are taking a wait-and-see approach to the pandemic.

Outside the U.S., for example, Morgan Stanley is permitting only so-called business-critical travel, and has postponed or restructured some events, including hosting some virtually.

RECENT TRAVEL HISTORY

Staff and visitors to Morgan Stanley offices and events are required to inform the bank if they have traveled in mainland China, Iran, Italy, Japan or South Korea in recent weeks, according to a source familiar with the bank's operations. If they have traveled to those countries or been in close contact with anyone who has traveled to these countries within the last two weeks, they will be asked to make alternative arrangements and will not be permitted into Morgan Stanley offices or events during the 14-day window following the trip, said the source, who preferred to remain anonymous.

On the other hand, a spokesperson for LPL Financial, the largest independent broker-dealer, said it had nothing

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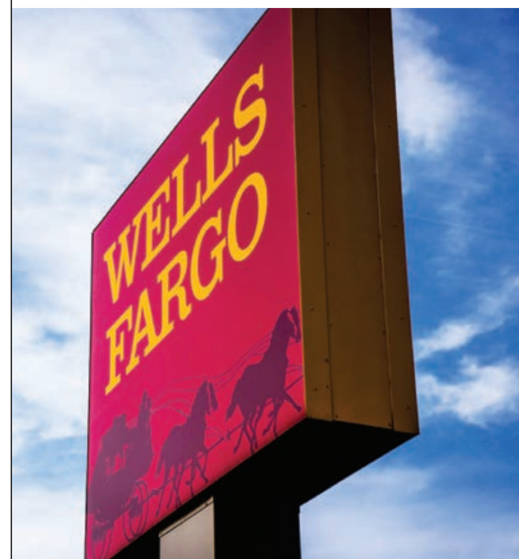
Wells Fargo account fees extended to more clients



BY BRUCE KELLY

WELLS FARGO ADVISORS is expanding the number of households that potentially could be charged an account fee of up to $300 annually.

In the future, households with $500,000 and less in retail brokerage assets could be charged the account fee; currently, Wells Fargo Advisors households can avoid the fee if they have $250,000 or more in retail brokerage assets.

The change was discussed in a meeting with Wells Fargo Advisors branch managers at the end of February, company sources said. It was not clear exactly when the change in assessing the fee will take effect.

EXACT NUMBER UNCLEAR

It was also not clear exactly how many more clients and households would be subject to the annual fee;

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Robinhood outage underscores the risks of digital investing

Last week was a rough one for do-it-yourself investors who use Robinhood, the mobile brokerage app that exploded in popularity by offering free trading long before the rest of the brokerage industry.

RYAN W. NEAL

ONTECHNOLOGY

As global markets rebounded last Monday from the previous week's sell-off and the Dow experienced its biggest point gain since 2009, Robinhood was inaccessible to its millions of customers for the entire trading day, shutting its users out of any potential gains. Service was restored last Tuesday.

The investors who were hurt most were those who purchased options, one of Robinhood's most touted features, betting markets would continue falling on that Monday. When markets instead surged, Robinhood investors were unable to sell the options and had to eat the losses.

Robinhood has faced other setbacks recently, including a $1.25 million fine levied by the Financial Industry Regulatory Authority Inc. for failing to ensure investors received the best prices on securities orders, but last Monday's outage looks particularly bad. Co-CEO Vlad Tenev has criticized technology at traditional brokerages like Charles Schwab and Fidelity, yet it was his digital-first platform that struggled most during one of the biggest trading days in recent memory.

Finance Twitter of course pounced on the opportunity for some schadenfreude at the fintech start-up's expense. Robinhood's technology just isn't ready for prime time, some said, while others said millennials were due for a lesson in bear markets as none of this would have happened if they had used a long-term, buy-and-hold strategy instead of chasing short-term gains by day trading.

All fair points, but there is a bigger issue here that isn't being addressed by mocking the company that pushed the rest of the brokerage industry to finally eliminate trading fees.

These sorts of disruptions are now an unfortunate reality of doing business in the digital age, said SMArtX Advisory Solutions founder and CEO Evan Rapoport. With all the convenience and cost savings the new digital investing infrastructure provides, there are also new ways the system can fail.

"Technology breaks, technology fails. It's inevitable that a system is going to go down at some point," Mr. Rapoport said. "There's no way that any custodian or any brokerage firm could guarantee 100% uptime."

A DIGITAL-ONLY PROBLEM

Jason Wenk, founder and CEO of RIA custodian start-up Altruist, said the problem isn't a digital-first architecture, it's having a digital-only architecture. For example, though Mr. Wenk pitches Altruist's modern technology as an advantage over traditional custodians, the company still has a human customer support team in the event of a digital service outage.

Robinhood was hardly the only trading platform challenged by the volatility. TD Ameritrade, Fidelity, Charles Schwab and Vanguard all experienced varying degrees of service disruptions as frightened investors flooded servers

CONTINUED ON PAGE 24

Pershing's Mark Tibergien to retire

BY JEFF BENJAMIN

MARK TIBERGIEN, who has led BNY Pershing's RIA custody business since 2008, is retiring May 31 and will be replaced by another Pershing veteran, Ben Harrison.

The company announced the leadership change last Tuesday following an internal announcement earlier in the day.

MARK TIBERGIEN

Mr. Tibergien, 68, joined Pershing in the midst of the financial crisis after working as a consultant for Moss Adams. He was initially tasked with growing the custodian's RIA segment.

"I've been consulting on succession planning for eons, and when I joined Pershing that was one of the first things I began thinking about," he said. "My intent at the time was to be here for only three years."

In the nearly 13 years Mr. Tibergien was leading the RIA segment, Pershing's custody assets grew from $50 billion in 2010 to $822 billion at the end of last year.

Mr. Harrison, 44, who joined Pershing in 2006 as a business development officer for the New York metro region, has spent his entire career working in the RIA custody business, including a stint with a predecessor to TD Ameritrade prior to joining Pershing.

For the past five years, Mr. Harrison has led Pershing's national business development team.

"It's a really exciting time to be tapped for this role, and I'm looking forward to taking the business to the next level," he said. "There's so much going on in the marketplace and it really aligns with our strategy of being a business-to-business provider."

In his new role, which he will assume on June 1, Mr. Harrison will report to Jim Crowley, CEO of Pershing, and will become a member of Pershing's executive committee.

Mr. Tibergien, who will be the chairman of *InvestmentNews'* Innovation Summit in New York on April 30, plans to sell his house in New York and move full time to Seattle, where he and his wife also have a home.

"We are tremendously grateful to Mark for all his contributions," said Mr. Crowley in a prepared statement. "Mark's unique vision and humble leadership helped build our advisory business from the ground up and made Pershing one of the top players in the RIA custody space."

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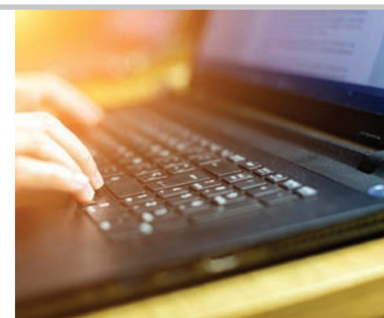

CFP Board defends decision to remove compensation info from website

BY MARK SCHOEFF JR.

CERTIFIED FINANCIAL Planner Board of Standards Inc. officials said last Wednesday the organization's decision to remove descriptions of CFPs' compensation from a consumer website is a result of its focus on raising the advice requirement for the credential.

When a stronger fiduciary standard for the CFP mark goes into force on June 30, CFP certificants will be expected to act as fiduciaries whenever they provide financial advice. Under the previous rule, CFPs were only fiduciaries during the financial planning process.

Last Monday, the CFP Board sent a letter to all certificants announcing that compensation descriptions, such as fee-only, commission-only and commission and fee, would be scrubbed from the LetsMakeAPlan.org website.

"IT'S ABOUT FIDUCIARY, NOT ABOUT FEES. THAT WAS THE DRIVING REASON."

KEVIN KELLER, CHIEF EXECUTIVE
CFP BOARD

The letter said the terms were "not helpful to consumers" and that clients should instead ask prospective advisers how they are paid.

CFP Board Chief Executive Kevin Keller said the organization is emphasizing how CFPs work with their clients, not how they generate revenue.

REASON BEHIND DECISION

"It's about fiduciary, not about fees," Mr. Keller said in an interview. "That was the driving reason and what was behind the decision the board made. This is part of the natural evolution of not focusing on how a person is paid

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Canter says Fidelity is ready to compete with Schwab-TD

BY JEFF BENJAMIN

WITH CHARLES SCHWAB Corp.'s pending acquisition of TD Ameritrade Holding Corp., which has the potential to create a custodian business that will overshadow the industry, Fidelity Investments finds itself in the unfamiliar position of becoming a distant second on the custodian stage.

On that note, we caught up with David Canter, head of the RIA segment at Fidelity Clearing & Custody Solutions, to ask how he sees the custody business unfolding in the months and years ahead.

Jeff Benjamin: How is Fidelity taking advantage of the market disruption created by the Schwab-TD combination?

David Canter: We are seeing primarily inbound inquiries since this all started from advisers who are concerned that if the merger goes through, there'll be one less custodian in the business.

For us, a lot of it is business as usual. We think we have a unique view into the wealth management business and all models, and we have an open-architecture, flexible approach. So what we're trying to do is emphasize all of the deep breadth and depth of our expertise from serving advisers day in and day out.

JB: Talk about the state of the custody business in the wake of the Schwab-TD consolidation when Fidelity's custody business goes from being among the largest to a distant second.

DC: I am very bullish on the custody business, primarily because I still think there is a bull market for advice. And we're seeing that play out both with the new entrants to the RIA channel – as you know and we've talked about, the number of RIAs continues to grow, but also investors are looking for that fee-based or fee-only fiduciary model.

So given how I feel about the demand side of the equation, it's really good for our business and it's our job to make sure we're acting as consultants to our clients who just happen to be in the wealth management vertical.

JB: But how will Fidelity's custody business adapt to potentially being overshadowed by a much larger competitor?

DC: For us, you know, we draft off the depth and breadth of a larger, well-diversified financial services business within Fidelity, so as a total company we have a lot of resources that we bring to bear with our clients.

That said, we do see this as an opportunity to increase our share with either existing clients who have multicustodial relationships, but also with advisory firms [that are not currently clients] that want to make sure they have access to another custodian.

We're going to keep doing what we've been doing. We're a private company. We're stable.

JB: Where does Fidelity stand when it comes to serving smaller RIAs?

DC: We have always been in the business of catering to small advisers, be it existing firms on our platform or new entrants. And as I like to say, there are no small advisers in terms of the issues and challenges that are affecting advisory firms with any levels of assets under management.

We've had special, what we call 'Think Tank Days,' where we talk to advisers that have all manner of assets on the spectrum and they all want to grow. They all have questions about achieving scale. They all have questions about how to build the best team, how they serve their clients in the most efficient and delightful manner.

the end client. But it's all derived from what we call the power of choice. We relationship-price the business with our advisory firms so that we can have them elect what is the best way for their clients to access our services.

I would emphasize that the choice element is so important, and advisers I think appreciate being given the opportunity to choose how they want their clients and their business to work with us, done in a bespoke manner. We have very open dialogues. I hesitate to say one way of pricing is better than another.

JB: How are financial advisers adjusting to the fee pressures that are spreading across the financial services industry?

DC: Most advisers that I speak to are experiencing fee pressures because they're having to add services. When you add services for existing clients or add services to attract new clients without a price increase, in my mind, that is fee compression.

At the same time, I also think that there are pockets where advisory firms are seeing fee pressure – and we actually have a purview into that. We see

"WE'RE GOING TO KEEP DOING WHAT WE'RE DOING ... WE'RE STABLE."

DAVID CANTER, HEAD OF RIA SEGMENT, FIDELITY CLEARING & CUSTODY SOLUTIONS

What we try to do with smaller firms, whether you're judging it by the number of employees or number of assets managed, is try to help them with the best solutions and skill sets to help them build their businesses.

JB: Where are custody fees headed?

DC: Custodians – Fidelity and others – make money by virtue of the investments advisers make in client accounts. In some cases, we charge platform fees, but not universally. In some cases, we do charge advisory firms' end clients what we call custody fees. Platform fees are paid by the adviser. Custody fees are paid by

DAVID CANTER

that advisers have to compete for new business. In many cases, they're competing against RIA firms and they're having to use price as a means of competition. And then we're also seeing some firms that are unilaterally lowering their fees for existing clients who are older and most of the planning work or the complex work has already taken place, but they're still paying a basis-point fee at the same level, so they're lowering their fees.

JB: What are some of the advisory fee models you're seeing?

DC: Interestingly, at least two firms we work with have adopted subscription-based pricing models. So they charge a subscription fee or they'll charge a flat fee for their services, and they'll blend in all the planning and the asset allocation. Some of these firms are doing this with the stated intention of going after investors who have less in terms of overall net worth.

JB: Where does Fidelity stack up against the combined technology services that are likely to emerge from the Schwab-TD merger?

DC: I think we have a technology story that is probably under-told. We have more integrations than some of our cohorts in the space and we're very excited about our technology platform that all begins with Wealthscape, which is our ad-

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Financial services deals likely to face resistance from Democrats

BY MARK SCHOEFF JR.

TWO MAJOR acquisitions in the financial services industry over the last few months are likely to meet resistance from Democratic lawmakers.

In November, Charles Schwab Corp. announced it would acquire TD Ameritrade for $26 billion. Last month, Morgan Stanley announced a $13 billion deal to buy ETrade. The latest examples of Wall Street streamlining are raising Democratic concerns.

"Under President Trump's watch, these types of mergers, on the heels of other consolidation of the financial industry such as the BB&T and SunTrust merger, harm investors and savers, decrease competition and increase risks to the financial system," Sen. Sherrod Brown, D-Ohio and ranking member of the Senate Banking Committee, said in a statement. "Hardworking Americans will pay the price when their risky activities blow up the economy again."

Matthew Keyes, a spokesman for Mr. Brown, said that his statement applied to both the Schwab-TD Ameritrade and Morgan Stanley-ETrade deals.

REPUBLICAN CONTROL

As the top-ranking Democrat, Mr. Brown is an important voice on the Senate committee overseeing Wall Street. But since Republicans control the panel, he doesn't have the power to call hearings.

The Department of Justice is examining the Schwab-TD Ameritrade union. A DOJ spokeswoman did not respond to a request for comment.

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Opinion

EDITORIAL / LETTERS / OP-ED / GUEST BLOGS

Millionaire millennials are real, so start servicing them now

Millennials can't seem to catch a break. As if constant wisecracks about spending $12 on avocado toast weren't enough, there's the pervasive perception that they are debt-laden disruptors who eschew legacy businesses and traditions, while demanding special treatment.

That perception is wrong.

The generation born between 1981 and 1996 is fast approaching 40 and, contrary to popular belief, they have worked hard and achieved real financial success. Recent estimates show that more than 600,000 millennials are already millionaires. In fact, at a count of 73 million people, millennials have eclipsed baby boomers as the largest generational group in the U.S., and as they inherit their parents' money, we will see a massive wealth transfer of an estimated $68 trillion over the next 10 years.

So who will guide this unwanted cohort's deceptively bright financial future? That's the problem.

FEELING SNUBBED

In his Feb. 24 cover story, Ryan W. Neal documented why millennial investors feel snubbed by the advisory industry. Only one in five advisers are serving any of the millennial generation's high earners, not rich yet (HENRYs). Furthermore, a Cerulli Associates' survey of people earning at least $100,000 shows millennials are working with advisers at a lower rate than previous generations in the same earnings bracket.

And for myriad reasons. Shrinking margins and fee compression are forcing some advisers to give up small accounts, despite the long-term upside, and the near $1.5 trillion worth of student debt carried by millennials is diminishing their investible assets, thus making them less appealing to advisers. Further, there's the industry's demographic problem. With just 11% of advisers aged 40 or under, and only 10% of them intending to remain in the industry for the long term, there is a paucity of advisers available to guide their peers.

But it isn't too late for advisers to develop real-life strategies to bring millennials into their practice, instead of shoving them toward robo-advisers and apps.

In a contributed piece on InvestmentNews.com, Lindsay Faussone, vice president of strategic business development at ETrade Advisor Services, suggested three ways to transform debt-laden millennials into great clients.

First, get their full financial picture. Don't ignore them just because they carry debt right now or only seem interested in digital platforms. You can get HENRY clients started with simple portfolios that require little maintenance.

Second, consider an alternative fee structure. Tailoring rates for up-and-coming clients, possibly with a subscription model, will pay off down the road.

Third, provide education and outreach. Build a relationship with clients' children as early as possible to lay the groundwork for future business. Educate them on building strategies that will bring the highest ROI. Most heirs do not remain with a parent's financial adviser after inheriting $2 million or more. So, efforts to connect now could pay dividends later.

Finally, the financial advice industry is already in contraction, so firms must be more proactive about attracting and retaining younger advisers.

AGING INDUSTRY

In a contributed piece this week on Page 21, John Taft, vice chairman of Robert W. Baird & Co., warns that the industry could lose as many as half its advisers over the next 15 years. He urges wealth managers to get serious not only about recruiting younger financial advisers, but also integrating next-gen talent into existing client relationships that can lead to connections with millennials.

To that end, Baird launched its Financial Advisor Foundations Program in 2012 to identify next-gen talent with an interest in financial services and a desire to help people. And Raymond James recently launched WealthMap, a two-year program allowing those interested in an advice career to earn Series 7 and Series 66 licenses while learning financial planning skills.

These are commendable efforts, but they are the exception. More effort is necessary to help the adviser industry get younger, and attract younger clients. To embrace millennials now is to embrace the future.

WHO WILL GUIDE THIS UNWANTED COHORT'S DECEPTIVELY BRIGHT FINANCIAL FUTURE? THAT'S THE PROBLEM.

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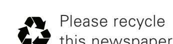

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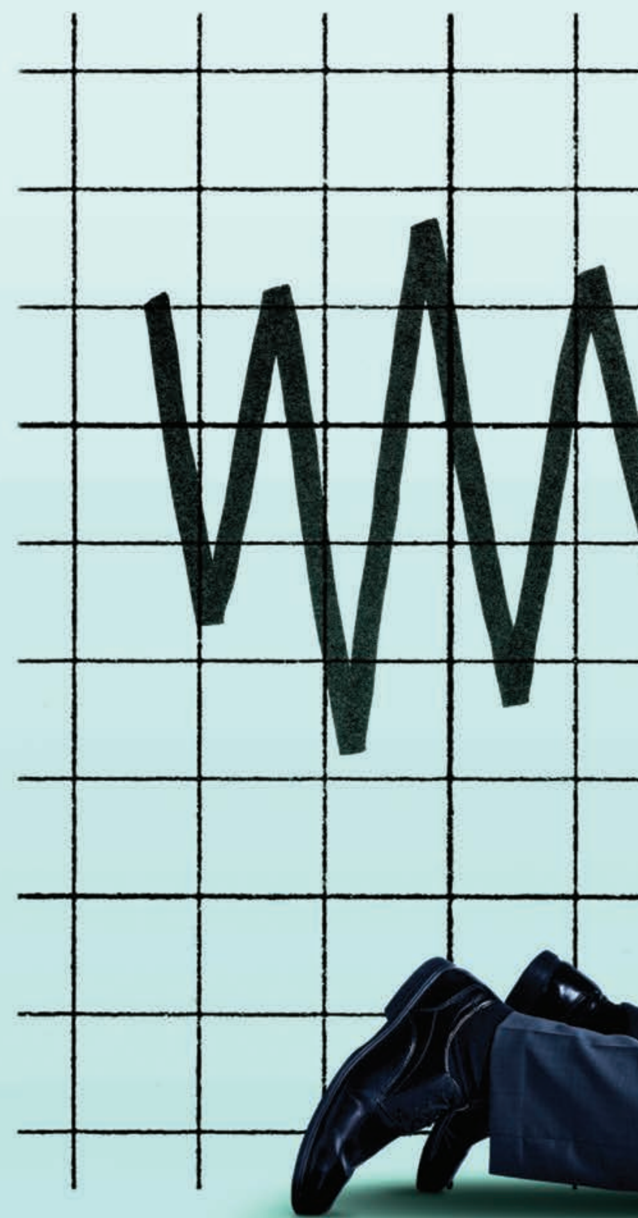

ADVISERS HAVE A BLIND SPOT WHEN IT COMES TO NONTRANSPARENT ETFs

BY JEFF BENJAMIN

Whether financial advisers are ready or not, 2020 will likely be the year of the nontransparent exchange-traded fund. If your initial reaction is something along the lines of "What?" you're in good company. While the awkwardly named new product is the latest darling of the asset management industry, it has yet to elicit much interest among advisers.

At least two dozen asset managers have signed licensing agreements with firms approved to offer nontransparent ETFs. But financial advisers, the largest consumers of ETFs, are barely paying attention so far.

A 2019 survey of more than 150 financial advisers by Cerulli Associates found that less than 16% plan to allocate client assets to nontransparent ETFs during the first year they're on the market, while 31% said they would not use them. More than 35% of respondents said it would depend on the details and structure of the products.

More recently, a February survey of 571 advisers who custody assets at TD Ameritrade showed that an overwhelming 92% said they will not allocate assets to nontransparent ETFs.

That is the challenge the fund industry faces with its latest effort to rescue active asset management, as it continues to lose market share to cheaper, index-based strategies.

"I think there is an appetite for these products, but people certainly have a lot of questions," said Tim Coyne, head of ETFs at T. Rowe Price Group Inc., one of the companies whose nontransparent ETF structure recently received approval from the Securities and Exchange Commission.

"Any time a new structure or asset class comes to market, there's a learning curve," Mr. Coyne added. "We know there's a need for education, and we're committed to that."

The first nontransparent ETF is expected to launch by the end of the first quarter after more than a decade of regulatory tug-of-war.

The general concept is to put an ETF wrapper around an actively managed strategy without disclosing the underlying holdings on a daily basis, as all other ETFs do. But each nontransparent ETF structure that has passed SEC scrutiny so far is unique in the way it provides enough portfolio transparency and guidance to keep market-makers engaged for the sake of liquidity.

In most cases, the underlying holdings will be disclosed quarterly, which is the way active mutual funds report their holdings. In that sense, these products are part active mutual fund and part ETF.

The asset management industry is promoting nontransparent ETFs as the best of both worlds because they will offer access to tested active portfolio management at lower fees and without the tax inefficiencies that plague mutual funds.

The asset management industry is also betting that investors and advisers will accept mutual fund-level portfolio transparency in exchange for the more appealing ETF wrapper.

"People are searching for that ETF wrapper," said Daniel McCade, chief executive at Precidian Investments, which received SEC approval for its nontransparent ETF structure in May and has licensing agreements with more than a dozen asset managers to launch products using its structure.

"It benefits the client and the asset manager," Mr. McCade said.

Despite the meager early interest, there is no denying the benefits of the nontransparent ETF wrapper when compared to a traditional actively managed mutual fund.

FIRST TO MARKET

American Century Investments, the fund company expected to be the first on the block with a nontransparent ETF product, is most of the way through the regulatory process with two funds, one with an expense ratio of 42 basis points and the other 45 bps — about half of what American Century charges for a mutual fund with a similar portfolio.

"If you expect a fair amount of assets in there, ETFs can be cheaper over time," said Ed Rosenberg, head of

ETFs at American Century. "Reasonably, it's a different marketplace, and you have to price ETFs accordingly."

In addition to lower fees, the new ETF structure should also deal with the unpredictable tax consequences that can hit mutual fund shareholders, regardless of a fund's performance.

Mutual fund shareholders can face taxable capital gains distributions that are triggered by the management of the underlying portfolio. The sale of securities from the portfolio that register a capital gain are passed along to the investors in the fund.

The annual distributions, which have little to do with a fund's overall performance, impact shareholders holding the mutual fund at the time of the distribution. This is not the case with ETFs, where capital gains are almost entirely the result of each individual investor's behavior.

"The nontransparent ETF notches some important wins, most notably with regard to taxes and fees, which [are] lowered by stripping out certain distribution expenses," said Ben Johnson, ETF analyst at Morningstar Inc.

It all sounds like a clear path allowing the asset management industry to sit back and collect investor assets, except for that small matter of a lack of obvious buyers.

"It's not immediately apparent to me that there is real demand for this, and it's very clearly being pushed by the asset managers who will bring them to market," Mr. Johnson said. "I've long been skeptical that you'll see much adoption. The pressure is coming from the asset managers who have to do something, because the status quo is not sustainable at some of the large fund complexes that have been hemorrhaging assets for years."

Hemorrhaging is not an exaggeration.

According to Morningstar Direct, actively managed U.S. equity mutual funds saw $1.387 trillion in net outflows over the past 10 years, while equity ETFs had net inflows of $1.412 trillion over the same period.

Currently, only about 2% of all ETF assets are in transparent actively managed strategies, which some say illustrates the low investor appetite for active management regardless of the wrapper.

But Mr. McCade of Precidian argued that the skeptics are missing the bigger picture of the ETF movement.

"There's a whole host of new investors coming to market that really like exchange-traded products," he said. "Millennials do not want mutual funds."

A THIRST FOR SIMPLICITY

While some look at the flow of assets and see a preference for index-based strategies instead of active manage-

CONTINUED ON PAGE 12

EXCHANGE-TRADED PRODUCTS TIMELINE

1993
First U.S. ETF

1996
First single-country ETF

1998
First sector ETF

2002
First bond ETF

2003
First non-market-cap weighted ETF

2004
First commodity ETF

2008
SEC approves actively managed ETFs

2009
Pimco launches active bond ETF

2010
Term-maturity bond ETFs debut

CONTINUED FROM PAGE 11
ment, Mr. McCade sees a thirst for simplicity and ease of use.

"I think investors are actually demanding efficiency and you can see that from the movement of asset flows," he said. "The real movement has been to an exchange-traded vehicle."

Greg Friedman, head of ETF management and strategy at Fidelity Investments, also describes nontransparent ETFs as more of an evolution than an either-or situation.

"There are certain clients that prefer mutual funds, but the growth of ETFs is important," he said. "We're wrapper-agnostic."

Fidelity received SEC approval for its version of a nontransparent ETF in December and plans both to launch products and license the model to other asset managers.

FEAR OF FRONT-RUNNING

While a handful of asset managers have launched transparent actively managed ETFs, most fund managers have resisted for fear of front-running by day traders who might try to capitalize on what they can glean from published portfolio holdings.

"The appeal for asset managers is that they have some products that have outperformed, but they've been hesitant to launch active ETFs on these strategies for fear of front-running," said Todd Rosenbluth, director of mutual fund and ETF research at CFRA.

Thus, the nontransparent ETF wrapper is posited as the savior of active management by giving the ETF market access to strategies it has been denied.

"The one piece missing has been excess returns," Mr. Friedman said, referencing the benefits of active management alpha over the pure market beta of the indexed strategies that currently dominate the ETF space.

"We found that the ETF user is different than the mutual fund investor," he said. "I think we'll draw from both groups."

> **"IT'S NOT IMMEDIATELY APPARENT TO ME THAT THERE IS REAL DEMAND FOR THIS."**
>
> BEN JOHNSON, ETF ANALYST, MORNINGSTAR

Kenneth Nuttall, director of financial planning at BlackDiamond Wealth Management, understands the impetus coming from the asset management industry but he is less convinced there is a measurable appetite for the new wrapper.

"It all goes back to the actual investment," he said. "If you're purely using mutual funds, this is the greatest thing in the world, but if you're using a combination including passive strategies, you're not going to be jumping up and down."

Mr. Nuttall expects advisers like himself will be flooded with sales pitches for nontransparent ETFs.

"Mutual fund-only shops are missing the boat if they don't have this, because they see where the world is going," he said. "For them, this is a better product and a better idea, because the world has changed over the past few years. The only place mutual funds will still be able to win is in the 401(k) world."

But you're not likely to hear that kind of frank comment from the active mutual fund industry.

Most asset managers won't even concede the potential for cannibalization of mutual fund assets by nontransparent ETFs offering the same strategy under the same roof, often for a lower fees.

When asked about the risk that nontransparent ETFs will steal assets away from its mutual funds, T. Rowe's Mr. Coyne said it's more likely the new wrapper will expand the active strategies to a wider market beyond current mutual fund investors. "I view this as additive, which is a positive for investors to be able to access some of our flagship strategies in an ETF," he said.

GLASS HALF FULL

Stephen Clarke, president of Advanced Fund Solutions, a subsidiary of Eaton Vance, is also viewing the glass as half full when it comes to nontransparent ETFs.

"We think there should be a strong appetite," he said. "There's a lot to be said about the power of wholesalers and the reach they have."

Advanced Fund Solutions is still awaiting an SEC green light for a nontransparent ETF structure that it filed a year ago.

In some respects, this is a second effort by Eaton Vance, which launched a similar NextShares exchange-traded product in 2016 that briefly grew to 18 funds from eight different asset managers. Hindered by distribution challenges, NextShares now consists of three Eaton Vance products managing a total of $20.5 million.

Even as the list of fund companies betting on nontransparent ETFs grows, not all asset managers view the new fund wrapper as an automatic path to success.

"We're not hearing a lot of demand for this," said Michael Natale, head of intermediary distribution at Northern Trust Asset Management. He cited concerns about the lack of transparency, which some asset managers are hoping investors don't care about.

"The three main advantages of an ETF are liquidity, tax efficiency and transparency," Mr. Natale said. "When you take one of those away it's difficult to tell how advantageous the vehicle is."

Even though he hasn't seen much in the way of demand from financial advisers, Mr. Natale said Northern Trust is keeping an open mind. "Right now, we don't have any plans to launch one and we don't have any plans to not launch one," he said. "We're going to listen to our clients."

NATURAL TO BE SKEPTICAL

Based on the brief history of Eaton Vance's NextShares, which was the initial effort to put nontransparent active management inside an exchange-traded product, it's natural to be skeptical about the potential of similar products.

"Clearly, there is ample supply coming to market and it's not clear whether the demand is there," said Spencer Mindlin, capital markets analyst at Aite Group.

"We're in the early days, but if you read the tea leaves and think about the value proposition and how it fits into the overall narrative of what advisers need to be selling, ETFs will eventually take over," Mr. Mindlin added. "It will take a long time for people to get comfortable with them, but platforms will come to market that will adopt the active nontransparent product and it will slowly start becoming part of the investment package. You might even see some mutual fund houses that will make commitments to nontransparent wrappers and make it their primary investment vehicle."

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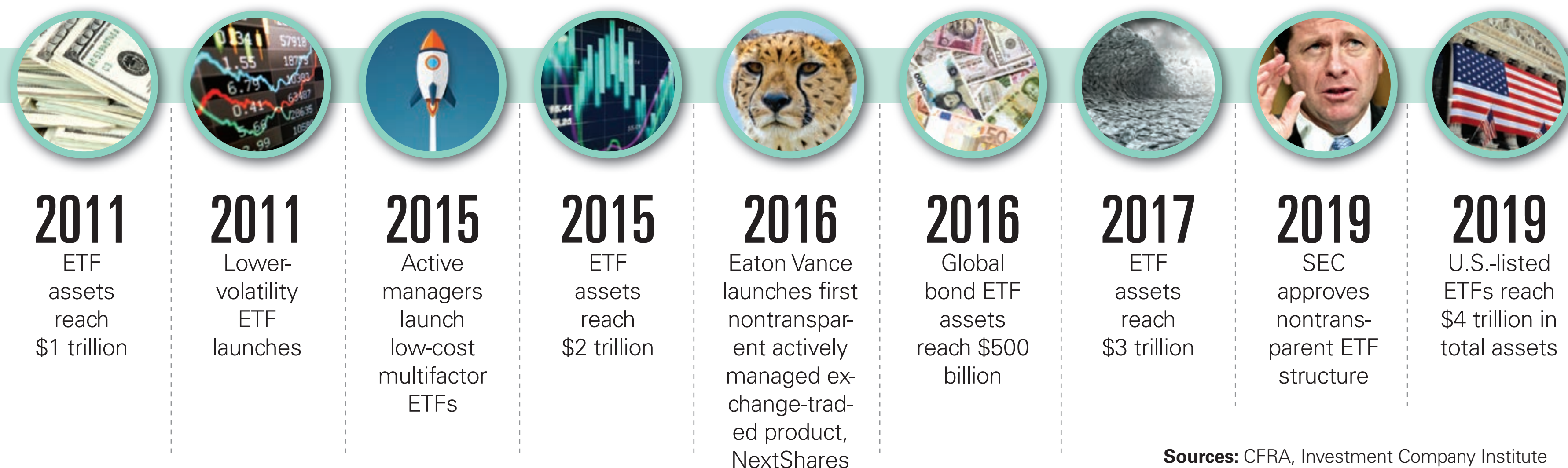
EXCHANGE-TRADED PRODUCTS TIMELINE (CONTINUED)



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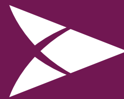

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1,398 NET LOSS OF FINANCIAL ADVISERS AT LARGE WIREHOUSES IN 2019.
SOURCE: INVESTMENTNEWS RESEARCH

RayJay to attract, retain new advisers

BY RYAN W. NEAL

KEY POINTS
- WealthMAP helps would-be advisers get experience before joining a formal training program.
- The industry is facing a shortfall of talent as more retire than enter the field.

RAYMOND JAMES HAS a new program to attract and train new financial advisers.

The Wealth Management Associate Program, or WealthMAP, is a two-year program for professionals who are interested in a career as a financial adviser but want to gain more experience before joining a formal training program, such as Raymond James's Advisory Master Program (AMP).

WealthMAP participants earn their Series 7 and Series 66 licenses while developing financial planning skills via home office, branch office and online training. Program graduates can transition immediately into AMP.

"It's important to us that our firm and profession evolve to meet quality candidates where they are and offer the personalized training to help them succeed," David Patchen, Raymond James senior vice president of private-client group education and practice management, said in a statement.

The first class kicked off in January with participants from 20 Raymond James branches. Half are transitioning from a different field or are recent graduates, and 70% are women or people of color.

A recent report by Cerulli Associates estimated at least 111,500 advisers will retire over the next decade, and nearly a quarter don't have a succession plan. Meanwhile, less than 20,000 trainees entered the industry in 2019.

Cerulli researchers suggested that making hiring practices and training more inclusive could address the growing talent shortage threatening an aging financial advice industry.

"WealthMAP not only expands the candidate pool by attracting diverse talent to this industry, but also gives them more hands-on experience and preparation to build their confidence and chances of long-term success as advisers," said Matt Ransom, Raymond James vice president of new financial adviser development.

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Vestwell to do away with traditional record keepers

BY RYAN W. NEAL

DIGITAL RETIREMENT platform Vestwell is developing a new technology infrastructure that would do away with the need for traditional record keepers.

Vestwell's existing technology lets advisers create, sell and manage defined-contribution retirement plans, but founder and CEO Aaron Schumm said the engine still needed connections with archaic record keepers that slowed down processes and drove up costs.

"Legacy providers out there have been around for a lot of years. They work, they perform a function that's critical to the equation, but it's old," Mr. Schumm said. "We've revisited, redone and rethought [record keeping] from the ground up."

With a new investing architecture driven by modern application programming interfaces, or APIs, Vestwell can maintain records in-house on a digital database and take full control over 3(16) administrative tasks such as eligibility, loans and distributions, notices and compliance testing.

By automating record keeping and bringing all non-custody services in-house, Mr. Schumm believes Vestwell enables advisers to offer white-labeled workplace retirement plans more efficiently, cost-effectively and at scale.

MORE SCALABLE

"If you're an adviser and you're working with 100 retirement plans and each have 30 employees and you want to access those 3,000 individuals, it's [currently] hard to do at scale," Mr. Schumm said. "This new framework will remove how record keeping has functioned to date."

The idea is to help advisers sell and manage DC plans for employers at small and midsize businesses. Because of the high costs, inefficiencies and thin margins of traditional record keepers, these employers' only options are to offer a generic retirement

> **"WE'VE REVISITED, REDONE AND RETHOUGHT IT FROM THE GROUND UP."**
> AARON SCHUMM, FOUNDER AND CEO, VESTWELL

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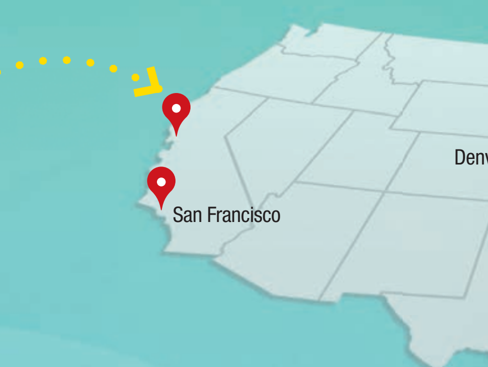

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plan, pay high fees or eschew offering a plan at all, Mr. Schumm said.

Vestwell's APIs support custom investment management options, bringing 401(k) and 403(b) plans closer to how individual brokerage accounts operate.

"We've created the ability for a participant to have their own custody account within a 401(k)," Mr. Schumm said.

The new infrastructure follows several updates from Vestwell since the company attracted a $30 million investment from Goldman Sachs. Vestwell recently updated the user experience of its adviser- and client-facing portals.

FUTURE DEVELOPMENTS

The new infrastructure also paves the way for future developments that Mr. Schumm is even more excited about, such as bringing in other workplace accounts like health savings accounts. In the future, he wants Vestwell to support what he calls "next best dollar" decision-making.

When a plan participant gets paid, the idea is that part of their money will automatically be set aside for saving into the most tax-optimal location, whether that's a DC plan, an HSA or flexible spending account, or an individual brokerage account. By allocating money into the best "bucket," Mr. Schumm said, advisers using Vestwell can help clients with their biggest concern: how they should best be saving.

"The easier we can make these decisions and make this available to people, the more we're going to help them save," he said.

Although Mr. Schumm doesn't believe what he's built with Vestwell is essentially a digital startup record keeper, for now, he doesn't have a better word for it.

"We're expanding the features and functions within this new architecture of a record keeper," Mr. Schumm said. "In 2021, our focus will be on larger initiatives for where we want to take the industry."

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Survey touts regulation as growth driver

INVESTMENTNEWS

MORE THAN HALF OF financial advisers believe regulation will be the most significant shaper of the advice industry over the next three to five years, according to a new survey by CoreData Research.

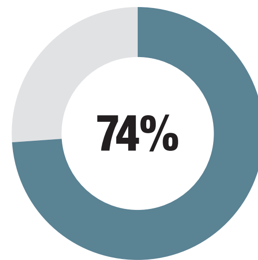
Demographic change, cited by 50% of the 200 advisers polled, and technological innovation, cited by 49%, are also expected to be prime forces shaping the wealth management business in the years to come, the research firm said in a release.

About four in 10 advisers (44%) say the low-return environment, geopolitical risk (44%) and fee compression (41%) will affect the business as well. Less important, survey respondents said, will be market volatility (39%), the macroeconomic environment (35%), the impact of fintech (20%) and industry consolidation (10%).

As far as business growth over the next two to three years, 74% of advisers said the most important factor will be the ability to demonstrate value beyond investment advice and portfolio management. This is followed by capitalizing on the intergenerational wealth-transfer opportunity (57%) and attracting younger clients (44%).

A further 44% said improving economies of scale to offset fee compression is important to business growth, while 37% cited the importance of implementing a digital strategy for clients.

IN THE NEXT 2 TO 3 YEARS, HOW IMPORTANT ARE THE FOLLOWING TO THE GROWTH OF YOUR BUSINESS?



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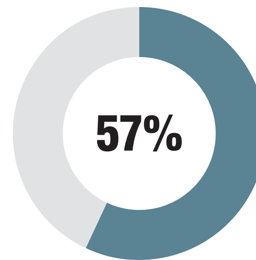
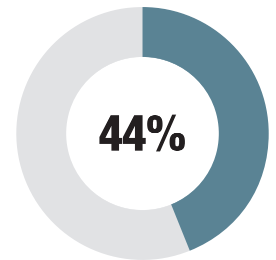
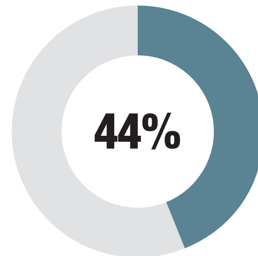


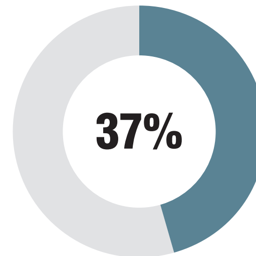
CAPITALIZING ON THE INTERGENERATIONAL WEALTH-TRANSFER OPPORTUNITY



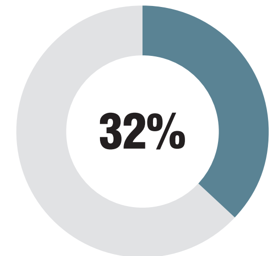
ATTRACTING YOUNGER CLIENTS



IMPROVING ECONOMIES OF SCALE TO OFFSET FEE COMPRESSION



IMPLEMENTING A DIGITAL STRATEGY FOR CLIENTS



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Source: CoreData Research

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— CAROLYN ARMITAGE, MANAGING DIRECTOR, ECHELON

Age, earnings affect couples' Social Security claiming strategies

KEY POINTS
- The higher-earning spouse should delay filing as long as possible.
- This year a critical claiming strategy has disappeared.

Married couples have the most flexibility in collecting Social Security benefits. The best claiming strategies depend on the ages and earning histories of the spouses.

In most cases, it makes sense for the higher-earning spouse to delay claiming Social Security as long as possible, up to age 70, to lock in the maximum retirement benefits for the couple during their lifetime and the largest possible survivor benefit for the remaining spouse. That assumes both spouses are healthy, can afford to delay collecting benefits and are close in age.

This year, a critical claiming strategy for people who reach full retirement age in 2020 or later has disappeared. But the ability to file a "restricted claim for spousal benefits" still exists for people born on or before Jan. 1, 1954.

A READER QUESTION

One reader wrote me noting that his wife is 69, retired and has been collecting Social Security benefits since she was 62. He is 66, still working and has not yet claimed Social Security. He asked what they could do to maximize their benefits. He plans to wait until 70 to claim his benefits.

"The amount I would receive in Social Security benefits is significantly more than double the amount she currently receives. Is there a way for her to get half of my Social Security now?"

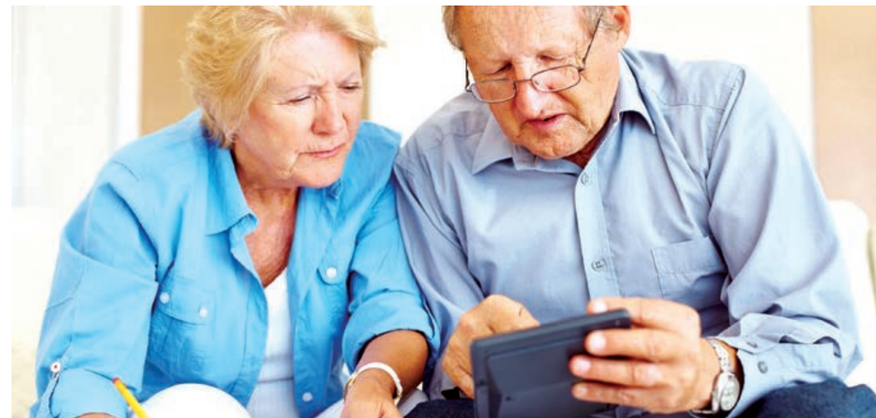
No, she can't collect on her husband's earnings record until he claims Social Security. But, because he was born before Jan. 1, 1954, he could collect half of her full retirement-age benefit amount while his own retirement benefit continues to grow by 8% per year up to age 70.

Once he does claim his benefit, his wife might step up to a larger amount, but it would be worth less than half of his full retirement-age amount because she claimed her own Social Security benefit early. The key is to determine the "excess spousal amount" by subtracting the wife's smaller FRA benefit from half of her husband's larger FRA amount.

MARY BETH FRANKLIN

ONRETIREMENT

Let's assume the husband's benefit at his FRA is $2,800 per month and the wife's FRA benefit would have been $1,000 per month. The excess spousal amount is $400, or the difference between her FRA amount ($1,000) and half of his FRA amount ($1,400). The maximum spousal amount is worth half of the worker's FRA amount, not half of a larger amount that may include delayed retirement credits.



But she claimed Social Security at 62, so her retirement benefit is reduced by 25%, to $750 per month. Once her husband claims his Social Security, the excess spousal amount of $400 would be added to her benefit for a total new benefit of $1,150. If he waits until 70 to claim Social Security, he would receive about $3,696 per month, a 32% increase from his FRA benefit amount because he earned delayed retirement credits of 8% for every year he postponed claiming beyond his FRA.

If he dies first, his widow would be entitled to a survivor benefit worth 100% of what he was receiving at the time of death, and her smaller retirement benefits would stop. Even though her retirement benefits were permanently reduced because she claimed Social Security early, her survivor benefits would not be affected if she was at least full retirement age when she became widowed.

Meanwhile, this reader, who was born on or before Jan. 1, 1954, could still file a restricted claim for spousal benefits and collect half of his wife's FRA benefit amount, not half of her reduced benefits, while his retirement benefits continue to grow by 8% per year up to age 70. People born after that date can't use this strategy.

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

Mary Beth Franklin, a certified financial planner, is a contributing editor for InvestmentNews.

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More workers want employers to help repay student debt

BY EMILE HALLEZ

YOUNG WORKERS HAVE a message for their employers: They want help paying down their crushing student loan debt rather than contributions to 401(k) accounts that they won't access for decades, according to a report on Feb. 19 from consumer research firm Hearts & Wallets.

That sentiment isn't much different across age groups. Nearly 40% of all workers surveyed said employers should help with student loan payments, while just 25% said the same for retirement plan contributions. Moreover, people who have low or no debt agreed with that nearly as much as those with high debt, said Laura Varas, CEO of Hearts & Wallets.

"Retirement plan advisers should be selling plans that have this capability. It's not going to upset the people who don't have debt, [and] it's not going to upset the older people," Ms. Varas said. The report is based on data from ongoing surveys, including one of 5,400 U.S. households.

Numerous surveys have indicated that college debt is discouraging or totally preventing younger workers from contributing to 401(k)s or other retirement plans.

One recent report by TD Ameritrade found that spending on education is the No. 1 "financial disruptor" in people's lives, with millennials being the most affected. Student loan debt outranked money issues from unemployment; supporting family members; making poor investments; accidents, illness or disabilities; and divorce, according to TD Ameritrade.

"IT'S NOT GOING TO UPSET THE PEOPLE WHO DON'T HAVE DEBT."

LAURA VARAS, CEO, HEARTS & WALLETS

Some companies do offer college debt payments as an employment perk, while others have added educational or assistance services through their defined-contribution plan record keepers.

In 2018, an IRS private letter ruling opened the door for employers to begin helping workers with student loans by providing 401(k) contributions on their behalf if the workers can show that they are making loan payments in lieu of contributing to the retirement plan.

According to Fidelity, employers that provide student loan assistance have a 75% decrease in turnover. About half of workers recently hired by companies that provide such assistance said the student loan help was a deciding factor in whether they accepted job offers.

In the survey by Hearts & Wallets, the statement that most respondents (42%) agreed with was, "I wish I were doing a better job saving." That is related to student debt, but other economic factors are also at play.

"In high-tax metro areas, as many as one in three households are thinking of moving to reduce state and local taxes," the Hearts & Wallets report stated. "In Houston, one of the higher-tax cities in Texas, 31% of households agree with the statement, 'I am thinking of moving to reduce state taxes and/or real estate taxes.'"

Over the past several years, workers and investors have been more concerned about their current financial circumstances than their future ones, reflecting a "focus on 'the now,'" Ms. Varas said.

People have multiple financial goals for their current lives, including building emergency savings, preserving capital and generating current income, she said. That is true even among people with at least $500,000 in investible assets.

For advisers, that means "at the highest level making sure you're not a one-hit wonder that plays the retirement song over and over," Ms. Varas said.

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Lawsuit questions Finra's ability to bar brokers

BY MARK SCHOEFF JR.

A BROKER BARRED from the financial industry by Finra is taking his case back to a federal appeals court, where he hopes to limit the organization's ability to impose such a sanction.

John M.E. Saad requested an oral argument in the U.S. Court of Appeals for the District of Columbia Circuit on Feb. 26. In a brief filed with the court, he says that having been barred by the Financial Industry Regulatory Authority Inc. for falsifying expense accounts was too harsh a penalty.

He also asserted that his bar was punitive rather than remedial and is inconsistent with a 2017 Supreme Court decision that limited the Securities and Exchange Commission in seeking the recovery of ill-gotten gains because it held that so-called disgorgement is a penalty.

KEY POINTS

- John Saad files second complaint, arguing his barring by Finra was too harsh.
- He also asserts his bar was punitive rather than remedial.

Mr. Saad originally took his case to the D.C. Circuit Court of Appeals, where a three-judge panel remanded it to the SEC to determine whether the Supreme Court case, Kokesh v. SEC, applied to Mr. Saad's circumstances.

Last August, the agency upheld the Finra bar, ruling that Kokesh only affected pecuniary sanctions and that a Finra industry bar is "remedial" rather than a "penalty."

"This conclusion cannot be squared with Kokesh, which makes clear that Mr. Saad's lifetime bar is punitive," according to Mr. Saad's brief. "Indeed, the facts of this case underscore the wisdom of the Kokesh framework. After all, it would be odd to suggest that such a severe and disproportionate penalty — a lifetime ban for a misappropriation of a small sum [$1,144] nearly 15 years ago — should be viewed as remedial. This court should reverse the SEC's order."

In September 2007, Finra brought a disciplinary action against Mr. Saad for filing false expense reports in 2006 when he was a regional director in the Atlanta office of Penn Mutual Life Insurance Co. During the investigation, Mr. Saad allegedly made multiple false statements. Finra then imposed the bar.

HANDS COULD BE TIED

If the court sides with Mr. Saad, the broker-dealer self-regulator could have its hands tied in trying to bar brokers in the future.

"If they have to rethink their approach to sanctions based on a new framework, that's going to be very significant," said John Curley, a partner at Hoguet Newman Regal & Kenney. "You may see fewer lifetime bans and when you do see them, you may see Finra going the extra mile to explain the basis for each bar with more particularity than they have in the past."

In the court's remand to the SEC, one of the judges on the panel, Brett Kavanaugh, filed a concurring opinion, in which he wrote that following the Supreme Court's Kokesh decision, the SEC and Finra would have to provide more detail to justify an industry bar. In 2018, Mr. Kavanaugh joined the Supreme Court.

Brad Bennett, former Finra executive vice president for enforcement, said Mr. Saad's appeal will be taken seriously by the court because of Mr. Kavanaugh's opinion.

The D.C. Circuit Court of Appeals has not set a hearing date.

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5 reasons the end of the stretch IRA will not pose a problem

The stretch IRA is dead and everyone (including me) is writing about how this is the apocalypse for IRA planning. Well, it isn't. Let's all take a deep breath. Yes, the stretch has been minimized, and this does affect some clients, particularly those with the largest individual retirement accounts, but not all clients.

IRAALERT
ED SLOTT

Looking at the larger picture, advisers need to explain to over-worried clients that, for most, this will not be a problem. Here are five reasons why:

1. The stretch only affects the largest IRAs.
How many IRAs even make it to the beneficiary with a large enough sum to justify stretch payouts? The Treasury Department estimates only about 20% of all individuals who are required to take required minimum distributions will actually stick to the schedule and take the minimum. That means that four out of five IRA owners withdraw more than required, thereby reducing the account balance more quickly, leaving less for beneficiaries, and reducing and maybe eliminating the impact of no stretch IRA.

2. Spouses are unaffected.
Most married people leave their IRAs to their spouses, and surviving spouses are exempt from the new stretch restrictions. Spouses who inherit still have all the options they had before the SECURE Act and can continue to take RMDs as before.

For example, surviving spouses could do a spousal rollover and delay the "no stretch problem" until the next generation. They would thereby postpone the start of the 10-year payout rule and consume more of the IRA funds during their lifetime, again leaving less to beneficiaries and resulting in less concern about the stretch IRA.

3. Most beneficiaries don't stretch anyway.
Windfalls don't last long. How many beneficiaries will wait patiently for 30, 40 or 50 years to deplete their inherited IRAs? Very few. For many beneficiaries, the new 10-year rule may be a more realistic strategy. As for the smaller inherited IRAs, it might be logical to empty the account with a lump-sum distribution, especially if it is split among several beneficiaries who are in low tax brackets. Of course, if the inherited IRA is a Roth, it would pay to hold it for the full 10 years and gain all the tax-free buildup.

4. The 10-year rule may provide better planning opportunities for beneficiaries.
The new 10-year payout rule is different than the old stretch IRA. Under the previous system, beneficiaries generally had to begin withdrawing in the year after the owner's death — and every year thereafter — regardless of their own tax situation. The 10-year rule provides more fertile planning territory because there are no annual RMDs during this window. This gives the beneficiary more flexibility to take distributions when they need them and refuse distributions in years when they don't. Yes, the entire inherited IRA balance must be withdrawn by the end of the 10th year after death, and this could result in a sizable tax hit in that 10th year, but proper planning for the preceding decade can soften the blow.

THE STRETCH IRA HAS BEEN MINIMIZED, BUT THERE IS PLENTY OF UPSIDE.

5. Most beneficiaries are in lower tax brackets.
Grandchildren are popular IRA beneficiaries. However, for the most part, under the SECURE Act, grandchildren cannot stretch inherited IRA payments over their lifetimes. They are bound by the 10-year payout rule. If a grandchild is a minor, the kiddie tax could emerge and the child might have to pay taxes on any withdrawals at the parents' tax rate.

Yes, they will be forced to deplete the inherited IRA within 10 years, but younger people are typically in the lower tax brackets. While the inherited IRA payout is accelerated to 10 years, the tax hit to the younger generation typically will not be as difficult to handle.

Yes, the stretch IRA has been minimized, but there is plenty of upside remaining for advisers to work with.

For more information on Ed Slott, Ed Slott's 2-Day IRA Workshop and Ed Slott's Elite IRA Advisor Group, please visit www.IRAhelp.com

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TECHNOLOGY / BUSINESS DEVELOPMENT / MARKETING / NEXT-GEN / CLIENTS / EMPLOYEES

Wealth management in the decade to come

For wealth managers, the last decade turned out to be far better than expected at its start. Last year capped the 2010s and had substantial implications for wealth managers. In many ways, this past year highlighted the major trends of the decade, and those trends will no doubt shape 2020 and the rest of the decade to come.

GUESTBLOG
JOE DURAN

The unrelenting bull market. After the brief sell-off in stocks at the end of 2018, many investors came onto 2019 anticipating a recession. Yet despite trade tensions, Brexit uncertainty and the inescapable political drama, the equity market delivered a remarkably positive year with a noteworthy lack of volatility. This was an extension of what we have seen all decade: a stock market that has climbed ever higher despite myriad concerns.

A consumer revolution for investors and their wealth managers. It's been a decade of disruptive technological advances and declining costs for investors and their advisers. The domination of ETFs has collapsed investment costs, and custodians have driven execution costs all the way down to zero. We started the decade with a couple of robos in the market, but now there are a multitude of low-cost or zero-cost digital investment advisers to choose from. Almost no firm was on the cloud in 2010, but today there are a number. Social media has gone from a curiosity to more of a standard for community building. By contrast, much of the core business has remained relatively stable. In many ways, wealth advisers are doing much of the same work they were doing a decade ago: delivering plans and building portfolios.

The decade of the deal. It was a banner decade for consolidation in wealth management. Mercer and Wealth Enhancement Group went through recaps, and United Capital sold to Goldman Sachs (that's obviously one I'm more than a little connected to). Billions in capital from private equity flowed to wealth management, and banks went from not providing growth capital in 2010 to lending at two times EBITDA leverage ratios in mid-decade, to lending at over five times EBITDA today. Consequently, multiples have expanded and a record numbers of smaller firms have been acquired. At the beginning of the decade there were very few independent RIAs that could be considered national in scale. By 2019, that had changed dramatically.

The bull will eventually meet a bear. We're entering the 12th year of this bull market, with less volatility than in any of the preceding years. It's unlikely this decade's returns can match the past decade's in absolute numbers. Investors have not seen a major (greater than 20%) decline in a very long time. As valuations climb higher, so does the risk for investors. In addition, the demographics have changed. The baby boomer retirement surge is peaking, which means we will see an increased outflow from stocks (and advisers' assets, too) as retirees live off their savings and invest more conservatively. Now is a great time to demonstrate the value of human-led advice by helping clients rationalize expectations and prepare for a return of volatility. Want to protect your business? Run scenario analyses in clients' financial plans with reduced returns and higher implied volatility for the next decade.

The shift from cost to value. Now that we've essentially reached zero-cost investing, firms will need to provide increased services to deliver value to their clients (and revenues). Expansion of services allows practices to maintain pricing and continue to grow. By the end of this decade, planning and investing alone will not suffice to defend your fees. You will need to do more: Wealth managers will likely find themselves facilitating bank loans and services, providing insurance advice and coordinating a client's entire financial life. To do that at scale, independent firms will need to partner more with vendors, create repeatable service models for clients, and have more clearly defined and distinct positioning in order to stand out. We're starting this decade with artificial intelligence and blockchain as interesting ideas, but by the end of the decade both may be a part of almost every wealth manager's business — either directly or through vendors.

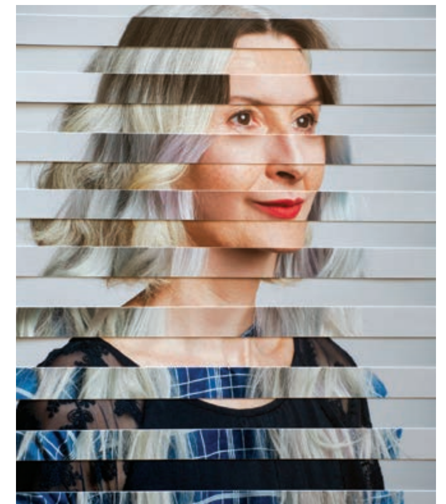
The big will get bigger. We can expect accelerated consolidation in wealth management if lenders continue to provide leverage to purchasers. Many of the founders of larger independent firms are baby boomers, like their clients, and are reaching retirement age themselves. We should expect an acceleration of large, strategic firms participating in the buying as they try to join in the most profitable part of the industry: the wealth management fees advisers charge. Which businesses will get the highest premium? The ones that are bigger, those that are growing organically (adding new clients without buying them), and those that can operate and grow without too much reliance on any one person.

WEALTH MANAGERS WILL LIKELY FIND THEMSELVES FACILITATING BANK LOANS.

If the past teaches us anything, it's that the future is unpredictable. However, we can all prepare for uncertainty by making changes that improve our business, regardless of whether things unfold the way we imagined or not.

Joe Duran is CEO of United Capital, a Goldman Sachs company. Follow him at @DuranMoney.

Why many women aren't seeking financial advice



As a volunteer with Resolve of Greater Rochester, an organization determined to end violence against women, I have the opportunity to work with women from all backgrounds in my community. It's a continual reminder that for all of us to succeed as advisers, we must see beyond our own experiences and acknowledge other perspectives.

FINANCIALLITERACY
COURTNEY LAFFLER

With all of our clients, we must begin with empathy and understanding.

When we emphasize understanding clients and their relationships with money, we can discover underlying values and motivations for clients' goals. This emotional intelligence equips us to translate what's most important to our clients – and why – into the ability to coach our clients throughout their lives to achieve their goals.

Yet, we may not be fully reaching a pretty large demographic group: women.

In Edward Jones' latest Female Financial Empowerment survey, we found that while seven out of 10 women say they feel confident in their financial knowledge, 66% have never consulted a financial adviser. Given my commitment to women's rights, dignity and security, this gap concerns me.

FRUSTRATING STATISTIC

It's a frustrating statistic for any financial adviser, but it's important to understand why nearly 70% of those women surveyed aren't seeking advice.

Our research shows that women tend to prioritize immediate family needs and put saving for the future, including retirement, on the back burner. In fact, only one in four women consider saving for retirement as their most important goal in the next three to five years.

This research is a stark reminder that we need to understand the challenges our clients and prospective clients face if we're going to change the engagement level and, in the end, the results. Our profession is a noble one. Every day, we're called upon to listen to what's most important to our clients and help them achieve that vision through individualized strategies we create for their financial futures.

FEELING EMPOWERED

Similarly, as a mentor with Resolve of Greater Rochester, I provide financial education that helps women feel empowered to make important decisions about their future.

I once worked with a woman who was making $50,000 annually but had concerns about her ability to afford an apartment. Fear — and a web of other complex factors — were keeping her in an unsafe situation. I knew having a financial strategy could help her feel more secure and in control of her financial future. After we walked through her budget and the local cost of living, she chose a new home and path forward for her family.

70%
PORTION OF WOMEN WHO AREN'T SEEKING ADVICE

My volunteer work helps me better understand the unique and challenging experiences of women affected by violence — and it makes me a more empathetic financial adviser and leader. In particular, it has refreshed the way I work with my female clients and made me even more passionate about doing more to empower women.

STARTS WITH EDUCATION

Empowerment starts with education, which is why I conduct a "Foundations of Investing" seminar for women at my local community center. This complimentary resource, provided by Edward Jones, helps build one's investor IQ by teaching the basics of developing a strategy, the impact of asset allocation and the influence inflation can have on long-term goals. It's my hope that by empowering others through financial education, we're supporting what is important to them as they work to fulfill their ambitions, needs and service to the community.

From working with women in challenging circumstances to meeting clients who've never sought advice, our empathy is the common factor. We must be able to see beyond our personal experiences and take a human-centered approach to successfully serve our clients and communities.

Courtney Laffler is a financial adviser with Edward Jones in Fairport, N.Y.

Intergenerational partnerships are important in the advice industry

GUESTBLOG
JOHN TAFT

The American financial industry has weathered countless challenges throughout its history. Bull markets turn bearish. Economic expansions are interrupted by recessions. Exogenous natural or geopolitical events weigh on investor confidence and strategic business plans. Occasionally a crisis comes along that raises questions about the fundamental soundness and stability of the system itself.

I've experienced all these phenomena firsthand. I've never considered any of them to be existential threats because such challenges often create opportunities. That may prove to be the case in this instance, but I've never seen anything quite like what faces our industry now.

According to J.D. Power's 2019 U.S. Financial Advisor Satisfaction Study, the average financial adviser in America was 55 in 2019, with one-fifth of that population being 65 or older. Only 11% of advisers were 40 or younger and, according to a 2018 PwC report, only 10% of millennials working in the sector at that time planned to stay for the long term, with 48% saying they were actively seeking new opportunities.

This seems to point to an increasing number of empty desks at wealth management firms over the next five to 15 years, with the industry poised to lose half or more of its most experienced advisers and, within the same window, many of their clients.

COST OF UNDERREPRESENTATION

Beyond the potential decline in wealth management revenue as older advisers and their clients age out of the industry or pass on, without succession plans in place, there's a potentially huge opportunity cost associated with the underrepresentation of younger people in wealth management careers.

A recent report by Coldwell Banker shows that there were already more than 600,000 millennial millionaires in the U.S. in 2018 and over the next 25 to 30 years, millennials stand to inherit as much as $68 trillion. Various surveys over the last five years have found between 66% and 95% of heirs do not remain with a parent's financial adviser after inheriting $2 million or more.

How likely do we think next-gen clients will be to stay with a firm after their parent's adviser is gone?

If wealth managers want to remain relevant to this emerging market, they need to be serious not only about recruiting younger financial advisers, but also integrating that next-gen talent into existing client relationships.

CONVENTIONAL WISDOM

If the data aren't convincing enough, consider the conventional wisdom that our business is built on trust. Our clients want advisers they can relate to — someone they believe can understand their situation and help them achieve what's important to them. If you are among those who dismissed the "OK, boomer" movement as offensive social media snark, you've missed the unsubtle subtext. There are very vocal segments of Generation Y and Z that are simply done listening to and taking advice from people born before 1965. Whether that stance is justifiable or not, you can't deny it's a barrier to building trust.

I'm not suggesting more experienced advisers take on younger partners simply for the optics or even solely in the hope of attracting younger clients. There is very sound research that points at the meaningful benefits of generationally diverse financial adviser teams for clients of all ages.

A 2009 Harvard University study looked at the effect of aging on financial decision-making. It found that experiential capital — what we commonly think of as wisdom — accumulates throughout life in the absence of some degenerative impairment. Meanwhile, analytic capital — our ability to assimilate new information and make real-time decisions — generally declines as we age. When you think about the knowledge and experience required for successful financial planning and the advantage of raw processing power in effective investing, there is clear value to our clients in both types of cognitive capital. Intergenerational partnerships can offer the best of both worlds.

A SEISMIC DEMOGRAPHIC SHIFT

Robert W. Baird & Co. — a firm I came out of retirement to join in 2018 — has been preparing for this seismic demographic shift for some time and has developed a unique approach to recruiting and developing next-gen talent.

Launched in 2012, the Financial Advisor Foundations Program is designed to identify next-gen talent with an interest in financial services and a genuine desire to help people. After starting with just one test subject, the program has grown selectively. Those accepted participate in a competitive and rigorous two-year rotational program that provides real work experience and educational opportunities — in wealth management offices and support areas — to give them a full understanding of all they'll need to succeed as an adviser.

The goal, says Katie Jackson, Baird's next generation talent manager, is to place graduates on teams with seasoned advisers — but it's not just handed to them. "Expectations are high," she explains. "As part of the program, candidates not only need to understand how holistic wealth management works but also what their specific value proposition would be to an established team. They have to demonstrate why they're worth the investment."

VOCAL SEGMENTS OF GENERATION Y AND Z ... ARE SIMPLY DONE ... TAKING ADVICE FROM PEOPLE BORN BEFORE 1965.

So far, the program has successfully trained and placed 26 next-gen financial advisers with established teams throughout Baird's branch network. I'm confident Baird's efforts on this front will position us competitively for the future of our industry.

What's the plan for your practice?

John Taft is vice chairman of Baird and former chairman of the Securities Industry and Financial Markets Association.

40% PORTION OF ACTIVE FUNDS THAT BEAT THEIR INDEXES LAST YEAR, A SLIGHT IMPROVEMENT FROM 2018.
SOURCE: MORNINGSTAR

SEC puts misleading fund names in its cross hairs

BY JEFF BENJAMIN

THE SECURITIES AND Exchange Commission is seeking input from the public to help eliminate potentially misleading fund names that can ultimately harm investors.

The SEC, which is responsible for approving the names, offered the issue out for public comment last Monday to determine if its current methods are effective or if viable alternatives are available for the agency to consider.

When it comes to fund names that don't quite jibe with the underlying portfolio management strategy, everyone seems to have an example. Proposed solutions, however, are less certain.

Todd Rosenbluth, director of mutual fund and ETF research at CFRA, cites the $1.2 billion First Trust Utilities AlphaDEX ETF (FXU) as an example of a fund that might surprise some investors.

"The fund has a nearly 30% allocation to telecom companies, including AT&T, Verizon, and T-Mobile, that are not utilities," he said. "An investor buying this fund would likely be surprised to find AT&T is one of the larger holdings."

But souping up a utilities fund with some telecom holdings is child's play compared to the infamous collapse of the LJM Preservation and Growth Fund, which suffered a two-day decline of 80% in February 2018.

"Beyond the oxymoron of the fund's name, it sold naked put options on the S&P 500, which is not exactly a capital preservation strategy," said Kirk Hackbarth, an adviser at Strategy Wealth Partners.

POSTER CHILD

The LJM fund, which is now defunct, is what Mr. Hackbarth views as a poster child of misleading fund names.

"I would say most fund names say what they're trying to accomplish," he said. "And anyone can jump on Morningstar and see what the fund is trying to do."

The SEC, which did not respond to a request for comment for this story, is specifically seeking comment on an Investment Company Act rule governing the names of SEC-registered investment companies.

The current rule related to fund names prohibits the use of names that are likely to mislead investors.

The irony of the SEC's comment period on fund names is that the SEC is essentially questioning its own ability to police the naming of funds, according to Mr. Rosenbluth.

"In order for a fund to launch, the SEC has to approve it, and the name is listed in the filings," he said. "If the SEC wasn't comfortable with the name of a fund, they could just provide feedback to the asset manager."

The current naming rule, for example, requires a fund to invest at least 80% of portfolio assets in any asset that is part of the fund's name.

But some of the challenges the SEC is struggling with include accurate naming of funds using derivative investments or less-common hybrid instruments.

The SEC is also seeking input on indexes that are not currently subject to the naming rule, as well as ways to deal with the liberal use of phrases associated with environmental, social and governance investing strategies.

But while the regulators try to push fund companies toward more standard naming practices, there's also a case to be made for creating names that are as broad as possible.

> **KEY POINTS**
> - SEC seeking comment on how to eliminate fund names that misrepresent the portfolio.
> - Case to be made for making names as broad possible.

"I think they should make the fund names so generic that it forces investors to do some research into what they're buying," said Dan Wiener, editor of the Independent Adviser for Vanguard Investors.

"If every company just had a growth fund, it would force people to make a little effort to find out what these things are," he added. "The names don't tell you anything, so why not force them to become even more generic, so it behooves the investor to at a minimum look at the summary prospectus."

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Oracle to pay $12 million to settle 401(k) class action lawsuit

BY EMILE HALLEZ

ORACLE CORP. IS settling a long-running 401(k) lawsuit for $12 million, according to court records filed Feb. 27.

The settlement comes just before the trial was scheduled to begin. According to the agreement, the deal helps both parties avoid substantial risks that they faced in the process of reaching a court decision.

The lawsuit, which was filed in January 2016, alleged that Oracle, as sponsor of the 401(k) plan, breached its fiduciary duty to plan participants by including at least three investment options that underperformed their benchmarks, and allegedly charged excessive fees.

Those funds also paid revenue sharing to the plan record keeper, Fidelity, that was "far beyond a reasonable rate for the services provided," according to the complaint.

Those investment options included the Artisan Small Cap Value Fund, TCM Small-Mid Cap Growth Fund and PIMCO Inflation Response Multi-Asset Fund.

The settlement class includes all participants or beneficiaries of the plan between Jan. 1, 2009, and Dec. 31, 2019, according to the court motion.

SUSPENSION OF CROSS-SELLING

In addition to the monetary component of the settlement, the agreement compels Oracle to instruct Fidelity not to cross-sell any products or services to its plan participants for three years. That includes soliciting the 401(k) participants for individual retirement accounts, managed account services outside of the plan, insurance products, wealth management services and investments, according to court records. That guideline would also apply to a different record keeper if Oracle hired a new one during the three-year period.

> **$4.5M**
> PAYOUT FOR PLAINTIFF LAW FIRM SCHLICTER BOGARD & DENTON

That detail "provides substantial value to current and future participants by ensuring that the plan's record keeper does not improperly benefit from the sale of retail financial products and services to the detriment of plan participants," the parties wrote in a notice to the judge.

Fidelity is not a named defendant in the litigation. "Fidelity simply does not engage in the type of unauthorized solicitation of plan participants described in the complaint," a Fidelity spokesman wrote in an email.

'SECRET PAYMENTS'

The record keeper has been sued in separate cases over allegedly "secret payments" it receives from mutual fund sponsors whose products are included in its plans the company serves. Last month, a case brought by participants in T-Mobile's plan was dismissed in federal court. Lawyers representing plaintiffs have said they will appeal that decision.

The Oracle 401(k) plan, which was established in 1986, had about $14.3 billion in assets among nearly 80,000 participants at the end of 2018, according to Department of Labor data aggregated by BrightScope.

The settlement includes a maximum payout of nearly $4.5 million for plaintiff law firm Schlichter Bogard & Denton. That law firm is all but synonymous with retirement plan litigation, having brought cases against dozens of 401(k) and 403(b) plan sponsors. The firm has reached settlements or won awards totaling more than $1.5 billion in such litigation, including a $62 million settlement with Lockheed Martin, a $55 million settlement with ABB and a $57 million settlement with Boeing, according to the law firm.

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CORONAVIRUS

CONTINUED FROM PAGE 4

to share when asked about the impact of the coronavirus outbreak on its business operations. A representative for Cetera Financial Group, another large IBD network, said that as of last Wednesday, the firm had not restricted travel, but it had increased its business continuity planning.

At Raymond James Financial Inc., any associates or employees who have recently returned from countries identified as higher risk will work from home for 14 days or more, according to a company press release last Friday. The firm is also asking associates, clients and partners who have traveled from high-risk areas to not attend any Raymond James event or meeting.

Until further notice, Raymond James has also suspended business travel to high-risk countries.

FLIGHTS GROUNDED

Mark Tibergien, head of the RIA custody business at BNY Mellon's Pershing, said the virus has radically reduced the amount of employee business travel.

"We're adhering closely to what other banks are doing," he said. "We have a moratorium on plane travel and attending big events, and we've been consulting with physicians and experts on how to proceed."

Mr. Tibergien said domestic travel is limited to "business-critical reasons," and international travel requires executive-level approval.

At the financial advisory firm Captrust, chief technology officer Jon Meyer has been leading a critical response team to develop contingency plans for 650 employees in 50 offices around the country — while still enabling them to serve clients.

"We have not limited travel thus far, but we are looking closely at changes and are prepared to if we have to limit travel," he said. "We know there are several hot spots in the country where there are clusters of incidents and we don't want people traveling there, and we also have people in some of those hot-spot areas and they would not be allowed to travel to other offices."

BUSINESS CONTINUITY

Mr. Meyer said Captrust is focusing on everything from the way food is delivered inside the offices to adapting its document-fulfillment centers so that production isn't shut down if an office cannot be staffed due to quarantines.

The Vanguard Group has introduced travel restrictions for China, Hong Kong, Japan, South Korea, Italy, Taiwan, Macau, Singapore and Iran. There is also a 14-day work remote requirement for individuals who recently returned from any of those countries known to be hot spots for the virus.

A Vanguard spokesperson said the company has also ceased all cross-border business travel between Vanguard offices "for the foreseeable future."

Fidelity Investments has adopted certain travel restrictions and is encouraging employees living and working in impacted areas to work remotely.

InvestmentNews *senior columnist Bruce Kelly contributed to this report.*

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WELLS FARGO

CONTINUED FROM PAGE 4

the firm allows its 13,512 reps and financial advisers limited discretion in whether or not to charge the fee.

There is a maximum account fee of $300 per household, and most households have multiple accounts, company sources said. On certain account types, fees are waived, including advisory and college savings plans.

"Wells Fargo Advisors charges annual account fees up to a $300 maximum per household," spokesperson Kim Yurkovich noted in an email.

$500K

NEW THRESHOLD AMOUNT IN HOUSEHOLD AUM TO RECEIVE A WAIVER OF FEES

"The fee amounts per account will remain the same. However, the threshold amount for clients who receive an automatic waiver has shifted from $250,000 in household assets under management, to $500,000. This will impact a small number of clients."

REPUTATIONAL DAMAGE

The decision to increase the number of households subject to such a fee comes at a time when Wells Fargo Advisors is trying to shake off the reputational damage it has suffered since 2016, when its parent bank, Wells Fargo & Co., revealed bank employees had secretly created millions of unauthorized accounts in the names of customers without their consent.

The bank was fined $185 million and then-CEO John Stumpf resigned. Myriad bank-related scandals followed.

"Why would Wells Fargo do something like a fee in this cycle when they're trying to shed the damage to its reputation and also annoy clients and advisers?" asked Danny Sarch, an industry recruiter.

'FEE-SENSITIVE' ENVIRONMENT

"In an environment where consumers are fee-sensitive, especially with online trade commissions cut to zero, Wells Fargo Advisors is raising client account fees and even layering them," said one adviser, who asked not to be named. "How does a new fee like this work to attract a younger generation of investors who have not acquired $500,000 outside of company retirement plans?"

Although the firm said that it has seen success recently in recruiting advisers, Wells Fargo Advisors' head count continued to drop last year, with the firm reporting 13,512 financial advisers at the end of December, a drop of 456 — or 3.3% — over the 12 months of 2019.

While some of those advisers moved to competing firms, others retired and left the industry.

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to check their accounts or make trades.

"That has to do with aging infrastructure. If they don't rebuild it, they're going to struggle," Mr. Wenk said. "It's about finding the right balance of a modern infrastructure and the value of offline help."

No system can be totally foolproof, and Mr. Wenk argued that digital systems are still more reliable than the past setup in which investors would have to call a broker to place orders during volatility.

if they were willing to put up with phone wait times.

This may be Robinhood's biggest weakness. The app's purely digital structure gave customers no other recourse. Even support emails reportedly bounced back as undelivered.

The event could trigger regulatory scrutiny as to whether Robinhood met business continuity requirements, Mr. Rapoport said.

For some financial advisers, the entire episode simply reinforces the value of working with a professional. Investors with a long-term plan aren't worried about getting in or out of the

"IF THEY DON'T REBUILD IT, THEY'RE GOING TO STRUGGLE."

JASON WENK, FOUNDER AND CEO, ALTRUIST

Digitizing more of the investing ecosystem also removes the opportunity for human error, said Facet Wealth CEO and co-founder Anders Jones.

"I would venture to guess that if you look at [digital] systems going down versus trade errors done by humans back in the analog days, I'd imagine there's a lot more value destroyed by humans," Mr. Jones said.

BACKUPS AND FAIL-SAFES

If no system – whether analog or digital – can be perfect, it's important that firms build in the necessary backups and fail-safes. For example, traditional brokerages maintain a massive human workforce to provide support in case of an outage, and customers could still call in to a trading desk

market on any given day and wouldn't be affected if the service goes down, Mr. Jones said.

"The retail investor who isn't thinking about long-term planning is the one who is going to get hurt," Mr. Jones said, adding that his firm didn't see an uptick in investors logging on, though his advisers did get more questions and emails.

However, Facet Wealth did see an uptick in new prospects as people came looking for financial advice and planning, Mr. Jones said.

"The better way to approach a healthy financial life is to focus on long-term planning," he said.

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CFP DECISION

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but the professional obligation they commit to in the way they deal with their clients."

The CFP mark is business-model neutral, meaning that investment advisers, registered representatives and insurance sales professionals all can hold it. More CFP professionals accept some form of sales-related compensation than those who do not, according to Leo Rydzewski, CFP Board general counsel.

"In recognition of this … the new code of standards said that any CFP professional, regardless of their compensation method, is capable of acting as a fiduciary whenever providing financial advice to a client," Mr. Rydzewski said.

Under the standard, CFPs are required to tell potential clients how they make money.

"It's better to have that conversation than to provide sound bites, a short few words [on a website] that describe that compensation method," Mr. Rydzewski said.

Geoffrey Brown, chief executive of the National Association of Personal Financial Advisors, criticized the CFP Board's move.

FEE-ONLY MODEL

"NAPFA strongly believes that the fee-only model is the most independent and objective compensation method available to the public," Mr. Brown said in a statement. "By making this change and removing [the fee-only search] capability, the CFP Board is essentially saying that all compensation models are the same, thus doing the public a disservice."

Jeff Burke, founder of 7th Street Financial, said that with "a movement to fee-only advisers," it didn't make sense for the CFP Board to remove an "easy-to-read data point" from its website.

"While it is still a best practice for any consumer to get further details on how an adviser is compensated, the formulas may be complicated and confusing for the client to truly understand what they are paying, which is something the CFP Board should be protecting consumers from," Mr. Burke wrote in an email.

Ashlee deSteiger, founder of Gunder Wealth Management, said losing the fee-only description on the CFP Board website will make it harder to distinguish herself from advisers who fudge the term.

"It's been a challenge holding myself out as fee-only in a sea of 'fee-based' planners who think they are 'fee-only,' when they actually are not," Ms. deSteiger wrote in an email. "But if they aren't CFPs, no one really questions them."

Ryan Mohr, founder of Clarity Capital Management, said the CFP Board is providing less transparency about compensation methods. "There is a difference, and people need to be aware of that difference," Mr. Mohr said.

Mr. Keller said he has heard mixed reactions from CFPs, with most of the opposition coming from those who are fee-only.

"The right 'F' word is fiduciary, not fee-only," Mr. Keller said.

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DEM RESISTANCE

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Schwab spokesman Glen Mathison said the company is "cooperating fully with the government in its review" of the Schwab-TD Ameritrade acquisition.

"We believe the transaction will be beneficial to investors and to the independent registered investment advisers who serve them," Mr. Mathison said in a statement. "For over 40 years, our respective companies have been dedicated to delivering better value, service and experiences to investors and advisers, and nothing about that will change with the combination of the two companies into one. The industry is and will remain dynamically competitive."

Mr. Brown's statement demonstrates the misgivings about financial firm mergers among Senate Democrats, which complement those raised recently by House Financial Services Committee chairwoman Maxine Waters, D-Calif.

'LARGEST ACQUISITION'

In a Feb. 21 statement, Ms. Waters said the Morgan Stanley-ETrade deal "would be the largest acquisition by a megabank since the devastating 2008 financial crisis, providing new sources of revenue for Morgan Stanley at a time when megabanks are making record profits. This is especially concerning given the impact this merger could have on financial stability and the economy, as well as consumers, investors, employees and communities across the nation."

"The Financial Services Committee will be closely monitoring the regulatory review of this proposed merger and I continue my call on prudential regulators to put consumers first," she added.

Ms. Waters noted that in the past year, she has convened six hearings of the committee to question big bank executives, as well as regulators, about market stability and investor protection.

"Expect congressional hearings as soon as March," Jaret Seiberg, managing director of the Cowen Washington Research Group, wrote in a Feb. 20 analysis when Morgan Stanley announced that it was buying ETrade. "We believe the CEOs will be called to justify the deal."

A spokesman for Ms. Waters did not respond to a request for comment. A spokeswoman for Morgan Stanley declined to comment.

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CANTER Q&A

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viser-facing tool, and then we integrate with 175 providers through something called Integration Xchange.

I think it's really around how can we interact with our clients in a more digital fashion, so we are very focused on our digitization efforts around onboarding new clients – new clients of advisory firms and new advisers. How we digitize the service experience, that's of critical importance because it helps to lead to a more efficient and delightful experience for our advisers and their clients.

JB: What is Fidelity doing in terms of efforts to recruit RIAs who might be looking for a new custodian as the industry consolidates?

DC: The trend that I think will be upon us for the foreseeable future is adviser movement. And what you're seeing are advisers who are leaving some of their incumbent providers – be it the wirehouses or the private banks – who want to start their own firm.

You're seeing it also in terms of advisory firms that are working with an incumbent custodian that want to make sure that they're going to get the proper degree of service and attention in a stable fashion. One of the reasons that I feel like our technology story is under-told is that we don't work with the vast number of firms that some of our competitors work with – we work with about 3,000 advisory firms.

I do see a lot of adviser movement in terms of leaving their incumbent, but also in terms of looking for a diversified custodial provider.

JB: Considering the ultimate potential of a Schwab-TD combo, how do you make the case that Fidelity is a better option for custody service?

DC: We may be a big firm, but we get told time and time again that we feel small because we engage, we consult – whether from a practice management standpoint or a technology standpoint or how do we help you achieve your business goals. That's a big part of it.

We're a big firm overall, but we really roll up our sleeves on the advisory side and we don't serve as many clients as others. And then beyond that it is that private ownership piece – most of the adviser businesses we work with are also privately owned – and by virtue of our private ownership, we're here for the long term and to invest on a counter-cyclical basis.

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